Title
A political theory of the firm : why ownership matters

Author
Clark Muntean, Susan

Publication Date
2009

Peer reviewed|Thesis/dissertation

UNIVERSITY OF CALIFORNIA, SAN DIEGO

A Political Theory of the Firm: Why Ownership Matters

A dissertation submitted in partial satisfaction of the requirements for the degree Doctor of Philosophy

in

Political Science

by

Susan Clark Muntean

Committee in charge:

Gary Jacobson, Chair
John Cioffi
Peter Gourevitch
Stephan Haggard
Mathew McCubbins
Samuel Popkin

2009

The dissertation of Susan Clark Muntean is approved, and it is acceptable in quality and form for publication on microfilm and electronically:

Chair

University of California, San Diego

2009

DEDICATION

In memory of Donald V. Clark (1929-2008)

EPIGRAPH

"To compare the study of business administration with that of political obligation may appear ridiculous at first glance, but a moment's reflection will reveal that methodologically the two are precisely analogous in their relation to economics on the one hand and to politics on the other."

James M. Buchanan
"Marginal Notes on Reading Political Philosophy,"
The Calculus of Consent.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

ACKNOWLEDGEMENTS

Many people have been of great assistance on my journey to and through the doctoral degree and dissertation process, and I acknowledge the most critical to my success here chronologically. I first acknowledge my father, Donald Clark, who has been an inspiration to me. Not I, but he, would have been the first college graduate in the family, but for a major brain tumor diagnosed in his last quarter of college at the University of Oregon. Although he was unable to complete his degree or use his education in the marketplace due to multiple disabilities following the surgeries and aftermath, my father's search for truth and belief in and service to higher education continued. He served the University of Oregon as a groundskeeper for eighteen years upon his recovery. When my mother could not find childcare, he would take me to work with him on campus. He always managed to find a warm, safe spot for me in the library or coffee shop and provided me something interesting to read. Dad loved American history. Before my sister or I could go out and play, we had to pass one of his pop quizzes on the American presidents. My father's optimism, perseverance, faith, humility, and pursuit of truth deeply shaped my character and inspired me to succeed beyond all expectations. I thank both of my parents for encouraging me to go to college and to have faith I would manage through the times I lost hope, when I thought I could not possibly get by. Their hope and faith in the near impossible continues to give me vision, courage and confidence today.

Secondly, I thank Ian Lee, who had the audacity to suggest to a single mother of a busy preschool boy she abandon a professional career and pursue a doctoral degree at a top university in political science. I also thank Ian for sparking an interest in political philosophy, and for helping ease my difficult transition from professional-with-title to graduate student. Thirdly, I thank my son Nicholas, for his patience, understanding, and flexibility when Mom always took a book or papers to read at the Science Center, beach, zoo or park. Life became much easier after I met Ioan Muntean, who has been a godsend, and great support and inspiration in my life in so many ways, including finishing the doctoral program and dissertation. I thank Ioan for all of the times he saved my dissertation from the blue screen monster, and for all of the times he lent a helping hand, solved an issue, or offered an idea to assist with programming, databases, software packages, and design.

Many of the talented faculty at the University of California, San Diego taught me, coached me, challenged me, and formed me into the nascent scholar I am today. I thank my mentors, specifically Amy Bridges for fostering equanimity during the first years of the program. And much gratitude is due Mat McCubbins, for guiding me through the initial stages of the dissertation project. I thank Mat for encouraging me to send daily e-mails during the restless idea generation stage, and for his ideas and coaching throughout the prospectus formulation process. Greatest gratitude goes to Gary Jacobson, my dissertation chair. During the time that Gary has been my adviser, my writing has improved due to his counsel, as well as his recommended books on the subject. I have learned much about the art, science, and professionalism of the discipline from one of the best, and for that I am very thankful. I am also grateful for insights into corporate governance and political economy that I have been able to glean from Peter Gourevitch in my time with him as a committee member. I thank Stephan Haggard for taking the time to coach me on a holiday weekend before a presentation, and for his critical insights into the dissertation. Sam Popkin provided invaluable guidance on how to deliver change inducing criticism. I am grateful that John Cioffi joined my committee mid-course and am inspired by his knowledge of comparative corporate governance and elegant writing style. My future scholarship reflects the on-going mentoring of University of California faculty going forward; I thank them in advance.

I want to acknowledge Mary Ann Liebert, Inc. for permission to reprint content from an article that appeared in the *Election Law Journal: Rules, Politics, and Policy*, Vol. 7, No. 3, in Chapter 6.

