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THE DEVELOPMENT OF BUSINESS–GOVERNMENT STRATEGIES BY DIVERSIFIED FIRMS

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This paper uses grounded theory to explore internal (intrafirm) conflicts in the formulation of business–government strategies by corporations with diversified business units. We find that three types of conflict exist within firms: conflict over proactive policy positions advocated by the firm (prepolicy issues), conflict over reactive internal distribution of compliance costs/benefits (postpolicy issues), and representational conflict (e.g., individual business units vs. corporate representation in the external public policy arena). We also develop a grounded framework for organizational structures for conflict resolution in the strategic management of government relations, based upon our case studies, and find a relationship between particular structures and the degree of diversification.

INTRODUCTION

A growing body of management literature asserts that responsiveness to public policy issues is of increasing importance to the strategic management of business firms (Aplin and Hegarty, 1980; Baysinger, 1984; Boddewyn, 1993; Boddewyn and Brewer, 1994; Hillman and Keim, 1995; Keim and Zeithaml, 1986; Lenway and Rehbein, 1991; Schuler, 1996). These writings have led to a greater recognition of the role that 'nonmarket' factors play in competitive strategy and firm performance (Baron, 1995, 1997). Firms actively utilize political strategies to influence government policy and obtain an advantage (Mahon and McGowan, 1996). For useful reviews of the literature linking business–government relations to firm-level behavior, see Getz (1995), Jacobs, Useem, and Zald (1991), and Shaffer (1995).

Since its inception, the *Strategic Management Journal* has been a primary source of studies examining the strategic implications of public policies for firms and industries (Mahon and Murray, 1981; Baysinger and Woodman, 1982; Dickie, 1984). These early studies generated a stream of research that has increased in complexity, with more recent *SMJ* papers focusing on such issues as strategic adaptation to deregulation (Smith and Grimm, 1987; Russo, 1992; Reger, Duhaime, and Stimpert, 1992), extending the theory to international business (Ring, Lenway, and Govekar, 1990; Murtha and Lenway, 1994), and empirical linkages of government relations to competitive advantage and shareholder wealth (Hinthorne, 1996; Hillman, Zardkoohi, and Bierman, 1999; Marsh, 1998). The emergence of government regulation and public policy as an important strategy construct is also demonstrated by its incorporation in *SMJ* papers using mainstream strategy theories such as the resource-based view (Maijoor and Van Witteloostuijn, 1996; Oliver, 1997).

Key words: business–government strategies; diversification; political and regulatory environment; public policy
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This paper attempts to build on this stream by considering a specific business–government strategy problem: how does a firm decide what its position on a public policy should be? As discussed in greater detail below, the large, diversified firm contains numerous independent business units (profit centers), each with unique products and unique political and regulatory concerns. A 1988 Conference Board study reported that 53 percent of firms surveyed experience 'differing and/or conflicting' public policy goals (Conference Board, 1988: 12).

Reaching consensus in order to formulate and implement political strategies in diversified firms is complex because individual business units within diversified firms must compete for resources to implement political strategies, including both capital and managerial effort. In addition to financial capital, the firm has limited *political capital*, which we define as the ability to influence government policy.

Political capital may be considered a specific form of reputational capital (Fombrun, 1996), or social capital, which Nahapiet and Ghoshal define as resources 'embedded within, available through, and derived from the network of relationships possessed by an individual or social unit' (Nahapiet and Ghoshal, 1998: 243). Political capital depends on a number of interdependent factors, which are subject to managerial effort and prioritization. First, the firm's public reputation and social legitimacy are important intangible assets: 'We trust those companies that we respect, so we grant them the benefit of the doubt' (Fombrun, 1996: 9). Second, firms invest in developing the capability to 'facilitate' effective political strategies by leveraging structural attributes such as size and financial resources (Esty and Caves, 1983). Mahon and McGowan's version of what we call political capital is the capacity to influence: 'Influence, like money, can be used as a medium of exchange, held for later use, and measured over time to see how much an organization has and how it has used it' (Mahon and McGowan, 1996: 55). Specific dimensions of political influence include access to policy-makers, knowledge of the public policy arenas in which the firm operates, and expertise in crafting effective strategies. Baron explicitly links this to the concept of sustainable competitive advantage: 'The principal nonmarket capability that cannot be replicated is the knowledge, expertise, and skill of managers in addressing nonmarket issues' (Baron, 1995: 61).

The allocation of political capital thus involves a scarce resource that may need to be spread across a number of public policy domains. This may require choosing between competing interests and issues, because not all political interests can be pursued with equal vigor, and not all political preferences within the firm can be accommodated: 'Political influence used for one purpose may well be unavailable for another. We expect that the economic actor uses his assets to gather the most valuable basket of plums from the political tree' (Esty and Caves, 1983: 24). This theoretical assertion about scarcity was also strongly supported by our case subjects, as summarized by the following direct quotes:

> No Senator or Congressman wants to be seen as a hack, a stooge for the auto industry. Even in an automobile-manufacturing district, there is a terrible credibility problem of being seen as doing too much for one firm. So you can only go to the well so often—you can't keep coming back. If a legislator helps you this week with issue X, you can't go back for a long time. So we had better make sure that we use that limited access for the most critical corporate purpose. (Government relations manager, Acme Motors)

> There are two rules in my work. First, never ask legislators for something that is against their interest. Second, don't ask too often. If they deliver too much for any one firm that hurts their public reputation, which takes us back to rule number one. (Federal government relations Vice President, Assorted Industries)

This introduction has established the connection of business–government relations to corporate performance, and discussed how political capital is an important and scarce business resource. The remainder of the paper combines grounded theory development, based on case studies of three large corporations, with existing theories of organizational and political behavior to consider how firms manage the process of formulating political strategies. First, we provide further discussion of the theoretical and empirical justification of our topic. Second, we use data gathered from the three case studies to explore the following questions: (1) Why does conflict exist within firms on public policy issues? (2) Are there distinctive types of intrafirm conflict that emerge in this context? (3) How do firms resolve such intrafirm conflicts of interest?