Lastly, I want to acknowledge Tommy and Oscar, the two loyal companions who sat on my desk during many days and nights of research, and made me smile.

VITA

1993 Bachelor of Science, Pepperdine University, Business Administration
1994-5 Research Assistant, Tam Wing-Kun Holdings and IBM Hong Kong, China
1996 Master of Business Administration, University of Oregon, Finance
1996-9 State and Local Tax Consultant, Arthur Andersen LLP, Chicago, Illinois
2000-1 Senior Business Incentives Consultant, Ernst & Young LLP, Irvine, California
2001-2 Economic Development Director, City of Soledad, California
2002-3 Instructor, Monterey Bay Unified School District
2005-8 Teaching Assistant, University of California, San Diego, Political Science, Urban Politics, and Political Theory
2008 Independent Teaching, Interest Group Politics, University of California, San Diego
2009 Doctor of Philosophy, University of California, San Diego, Political Science

FIELDS OF STUDY

American Politics; Political Economy; Campaign Finance; Interest Groups; Elections; Corporate Governance; Urban Politics; Political Philosophy.

PUBLICATIONS

"The Dynamic Role of Interest Groups in the Electoral Process," *Election Law Journal, forthcoming.*

"Corporate Contributions after the Bipartisan Campaign Reform Act," *Election Law Journal* 7(3), 233-244.

"BCRA's Impact on the Political Expenditures of Corporate Interests," *The Forum: A Journal of Applied Research in Contemporary Politics* 6(1) Article 9.

"Analyzing the Dearth in Family Business Research," *Theoretical Developments and Future Research in Family Business: A Volume in Research in Entrepreneurship and Management*, P. H. Phan and J. E. Butler, editors. Charlotte, NC: Information Age Publishing, 3-26, 2008.

HONORS, AWARDS, AND FUNDING

Fletcher Jones Fellow 2008-09
Humane Studies Fellow 2007-08
Hayek Fund Travel Grant Recipient 2008
American Political Science Association Travel Grant Recipient 2007
Dean of Social Science Research Travel Grant Recipient 2007 and 2008
Alfred D. Chandler, Jr. Research Travel Grant Recipient 2006
San Diego Fellow 2003-2005

SELECTED CONFERENCES

"The Hierarchy of Rights and the Modern Corporation in Crisis: the Case of A.I.G. and Executive Compensation", Talk presented at UC conference "Negotiating Legal Boundaries", Law and Society Program, University of California, Santa Barbara, May 14-16, 2009.

"A Political Theory of the Firm: Bringing Ownership Back into Normative Discourse", Working Paper presented at WPSA Annual Conference, Vancouver, Canada, March 19-21, 2009.

Invited Roundtable: An Agenda for Campaign Finance with The Forum: A Journal of Applied Research, August 28-31, 2008, APSA Annual Conference, Boston, MA.

"Firm Ownership Structure and Corporate Political Behavior: A Causal Model," Working Paper presented at APSA Annual Conference, August 28-31, 2008.

"Ownership Structure of the Firm as a Predictor of Intra-Industry Variation in Partisan Preferences," Working Paper presented at APSA Annual Meeting, August 30-September 2, 2007.

INVITED PAPERS

"Corporate Political Strategy: A Causal Relationship between Ownership and Behavior". Paper presented to the Thunderbird School of Global Management on December 2, 2008.

"A Political Theory of the Firm: Why Ownership Matters". Paper presented to Marquette University on October 17, 2008.

"Corporate Contributions After BCRA," Paper discussion at the University of California, Los Angeles Center for American Politics and Public Policy ("CAPPP") Reading Group on April 9, 2008.

"Campaign Finance as Meta-Policy," Paper Presented to the University of Southern California's School of Policy, Planning, and Development on November 26, 2007.

CIVIC AND PROFESSIONAL SERVICE

Referee: American Politics Research; Journal of Business Research; Academy of Management.

Appointed Commissioner for Monterey County: Overall Economic Development Commission and Housing Advisory Committee, 2001-2003.

ABSTRACT OF THE DISSERTATION

A Political Theory of the Firm: Why Ownership Matters

by

Susan Clark Muntean

Doctor of Philosophy in Political Science

University of California, San Diego, 2009

Professor Gary Jacobson, Chair

I develop and test a new theory of corporate political strategy and behavior based upon ownership structure. I posit that firms with a principal owner structure will differ from firms with an independent management structure. To test this hypothesis, I analyze contributions to political parties, politicians, and political organizations. I find that principal owner firms are able to resolve collective action problems within the firm and innovate the most rapidly in response to campaign finance legislation. In addition, I find that ownership structure predicts which firms exhibit strong partisan preferences relative to their industry. Furthermore, ownership structure explains why some firms innovate in response to legal and political change, and are more likely to engage in philanthropic, partisan and ideological activities. These findings challenge much of the conventional wisdom regarding the political behavior of firms. Analytical methods applied in my research include causal modeling, pattern matching, econometrics, and case studies.

Chapter 1. Introduction

1.1.Theoretical and Empirical Puzzles

The goal of this research is to solve theoretical and empirical puzzles in the political behavior of business and financial interests.[1] Scholars typically assume that the business elite align in their sincere political preferences, or ideologically, at the class or the industry level. According to economic theories of the firm, the corporation engages in politics only to maximize something, whether market share, revenues, profits, or stock price, ultimately to return value to shareholders. Business firms, therefore, are thought to engage in politics only in order to seek desirable legislation, rents, and policies. Corporations contribute to political campaigns in order to elect and win favor with the most pro-business political party, or the one most sympathetic to their particular industry. Alternatively, strategic and purely instrumental corporations might split contributions between both parties, thus "hedging their bets" to maximize access on both sides of the aisle. In my empirical research I find broad and frequent deviations to these predicted patterns of behavior. Corporations contribute to ideological causes, exhibit strong partisan divisions within their industry, and show evidence of party loyalty. I develop and test a theory to explain why we observe this puzzling behavior.

In order to explore these puzzles further, I address the following questions: 1) How do individual corporations respond to legal, regulatory, and political change? 2) What is

[1] Throughout the dissertation, I alternatively refer to these financial and economic interests as business, firms, or corporations. Private and public firms, including financial entities, are included in my data and law firms are excluded.

driving the intra-industry partisan polarization of campaign contributions among nation-wide chains and multi-national firms across so many industries?[2] 3) Why do so many firms give most or all of their contributions to a single party, especially when it is the minority party? and 4) which economic interests give to ideological political organizations and which do not? My hypothesis is that principal owners who govern the firm direct its political strategy and are the "first responders" to threats and opportunities in the political and legal environment.[3]

A better understanding of the sources of campaign funds and donors—the independent variables in my research—is needed. My research is intended to provide insights into the revealed preferences and strategies of corporate actors and information about the roles they play in funding American elections and campaigns.[4] The dissertation contributes to the study of polarization in American politics by providing new insights into partisan choice among firms and economic elites. Furthermore, this research provides insights into a variety of strategies and institutions firms use to contribute to politics and ideological causes, and how these differ among individual firms.

---

[2] This observation suggests location or industry is not a satisfactory explanation for why some firms give to Democrats, others to Republicans. The location explanation has been referred to as "Main Street vs. Wall Street". In his study of polarization in corporate PAC contributions in the U.S., (Burris 1987, 732-744) measured this and found it was not a significant variable.

[3] The first actors we observe might be delegated agents, such as hired lobbyists or managers of the PAC.

[4] I assume that office seekers and party elites in both parties seek out and rely upon these corporate actors as they are obvious targets for large, fast, and repeat sources of campaign funds. Members of Congress can ban or severely limit contributions from corporate treasuries without turning off the spigot, claim political credit for reform, and increase fund raising efficiencies with direct large repeated donations from owners of firms. Prior to the widespread establishment of corporate political action committees, going directly to the founders was the primary method of raising funds from industry and banking. (Sorauf 1992)

1.2.Improving Theory and Measurement

Political scientists tend to focus on the recipient of campaign funds, or the demand side of political finance.[5] Theories about the contributors and institutions that fund parties and candidates are less well developed. Campaign finance has been misunderstood because corporate donors have been misconceived. Firms are usually treated as having unitary interests at some level of aggregation. Variation in strategy, choice of contributory institution, and political behavior among individual firms represents an untapped research opportunity.