A grounded theory approach is used to gain insight into each of these questions, developing first a categorization of intrafirm conflict followed by a model which offers alternative organizational forms for resolving internal conflicts over public policy. The model is based on trade-offs between the pressures for corporate-level control and the respect for the autonomous goals, knowledge, and skills residing in organizational subunits. Additionally, our case studies highlight systematic differences in structures for resolving conflict depending on the firm's diversification level.

LINKING BUSINESS UNIT STRATEGY TO CORPORATE POLITICAL ACTIVITY

Previous research on business–government strategies has primarily focused on the interindustry and intraindustry effects of regulation and public policy (Kaufman, Englander, and Marcus, 1989), with either the firm or industry treated as the focal actor in the public policy process. Shaffer (1995) shows that most managerial studies of business political activity use the firm as the unit of analysis, for reasons including relevance to strategy paradigms and data availability. A logical complement to such studies lies in investigating whether there are other dimensions worthy of consideration, specifically levels of analysis internal to the firm, such as business units.

Recent papers in management and political science challenge the assumption of some economic theories of political activity that 'competitive strategies and political positions can be inferred from the economic structure of the firm and the industry in which it is located' (Martin, 1995: 899). Martin argues that structural explanations ignore the 'central problem,' which is *explaining how firms develop their preferences*. Schuler and Rehbein's 'firm filter model' makes a similar argument by arguing that 'the internal characteristics of the firm, such as structures, routines, resources, and stakeholder dependence, mediate how the firm responds and adapts to economic and nonmarket signals in the development of political involvement' (Schuler and Rehbein, 1997: 117). With application to multinational firms, Ring *et al.*, (1990) find that characteristics or strategies of organizational subunits may partly determine political strategies, and that there may be differences between the political strategies of the parent MNC and its subsidiaries.

The diversified firm poses a unique challenge for developing political strategy. Bauer, Poole, and Dexter (1972) question the notion that the firm's 'self-interest' can be easily specified, noting the inability of business persons (or people in general) to define their self-interest in governmental action as a basic flaw in the theory of economic determinism. Pointing to the example of DuPont, the authors show that this large, global company's operations in a variety of industries and markets precluded a decisive issue position on international trade barriers. Epstein suggests that intracorporate conflicts may prevent the firm from taking decisive stands on important public issues (Epstein, 1969; see also Mitnick, 1991). Brenner and Epstein (1997) consider whether managers from different functions within the firm hold different 'political attitudes and behaviors,' but they do not consider variation between division or subsidiaries.

A detailed discussion of intrafirm conflicts is found in the Conference Board (1988) report on *Managing Federal Government Relations*. This report focused primarily on diversified firms (80% of 300 firms responding to the survey), and discusses how corporate managers and public affairs staff must 'establish the corporate interest' when internal conflicts arise between divisions.

> Managerial autonomy poses no threat to internal corporate harmony when divisional interests are similar or coincide. Nearly half the participants [in the survey] say this is always true for their firms. Elsewhere, however, issues may bear differently on the interests of particular operations . . . Such differing and conflicting interests are a principal source of disagreement over positions, priorities and action plans. (Conference Board, 1988: 12)

Marx asserts that an inherent conflict exists between decentralization in strategic management, and the necessity for centralization in public affairs management:

> SBUs (strategic business units) are needed to develop differentiated marketing, management, and distribution strategies to meet the varying conditions of their markets and the needs of their particular customers . . . Public policy, on the other hand, must be consistent throughout the entire company to be effective. The company can produce a variety of products to meet different

> customer demands, but it must *obviously* take but one position on a public policy issue, which is unlikely to be the preferred position of every SBU . . . and it must comply uniformly with any resulting legislation or regulation. (Marx, 1990: 10, emphasis added)

Marx's statement may reflect common sense, but it also assumes normative answers to what should be open questions about the practice of business–government strategies: Will corporate subunits ever pursue their political interests independently of other business units? Do some firms intentionally minimize coordination at the corporate level? Figure 1 provides a simple depiction of two alternative ways of resolving this question.

Thus, while there is reason to expect that differences exist in public policy preferences within firms, we use case studies to explore this assertion in practice. Therefore, we began our grounded theory process by asking *Question 1: 'Do diversified firms experience intrafirm conflict in developing business–government strategies?'* and *Question 2: 'Are there distinctive types of intrafirm conflict within diversified firms in developing business–government strategies?'* Included in the types of conflict we explore is an examination of Marx's maxim: Do diversified firms experience disputes over the representation of the firm in the public policy arena? By exploring this question, we also seek to understand whether firms must speak with one voice. This has implications for the structure and coordinating bodies within organizations for forming public policy positions and the actions that represent these preferences in the policy arena.