Existing interest group theories are insufficient to predict and explain corporate political behavior, because firms differ in important ways from other associational groups. In "Business is Not an Interest Group," Hart argues that incentive structures and decision making processes of firms differ substantially from Olson's voluntary associations, and thus firms may exhibit political behavior which differs considerably from other interest groups.[6] Lindblom argues that business differs in important ways from other interest groups because of its privileged position in capitalist societies, such as the ability to create jobs and generate economic growth.[7] I focus on the individual firm and corporate actors in

---

[5] Exceptions include (Francia and Herrnson 2003). Despite presenting data to argue that the greatest responses given by the major individual donors to both parties are for business reasons, and noting the majority belong to business organizations, they do not develop a theory or test for a relationship between these individuals as owners of firms, and as donors to politics. (Grossman and Helpman 2002a; Grossman and Helpman 2002b) include the contributing interest group in their game theoretic models; however they lack an explanatory theory for and data analysis of partisan polarization among corporations. (Bauer, de Sola Pool, and Dexter 1963) focus upon the single issue of foreign trade policy, which has not been a partisan issue in the U.S. for decades. While extremes on both the far left and far right are against free trade, the vast majority of Democratic and Republican legislators and policy makers have largely supported and continue to support free trade. Similarly, the business and finance community is largely unified in support of free trade.

[6] (Hart 2004, 47–69)(Olson 2002 (1971))

[7] (Lindblom 1977)

the electoral process because of the important role they play in affecting outcomes and in order to improve our understanding of the supply side of political finance.

Existing theories that explain the political behavior of individual firms are weakly supported by quantitative analysis.[8] In chapter two, a comprehensive literature review uncovers no single and compelling explanation for why some firms engage in politics and some do not.[9] Existing theories are inadequate in predicting which firms contribute to which parties, explaining intra-industry variation, and explaining variation in strategic choices of contributory instruments. The best independent variables we have for predicting the size of contributions, such as firm size, do not have compelling theories attached to them.[10] Existing theories tell us that firms and managers aim to maximize profits to shareholders, and their political strategies and behaviors would therefore flow from this first premise.[11] Yet the evidence that campaign contributions are a good investment of a firm's resources is inconclusive.[12] In addition, corporate actors may hold motivations other

---

[8] A review and critique of the "CPA" literature is provided in chapter two. The theories I refer to here include the theory of economic regulation (e.g. Stigler), resource based theories (e.g. Boddewyn and Brewer; Keim and Baysinger; Masters and Keim; Hillman and Hitt; Hansen and Mitchell; Schuler, Rehbein and Cramer; Meznar and Nigh), class cohesion theory (e.g. Domhoff; Useem; Zeitlin), and industrial organization (e.g. Grier, Munger and Roberts; Alt, Carlesen, Heum, and Johansen).

[9] (Hillman, Keim, and Schuler 2004, 837-857); (Skippari et al. 2003)

[10] Resource-based "theories" of corporate political behavior claim various measures of firm size explain most of the variance in corporate political activity. While correlations can be found in these studies, a causal story is lacking, and theoretical and empirical puzzles remain. For instance, if business holds a Lindblomian privileged position—controlling politicians through credible threats to disinvest, relocate, or downsize—why would it be necessary to contribute resources to campaigns in the first place? This puzzle has not been sufficiently addressed.

[11] Corporations are said to be instrumental in the thick rational choice sense. If corporations did not maximize profits to shareholders, according to our theories of the firm, then they would go out of business (G. Mackie, PS219 lecture, 11/2006). Yet we do observe managers behaving in ways that produce losses to the common shareholder and, in cases, bring ruin upon the firm.

[12] More precisely, a good investment would respond to decision calculus of expected returns greater than potential risks, including uncertainties and opportunity costs (include decision calculus for the next best investment the firm could make other than politics). Where this calculation is positive and a firm contributes, it is acting as a rational profit-maximizing institution. I argue that the positive calculus is generally overstated given biased selection of cases and the lack of attention to counterfactuals.

than, or at least in addition to, the standard suspects. Better theories to explain why firms engage in politics are needed in order to solve these theoretical and empirical puzzles.

Current theories treat business corporations as: 1) one of many interest groups having diverse and factious interests (in pluralist theories), 2) having uniform interests (in elitist and neo-Marxist theories),[13] or 3) as rational-legal units operating strategically to maximize profits and exploit rents in the competitive political market for favorable regulatory and tax policy (in economic/ trade theories). In formal and empirical models, corporations are assumed to have uniform interests at some level of aggregation. For pluralist theorists, the level is group or association whereas for elite and neo-Marxist theorists, interests are assumed to be uniform at the class level. Other studies observe variance among firms and claim that firms have different preferences because of dissimilar characteristics or economic interests, for example, size or location of firm (Main Street vs. Wall Street) or industry/ cluster.[14] Yet analysis of the variation in partisan political contributions at the individual firm level challenges the explanatory reach of each of these theories.[15]