The remainder of the paper explores conflict in policy preferences and actions by going beyond the first two questions to ask yet a third: *Question 3: 'How do firms organize to resolve internal conflicts in developing business–government strategies?'* Our case studies provide a grounded basis for a model providing alternative forms of organization for conflict resolution and indication of a relationship between organizational form and degree of diversification. Finally, we discuss opportunities for future research in this area as well as the implications of our findings for managing diversified firms' business–government strategy.

DESIGN OF THIS STUDY

Given the limited previous research on how corporations make internal decisions on public policy issues, an effort was made to develop a workable description of how firms operate in the

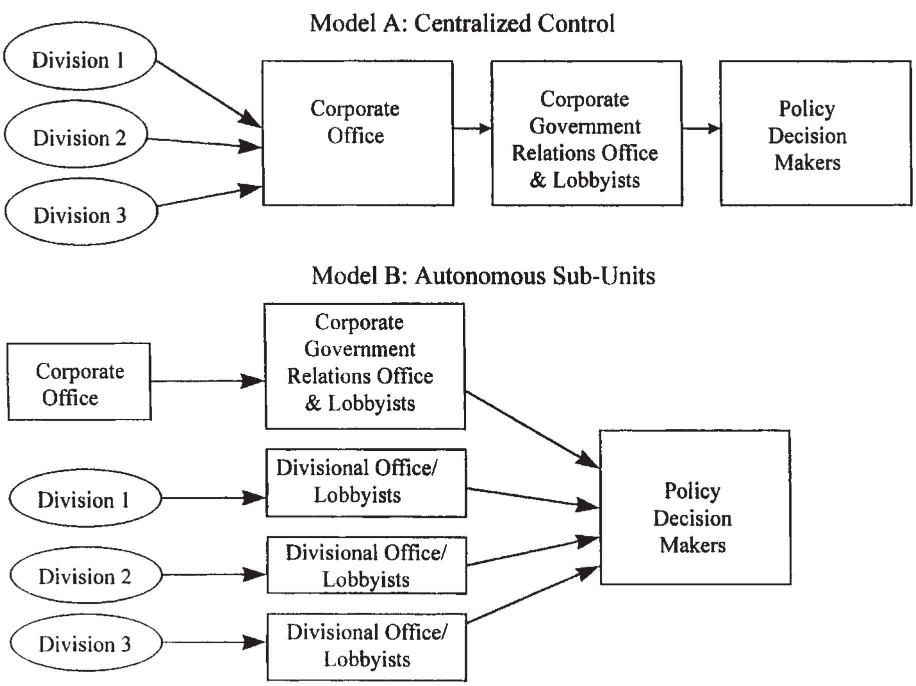

Figure 1. Alternative models for corporate control of public policy involvement

'real world,' as well as generate some possible explanations for their practices. Following the guidelines of Glaser and Strauss (1967), the paper uses a grounded theory approach, which entails the comparison of carefully selected case studies. Grounded theory is the process of 'discovering' theory from data that fits empirical situations. It is particularly useful for studying issues that are without much existing theoretical development. Glaser and Strauss assert that good grounded theory meets the following criteria: it is understandable to academics and practitioners alike and it 'works'—meaning that it provides us with relevant predictions, explanations, interpretations, and applications (Glaser and Strauss, 1967).

Because of *a priori* expectations that conflicts over public policy may vary according to the relatedness of business units, we chose three companies to study that have different degrees of diversification. Government relations managers at three large, diversified companies agreed to review a set of preliminary questions, and to discuss their responses in an unstructured interview format. These companies and managers were identified and contacted using the authors' prior professional and research relationships, and were chosen purposely with the goal that companies be different in terms of product diversification. Thus, the three firms we studied were not chosen at random, but were selected purposefully based on differences in diversification level in an effort to broaden the scope of the theory (Glaser and Strauss, 1967). The decision was made to limit the number of sites to three to enhance depth, comparability, and data quality as recommended by Eisenhardt (1989).

In keeping with the grounded theory approach, company interviews were exploratory and relatively informal. One author held research or employment relationships with each of the three subject firms. Thus we proceeded from an established knowledge base of each firm's corporate structure, management philosophy, and product lines. Our sample reflects an effort to make the most of opportunities for data collection. The author's relationship with each of the firms allowed the interviews to get to specific questions effectively and to follow up with further discussions as additional salient issues emerged, including those raised by referees during the review process. While these interviews were taking place, we also continued to search relevant literature streams from organizational science to political science for related theoretical insights. The preliminary interview protocol is described in the Appendix. In addition, as noted below, we relied on other sources of data for the case firms, collecting data to the point of theoretical saturation, when no new insights were gained (Glaser and Strauss, 1967).

Because the subject firms are sensitive to publicity on the internal development of their political positions, the firms were promised anonymity in exchange for their assistance. Pseudonyms are used when referring to them.

Summary of the three firms studied

1. *Acme Motors* is one of the 'Big Three' U.S. automobile manufacturers. It most closely resembles a 'related-constrained' structure (Rumelt, 1974), where diverse divisions are united by the central corporate goal of producing and selling automobiles. Relatedness and operational interdependence among divisions are high.

   Acme Motors was the major subject of a case study in one of the author's dissertation, and this study relies on some of the information on business–government relations developed at that time, including archival documents. A senior economist, with over 20 years' experience in government relations with Acme Motors, was interviewed by telephone on four occasions (with supplementary questions and answers by email).
2. *Appalachian Energy* began as an oil refiner and distributor, but has expanded into a variety of other businesses. Rumelt's typology would label it as 'related linked,' meaning that individual business units are linked by a core resource. The mix of businesses includes oil refining, motor oil, petrochemicals, convenience stores with gasoline sales, coal mining, and road building. Relatedness is medium. Nearly all business units have some upstream link to petroleum, yet most of the divisions operate in unique industry settings such as retailing or petrochemical sales.

   The Corporate Vice President for External Affairs of *Appalachian Energy* was interviewed on two occasions, once by telephone. Thereafter, one of the authors was invited to observe a meeting of a government relations task force on health care reform, and provided free access to some files of the Corporate VP's office. These included internal memos and reports that discussed how the firm should formulate its political strategies, and explicitly considered the interests of various divisions. The Director of Appalachian's federal government relations office was interviewed on two subsequent occasions to confirm and clarify specific factual and conceptual accounts.

3. *Assorted Industries* is a conglomerate by definition. Business units include defense contracting, medical systems, financial services, information systems, and the manufacturing of consumer and industrial products. Relatedness is the lowest of any of the three subject firms. Individual business units are mostly independent at the operations level.

   One author was employed in a professional position by *Assorted Industries* for over 3 years, and has interacted with the company closely since that time. The primary interview subject was the Corporate Vice President for Government Relations, who had experience in both state and federal government relations. She was interviewed on four occasions by telephone, including a follow-up interview during the review process.

Methodology

Each of the interviews was transcribed and coded by the authors for common themes. As themes emerged (e.g., types of conflict—see Table 1), we repeatedly compared the firms for related patterns and then aggregated the patterns to develop categories (Corbin and Strauss, 1990). We discussed the emerging themes and categories together in an ongoing fashion. For example, different examples of intrafirm conflict were grouped into the source of conflict (e.g., postregulation distributional issues, business units disagreeing with the corporate position, business units disagreeing with each other) and then further aggregated through constant comparison yielding broader categorization. These comparisons led us, in some cases, to conduct further discussions with the case firms to explore the emerging categories. At the same time that we pursued theory building through the case studies, we continued to read broadly to gain insights into the data (Glaser and Strauss, 1967). In this way, existing scholarly work was integrated into the model (for a similar example, see Locke and Golden-Biddle, 1997). For example, Stoker's work (1991) on organizing interest group political action was integrated into our discussions from the case firms concerning Question 3, how firms organize to resolve conflicts and coordinate actions.

The next two sections utilize the case studies to develop types of conflict over public policy and generate structural alternatives for the coordination of business–government strategies, depending on the firm's pattern of diversification.

Table 1. Types of intrafirm conflict over business–government strategies

Type	Characteristics	Examples from cases
Distributive	Conflict over the internal distribution of costs and/or benefits of public policy across business units	Acme: CAFE standards Acme and Appalachian: Pollution compliance Assorted: Tax policy
Advocacy position	Conflict over the position advocated by the company (policy preferences) in the public policy arena	Acme: Freight deregulation Assorted and Appalachian: Health care reform
Representational	Conflict over who represents the firm to public policy-makers	Acme: Research subsidies Appalachian: Transportation safety Assorted: Broadcast content

INTRAFIRM CONFLICTS IN DEVELOPING BUSINESS–GOVERNMENT STRATEGY

This section discusses a variety of conflicts diversified firms have faced in managing government relations across multiple business units. These examples establish that we are studying a real and significant business problem and that the answer to both our original questions *Do business units' political preferences differ*? And *Are there different types of conflict that emerge*? is 'Yes.' Each of our case study firms provided numerous examples of intrafirm conflict over business–government strategies and three distinctive types of conflict emerged: distributive conflict, advocacy position conflict, and representational conflict.

Distributive conflict

We found evidence that intrafirm conflict arising over compliance issues and postpolicy issues are a significant source of conflict in diversified firms. That is, once a public policy or regulation is put into place, firms and their units often have conflicts over dividing the spoils or sharing the burdens of regulation. This type of conflict is temporally tied to the existence of a public policy and is thus a postpolicy conflict. One example of reactive intrafirm distributive issues from our case studies is the Corporate Average Fuel Economy program (CAFE), which mandates 'miles per gallon' for cars sold in the United States. Since the program requires a 'fleet average' (i.e., an average of all cars produced and sold by each firm), manufacturers must manage product development to ensure that the total firm output meets regulatory standards (Shaffer, 1992). At Acme Motors, a business unit that produces performance and luxury cars can remain in regulatory compliance only so long as another business unit produces economy cars that offset the fuel consumption of luxury cars.

Another example of internal distributive conflicts relates to negotiated compliance with pollution standards set by the Environmental Protection Agency. Both Acme Motors and Appalachian Energy have studied internal 'pollution trading systems' that establish maximum emissions within a collective 'bubble.' Acme Motors has a large production facility in Michigan that has multiple pollution sources (e.g., painting plants and metal fabrication plants) within which managers must internally negotiate the contribution of each production unit to an overall pollution reduction level approved by the EPA. The individual plant managers are forced to compromise on their specific contribution to pollution reduction and fight for the associated resources and financial compensation as such. Appalachian Energy has experienced similar conflicts over the distribution of pollution levels across business units.