In order to explore the origins of ideological and partisan polarization in the business and financial community, I compare firm-level contributions intra-industry.[16] Sys-

---

[13] Elite theorists such as (Useem 1984)(Useem 1980, 41-77) (Marcus 1980, 859-903) and (Mizruchi 1990, 213-240; Mizruchi 1989, 401-424; Mizruchi and Koenig 1988, 287–305) conclude that business controls politics through elite social networks and interlocking directorates. These authors assume business elites ultimately hold unitary interests. I show in the U.S. case that business elites are increasingly polarized politically and ideologically over the past two decades. From philanthropic and initiative records, etc. divisions appear to be primarily over non-economic and non-trade issues, such as foreign policy (war in Iraq), social, legal/moral and cultural issues (e.g. marijuana legalization, gay and lesbian rights, religious conservative vs. liberal).

[14] (Smith 2000) provides an excellent literature review on the debate over the unity of political interests among American businesses.

[15] I provide a critique of the Main Street verses Wall Street explanation for partisan division among firms in the literature review, Chapter 2.

[16] Measuring ideological polarization at the industry or association level (aggregation of firm behavior) can be problematic due to central tendency, but also when one selects industry extremes. In measuring changes in

tematically analyzing firms at the individual level, I identify pivotal actors, institutional innovations, and partisan and ideological funding mechanisms. Then I develop and test an alternative theory, based upon how firms are organized, that explains their differences in strategy for participation in the electoral process.

1.3.Ownership as Explanatory Variable

It is important to remember that shareholders are a heterogeneous lot. There are small individual investors, institutional investors (e.g. investment banks, pension funds), and what I call principal owners. Principal owners are a special type of blockholder that may exercise both actual and latent control through a hierarchy of shares held, non-equivalent voting rights, and the powers to appoint and remove directors and officers. I will discuss the Principal Owner firm in greater detail in chapter three.

Identifying and measuring corporate ownership structures are critical to improving our understanding of how money flows into electoral politics. First, ownership matters in the resolution of coordination and agency problems that occur among widely dispersed group members. Second, ownership matters because of asymmetric access to funds. Third, ownership matters because of efficiencies to fundraisers. Politicians, political machines, party organizations, and ideological groups are able to identify "gold mine" donors. Political scientists need to study these mega-donors in greater depth with more rigorous methods,[17] especially after the passage of the Bipartisan Campaign Reform Act of 2002

---

oil and gas stock prices in response to the Jefford switch in 2001, for example, Nathan Monroe (2004 dissertation) measures collective (industry-level) policy preferences for extreme-case industries (e.g. oil and gas). Selection of extremes brings validity problems when generalizing to the political preferences and behavior of most industries and corporations.

[17] A recent, extensive effort to analyze variance among top individual contributors by (Francia and Herrnson 2003) Despite presenting data that the greatest responses given by the major individual donors to both parties

(“BCRA”).[18] Understanding and measuring variation in ownership of the firm is critical in order to:

Explain why firms are partisan and ideological;

Explain partisan polarization in corporate contributions intra-industry;

Explain variance in corporate response to campaign finance reform legislation.

For each of the above, I develop and test hypotheses, present the data, and analyze the results in separate empirical chapters of the dissertation. I discuss implications and address theoretical debates in chapter three and in the final chapter.

1.4.Partisan Choice in Corporate Contributions

Ownership is a significant variable for explaining partisan division in corporate contributions. Firms are owned and run by people; if the polity is more polarized, then a reasonable hypothesis follows: corporate political behavior within industries is polarized.[19] Previous research has missed this phenomenon by aggregating firm contributions and analyzing political behavior at the industry level. A common empirical claim is that corporations give primarily to the business-friendly Republican Party, unless composition of the chamber or office changes such that it becomes strategic for corporations to contribute to the Democratic Party. This claim warrants reevaluation, as a closer investigation reveals it is commonly violated in practice.

---

are for business reasons and noting the majority belong to business organizations, they do not hypothesize a relationship between these individuals as owners of firms and campaign contributors.

[18] Introduced by Senators McCain and Feingold as Senate Bill 25.

[19] (Burris 1987, 732-744) Burris was the first one, to my knowledge, to find strong evidence of political polarization in corporate contributions in the U.S. I improve upon Burris by providing an original theory for why firms are polarized and utilizing alternative methods which help answer the “why” question more precisely.