Assorted Industries, as a highly diversified firm, experiences fewer distributive conflicts because their business units are unrelated on most dimensions. One exception, however, is taxation. The corporate government relations office, while *laissez-faire* towards the divisions in most respects, is adamant that it manage all tax-related public policy issues, and coordinates the benefits and burdens of tax legislation with the corporate treasury. A primary rationale behind the coordination is to resolve conflict over the distribution of tax allocation and relief across divisions.

Advocacy position conflict

The second type of intrafirm conflict over business–government strategies that emerged from our case studies has to do with preferred advocacy positions on public policy issues that are undecided or in the formulation stage. When a public policy is being considered, a firm's business units may differ over their preferred advocacy position for the firm. For example, the largest U.S. industrial firms spend billions on such basic services as transportation, telecommunications, electricity, and employee medical care. At the same time, some divisions of these firms sell products to the service providers. The conflict lies in the choice between reducing the costs of business services and supporting the political agendas of important customers. Acme Motors faced this problem when it supported motor freight deregulation in order to reduce shipping costs. Acme's 'heavy truck' division opposed deregulation because of its negative impact on its customers, the trucking companies.

In a similar vein, one Assorted Industries division favored the Clinton health care reform plan on the grounds that it has an aged, unionized workforce and needs relief from the cost of employee/retiree medical benefits. Another division in the firm is a leading manufacturer of high-tech diagnostic medical equipment; it opposed the legislation owing to its expected negative effect on the ability of hospitals and clinics to purchase its products. This example pits a producer interest against a consumer interest—within the firm.

A second example is found in the health care reform debates. Appalachian Energy has a large unionized workforce in its refining and petrochemical divisions; these workers receive 'gold-plated' benefits coverage. On the other hand, the service station/convenience store division utilizes many part-time workers, who receive no medical insurance, and full-time workers with very modest coverage. Appalachian's employee relations/benefits managers were divided in their views, with the business units using union labor strongly in favor of 'employer-funded universal access' and the low-skill and low-wage business units just as strongly opposed.

Another example of conflict over intrafirm public policy preferences is when one division's political strategy undermines the social and economic ties of another division. Stable buyer–supplier relations may depend as much on social ties and trust as on economic ties and favorable pricing. A firm may offend a business partner by advocating a political position that the partner finds threatening. Appalachian Energy supported legislation funding the construction of coal slurry pipelines mainly because its construction division stood to gain business from these projects. However, railroads felt threatened by this legislation. A major eastern railroad asked Appalachian to stop its advocacy of the bill, reminding the government relations Vice President of (1) Appalachian's dependence on the railroad for transporting its coal to market (a supplier relationship), and (2) the railroad's $300 million-plus annual purchases of diesel fuel for its locomotives (a customer relationship). Appalachian concluded that the comparatively modest revenues from the coal slurry project were not worth alienating this vital supplier and customer.

Representation conflict

While conflicts over the distribution of costs or benefits from existing public policy and over a firm's advocacy position on future public policy reflect differing interests within firms, conflict also exists over actual representation of the firm in the public policy arena. For example, business units often develop expertise in specific policy domains related to their product or service. These individual units, if allowed, may act upon their individual policy preferences in the political arena by sending individual representatives to Congress or regulatory agencies rather than go through the corporation. In some cases, 'renegade' business units may take political actions outside the coordinated corporate political strategy framework.

For example, Acme Motors has a long-standing, ideological opposition to all government subsidies, on the basis of its commitment to market processes. Without informing the corporate offices, a small unit charged with developing electric cars in California approached the state legislature and requested research and development subsidies. When the corporate public affairs staff became aware of this action, it immediately informed top management and the electric car unit was ordered to withdraw its request. In this case, Acme's corporate policy prevailed over the business unit's autonomy. Thus, while Acme coordinates its representation in the external public policy arena, individual units were motivated to act independently.

In some cases, such potential conflicts over representation are easily avoided. Appalachian Energy has a transportation division that negotiates with the U.S. Department of Transportation over driver and truck safety issues that are of little interest to other business units. Assorted Industries includes a broadcast network (TV and radio) that has worked with the FCC and the U.S. Congress on programming issues, specifically on how to restrict adolescents' exposure to explicit sex and violence (e.g., the V-Chip). The corporate Vice President clearly emphasized that she had no interest in meddling in how the broadcast division managed such issues, because that division had the requisite expertise, and the issue did not affect other business units within the firm.

Table 1 summarizes the three general types of intrafirm conflicts: distributive conflict, advocacy position conflict, and representational conflict. Examples of each type of intrafirm conflict from our three case studies are also summarized.

MECHANISMS FOR RESOLVING CONFLICT: ORGANIZATIONAL FORMS FOR BUSINESS–GOVERNMENT STRATEGIES

A famous quote from a 1950s era General Motors CEO states that 'what's good for GM is good for America.' With a much more introspective viewpoint, this paper suggests that 'what's good for one GM business unit may be bad for another.' We now turn to the question of how firms organize to resolve conflict over 'what's good for the company?'

As the three types of intrafirm conflict presented above illustrate, there may be a need within diversified firms for structures for both the decision-making aspect (i.e., the policy positions taken, the overall distribution of costs and benefits) and the representation aspect (i.e., is there coordinated, corporate representation in the external public policy arena or separate business unit representation?).

Figure 2 presents alternatives for the organization to resolve intrafirm conflict over business–government strategies that have emerged from our case studies. On one axis, the authoritative structure for deciding among possibly differing interests on the distributive effects of public policy, advocacy positions, and who will represent the firm in the public policy arena is portrayed. This axis represents mechanisms for resolving these three types of intrafirm conflict. Authority to distribute costs and benefits of policies, formulate advocacy positions, and decide on appropriate representation may be centralized at the corporate level, be decentralized at the business unit level or be shared in some fashion. The other axis depicts the actual representation resolution alternatives: corporate-level representation (e.g., corporate lobbyists) or individual business unit representation (e.g., business unit heads testifying before congress).

First, conflict resolution may be centralized, shared, or decentralized. In a centralized system, one coordinating body within the organization makes decisions regarding advocacy positions, the distribution of policy effects, and who represents the firm externally, typically at the corporate level. This centralized body alone holds the decision-making rights in developing business–government strategies and resolving intrafirm conflict. At the opposite pole, where authority is decentralized, each separate division determines independently distributive issues, advocacy positions it prefers and who should represent the firm's interests. An individual business unit government strategy group may typify this type of organization with little coordination between business units. Between these extremes is a shared or coordinated system of organization. In a shared system, authority lies in a coordinating body that is made up of representatives of the individual units. Each distinct unit makes a recommendation to this central coordinating body, at which point the coordinating body determines the business–government strategy and/or resolution of conflict. Here, decisions about political action are based on input from various units.

Distribution of Authority

Representatives	Centralized	Shared	Decentralized
Corporate Level	Bureaucratic	Federalist	Internal Contracting
Division Level	Federal Quasi-Market	Shared Quasi-Market	Market

Figure 2. Forms of organization for business–government strategies

The second continuum, as shown in Figure 2, represents two alternative levels for the representation of the firm in the external public policy arena. Independent of the authority to determine distributive issues and/or advocacy positions, representatives from either the corporate office or the individual business units may actually represent interests to the external political environment (e.g., constituents, political decision-makers).

A typology of the various cells of implementers and formulators is created when these two dimensions are combined. The matrix represents six categories of combinations. We describe each below beginning with our case study forms and moving from top to bottom, left to right in our matrix.

Acme Motor's structure for resolving intrafirm conflict in business–government strategies falls into the most centralized cell of Figure 2, what we call the *Bureaucratic* system. Acme Motors has a highly centralized process of government relations strategies, mandating that all issue analysis and political strategies be controlled directly by the corporate public affairs/government relations staff, with offices in both Washington, DC and Detroit. Based on our case information, Acme Motors usually uses the Bureaucratic approach to political action, where the 'central office' is the representative of issue positions, and also is responsible for 'determining the net impact of the issue on the corporation when one business unit gains and another loses, which is often the case' (quotes from interview notes). This type of system places an emphasis on coordination and solidarity of the firm's position above the freedom and autonomy of the individual interests. The bureaucratic system of Acme Motors emphasizes a goal of 'efficiency' and 'economies of scale.'

In some cases, Acme Motors also uses what we call a *Federal Quasi-Market* system, whereby business units are permitted to represent the firm individually under close supervision from the central office, so long as 'the business unit does not contradict other positions taken by other units or the corporation . . . [In addition] even if a particular unit is managing an issue, the central office would have to coordinate the contacts with government officials . . . because it would be unmanageable and counterproductive to have a parade of people marching into a Congressman's office with this or that issue' (quotes from interview notes). Thus, a Federal Quasi-Market system is one in which the firm representatives in the policy arena may be individual SBUs, but the authority to mobilize these actors and establish political positions lies with a centralized body external to the individual units. In essence, this system is also focused on avoiding market competition among divisions in that a central coordinating authority is established, but the primary representatives in the policy process are the units which by nature represent a narrower focus of policy preferences. In summary, Acme Motors organizes its government relations activities on the left side of the matrix shown in Figure 2—by using centralized authority over distributive and advocacy issues and maintaining coordination and control of representation in the political arena.

Appalachian Energy is less related than Acme Motors (Rumelt's related-linked structure). The divisions are loosely linked by a common upstream dependence on petroleum as a raw material for downstream products and services. Appalachian Energy promotes coordination on major issues by forming committees with public affairs representatives from all major business units. These committees then make recommendations to top management. The process of decision making by this committee form ('shared authority') is more decentralized than that of Acme Motors, and tends to fall into the *Federalist* approach.

By this we mean that Appalachian Energy seeks to balance the interests of various divisions through a process of negotiation and compromise. In determining a corporate position on health care reform, the company formed a steering committee comprised of employee benefits managers and government relations managers from each business unit, and allowed each unit to articulate its benefit–cost projection on the issue. When the business units presented 'conflicting issue positions,' as discussed above, the committee's final decision was not to take any specific public position. This Federalist system reflects the tension between centralized and diffused authority (Handy, 1992). Much like the bureaucratic system, the Federalist system again emphasizes that one actor—that of the corporate headquarters—represents the corporation. What this actor advocates, however, is a product of individual interests resolved by compromise by respective representatives. The main challenge of the Federalist system is cooperation and compromise among the various units where authority lies. The division of political resources that parallels the divisions in some way most commonly facilitates this system of compromise. For example, political resources may be allocated on the basis of sales or contributions of each unit to overall firm performance. In other words, the shared system of authority is facilitated by tying the distribution and decision-making power along lines of contribution among other functional aspects of the SBUs. An analogy to this system is the federal government system in the United States: each state is given representation along distributional lines (e.g., size, population), yet the federal government acts as a single entity. Thus, Appalachian Energy's organizational form moves along the continuum of authority to a shared position rather than a purely centralized one, such as that of Acme Motors, but retains representation at the corporate level.

Unlike Acme Motors, Appalachian Energy usually does not have cases of individual business unit representation in the political arena. However, the possibility of such (as evidenced by Acme Motors and the existence of conflict over representational issues in general) allows us a fourth alternative for organization, the *Shared Quasi-Market*. A Shared Quasi-Market exists when authority is shared for policy positions and formulating political action, but the representatives of these issues are still individual business units. In this scheme of authority distribution, political resources and costs of such are distributed along formal organizational lines and policy positions are established by consensus reached by representatives of the individual units.

Assorted Industries is the least related of our sample firms, and is a conglomerate of mostly independent business units. Although the sales of the two firms are similar, Assorted's Washington 'corporate' office employs roughly 80 percent fewer staff than Acme Motor's Washington office. However, several Assorted Industries business units run their own Washington offices, including the aviation, medical systems, broadcasting, and information services divisions. This arrangement seems to work because these business units largely operate in separate policy arenas: defense contracting, health care, broadcasting, and computer technology. The corporate staff handles corporate-level issues such as trade policy and tax policy. It also monitors other major issues to coordinate the responses of business units, if necessary. However, the business units are empowered to initiate political action within their own policy arenas, a design that appears to favor the decentralized interests and specialization of the individual divisions. We label Assorted Industries as utilizing at times an *Internal Contracting* system, but more often a *Market* approach.

An *Internal Contracting* system again emphasizes one single actor from the corporation in the public policy arena: the corporation. This is true of Assorted Industry representation on more 'corporate' issues such as trade and tax policies. Distribution of authority, however, lies completely with the individual SBUs. At this end of the distribution continuum, a competition, or a type of internal market, exists within the corporation for public policy action, with each unit given equal legitimacy of positions in the fight. The system of coordination or decision making is not based on consensus along formal divisional lines, but rather is based on a competition among divisions for the political action. Under this scenario, each division may bid or pay for the services of the political strategy group or organizational implementers of political action (e.g., lobbyists). Existing distributional lines do not determine the use of such resources, but on unstructured competition among units.

More frequently, however, Assorted Industries utilizes a *Market* approach. A Market system is true to its nomenclature. This system is the most decentralized system of implementation and formulation. Here, authority lies with individual units with no coordinating body. In addition, the representatives of these interests come from the SBUs themselves as opposed to the corporation. Competition in the public policy arena is not coordinated at all and one division of a company may be working in opposition to another.

Thus, it is evident from our case studies that some forms of organization may be related to degree of diversification. That is, the more related the diversification, the greater the likelihood that firms, such as Acme Motors, utilize a more centralized authority structure for resolving conflict. A related-linked firm, Appalachian Energy, uses a more shared process of authority whereas the most unrelated diversified firm in our study, Assorted Industries, uses a decentralized structure. This relationship between degree of diversification and conflict resolution structures is also similar to related concepts in existing diversification and political science literature, as we now discuss.

Hill and Hoskisson (1987) assert that related diversified firms may be more effective at realizing economies of scope and economies resulting from shared resources with control systems characterized by centralization. For related diversified firms, the realization of economic benefits comes from the cooperation between divisions (Hoskisson, Hill, and Kim, 1993; Hill, Hitt, and Hoskisson, 1992). Within a related diversified firm, a cooperative structure is necessary to realize economies of scope and a need to coordinate the activities of divisions so that skills can be transferred and resources shared (Hoskisson *et al.*, 1993). Mintzberg (1983) asserts that interdependencies between divisions in related firms encourage the corporate office to retain control over common functions to ensure coordination. Thus, in a public policy context, our case studies mesh well with this existing structural literature in that more related firms (Acme Motors and Appalachian Energy) tend to have centralized or shared authority to resolve conflict and develop business–government strategies.

A more decentralized authoritative system, however, is theoretically driven by a desire to realize synergistic economies as a result of policy arena expertise and access. Synergistic economies may be gained through the specialization of knowledge and access related to a particular business unit's competitive environment. Policy arenas are unique in that for every general policy area, e.g., telecommunications, health care, there are a number of 'key players' shaping and implementing government policy. In addition, providing information specific to certain policy arenas may be a useful way to affect public policy (Heinz *et al.*, 1993; Hull, 1993). Therefore, by specializing in policy domains of individual units through systems where the participants in the policy process are the individual units, specific knowledge and domain-specific political capital may be a result. Unrelated firms are much more likely to have diverse policy interest domains and policy preferences. In the case of more unrelated firms, the cost of too much integration compromises autonomy and accountability (Hoskisson, 1987) and may result in what Epstein (1969) suggests, that firms will be 'paralyzed' into inaction by the weight of internal conflicts. This paralysis may be the result of the trade-off that results from reaching coordination at the expense of sacrificing attainment of other goals (Chisholm, 1989). That is, the costs of coordinating on issues that are specific and not shared with other divisions may far exceed the benefit (Kaufman *et al.*, 1989). Thus, here again our grounded theory shares insight from existing literature: our most unrelated firm, Assorted Industries, uses organizational forms on the right side of Figure 2, representing decentralized structures. Figure 3 summarizes the relationship between the desire for coordination and the benefits of specialization found within our three case studies and enlightened by existing literature in diversification and political science.

DISCUSSION AND CONCLUSION

The area of business–government strategies has received considerable attention in previous literature, with an emphasis on 'macro' levels of analysis such as country (Hillman and Keim, 1995); industry (Dean and Brown, 1995; Grier, Munger, and Roberts, 1991; Lenway, 1985; Pashigan, 1984) or firm (Birnbaum, 1985; Greening and Gray, 1994; Russo, 1992; Blau and Harris, 1992; Mahon, 1983; Mizruchi and Koenig, 1986; Shaffer, 1992; Wood, 1986; Yoffie, 1987; Zeithaml, Keim, and Baysinger, 1988). These studies make important contributions to our understanding of organizational forms for political action (industry associations or firms), what types of firms are more likely to be politically active, the effects of certain political tactics or strategies on public policy, or the effects of regulation on country competitiveness, industry competitiveness, or firm competitiveness. Unfortunately, very little is known about the *internal* or firm-specific processes that determine the firm's political strategy (e.g., who makes decisions about what issues to become involved in, or who should represent those interests in the public policy domain).

This paper contributes to the literature stream that explains how firm characteristics and processes predict political behavior (Schuler and Rehbein, 1997; Martin, 1995). It also speaks to the complexity of the diversified firm's public policy participation as a strategic management problem (Mahon and McGowan, 1996). For many

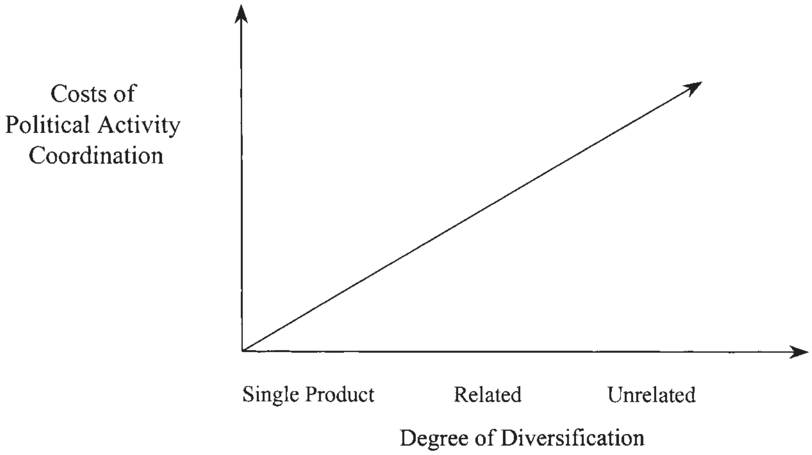

Figure 3. Relationship between degree of diversification and costs of political activity integration

firms, Pogo's infamous quote—'We have met the enemy and he is us'—may be an accurate depiction of conflict between divisions. We find the resolution of intrafirm conflicts over business–government strategies involves classic trade-offs between business unit specialization and expertise, and corporate coordination and control.

We have relied upon both case study data and existing theory in political science and strategic management to develop a categorization of intrafirm conflict and a matrix depicting possible forms for organizing to resolve such conflicts. The combinations of decision-making authority and implementation actors represent alternative ways to resolve the trade-offs between coordination of public policy activities and the cost and appropriateness of integration. Our case studies provide the foundation for the six cells of the matrix indicating this trade-off (Figure 2).

In terms of future research, our sources of intrafirm conflict may only be a preliminary list of the underlying determinants of such conflict. Future research into the causes and resolution of internal conflicts could aid in filling this gap. In addition, the six alternatives for organizational structure to resolve intrafirm conflict are limited in that they are merely alternative structures—we have not extensively explored the actual processes that underlie decision making over distributive issues, advocacy positions, or representation. While our case studies and some existing literature indicate that certain forms of organizational structure will be related to diversification degree, the relative effectiveness of each of the organizational forms depicted in Figure 2 could be examined. In addition, a more thorough case-oriented examination of policy area specialization may prove fruitful for understanding coordination/specialization costs.

In closing, this line of research emphasizes the formulation of firm-level responses to government as an important aspect of corporate strategy. We hope that this paper has shed some light on the management processes firms use to develop political strategies. Baron (1997) asserts that effective government relations efforts enable firms to leverage their competitive advantages and build market share, sales growth, and profitability. However, for a firm to have effective government relations, they may first need to resolve intrafirm conflicts over political involvement. In evaluating the complex effects of government action on the firm, 'Who is us?' is not a simple question.

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APPENDIX: SUMMARY OF THE INTERVIEW QUESTIONS

In each case, the interview subject was briefly informed about the purpose of the study, and the general research question of how public policy issue positions are formulated within the firm. The structure of each firm's government relations function was also briefly discussed. Next, the following questions were asked, with the author taking written notes of the open-ended responses.

1. Does your firm experience intrafirm or interdivisional conflicts when formulating issue positions and political strategies? Can you provide some examples?
2. Do these conflicts of preferences ever lead to independent action within the company? Can you provide some examples?
3. What organizational processes or decision mechanisms are used to resolve disputes and/or the potential for independent action?

After covering these points, subsequent discussions were held by telephone and email to confirm facts used in specific examples, and to clarify our understanding of management practices. As general themes and new issues emerged, including those raised during the review process, follow-up discussions with all three firms were used to explore these themes and to refine, focus, and confirm factual accounts.