The issue content of partisan and ideological politics today is, in part, driven by those who have the purse to fund the cause. As a result, we see rapid growth in the use of non-profit ideological organizations, such as 527s and 501(c)s, and historical records set in the amount contributed by owner-elites to further their own political and ideological agendas. In chapter four, I test the hypothesis that certain firms are more ideological and partisan relative to other firms with a data set I constructed over a period of eighteen months. Here I apply pattern matching methods and find a causal relationship between ownership structure and political behavior. The dependent variable is contributions to federal ideological and partisan leaning organizations.

In chapter five, I analyze the trend in intra-industry variation in the choice of party and present a testable theory based on ownership structure. I find that firms have polarized along partisan lines intra-industry over the last two decades in the U.S. During this period, the Democratic and Republican parties exchanged control of both houses of Congress and the Presidency. Regardless of which party was in control of which chamber or office, within the same industry, individual companies split dramatically along partisan lines in their political contributions. Many firms remain remarkably loyal in partisan preference at the firm level despite changes in partisan control of the chamber and executive office.[20] Even industries widely assumed to have the strongest alliance with one party show variance in party choice among individual firms.[21] The dependent variable in chapter five is

[20] In the restaurant and retail industries, for example, it is difficult to provide reasonable business reasons why individual firms with presence in multiple locations across the nation would split into strong Democrat and strong Republican donors in the same cycle in their aggregated federal and PAC contributions.

[21] An example of the hard case industries would be strong Republican leaning oil & gas and strong Democrat leaning high-tech, venture capital, and hedge funds.

based on a composite of all contributions from PACs, soft money donors, and individual executives, employees and owners contributing over $200.

1.5.Firm Response to Campaign Finance Legislation

In chapter six, I present data that reveal divergent responses by firms to campaign finance reform legislation. I develop and test hypotheses to show how different ownership structures explain contribution patterns and variation in the ability of firms to adapt to regulatory change. I discuss how certain firms are able to adapt to changing legal, regulatory, and political environments by contributing to campaigns through alternative mechanisms.[22] I also describe which firms face constraints and explain why we observe variation in behavior among firms, which is not adequately explained by industry, size, or source of capital.

My research connects the top donors to ideological political organizations to the corporations that they own and control, thus challenging claims that independently wealthy individuals replaced large corporations as campaign donors, and therefore BCRA was an effective restraint. I show precisely which large corporations were constrained and which were enabled by the campaign finance reform legislation. I trace flows of funds among 527 organizations, and back to the principal owners of corporations from which they originated. My conclusions differ substantially from those of other political scientists who have published on this subject.

[22] Specifically, firms either a) adapt to legislation by creating new methods of contributing and are not constrained by imposed limits, or b) fail to adapt and are constrained by contribution limits.

1.6.Methodology

Methods employed include qualitative research, data analysis, pattern matching, econometrics, and a comprehensive case study. In addition to evaluating the traditional dependent variables for measuring corporate political action, such as voluntary employee contributions made to a political action committee or "PAC", I analyze the newer mechanisms of campaign finance and alternative methods by which firms contribute to political and ideological causes.

I show how ownership structures help to predict and explain specific corporate political strategies and behaviors. Innovating upon existing methods, I identify the principal owner of a firm and measure the political and ideological contributions of that principal owner and the institutions that it owns and controls, including other family members, trusts, foundations, and limited liability corporations.[23] This method captures the partisan and ideological status of the firm. I then measure the contributions made by the corporate interest overall by including contributions made via alternative instruments, such as holding companies, trusts, and limited liability corporations, as well as by the political action committees, non-profits, and individuals. I observe a strong relationship between the political behavior of the principal owner and the political behavior of the corporation in all of my empirical findings. In the theory and conclusion chapters, I provide my educated guesses for why we find this relationship, as well as the implications of these findings.

[23] Answering the question "who controls" often requires a thorough investigation of SEC statements (including the footnotes) and existing ownership structures, property rights, and distribution of powers (voting, appointment and removal) within the firm. My central claim is that who controls the firm also controls its politics. CEOs are a problematic proxy for who controls the firm. Limiting measures of political action to the CEO is therefore also problematic.

Identifying critical owners and control mechanisms is foundational for identifying who controls decisions about political strategy and the instruments by which funds are passed through intermediary and ideological organizations to candidates and parties. Principal owners of large corporations may own multiple corporations in unrelated industries. This represents another problem for tracing the origin of strategy and influence when measuring political contributions at the industry level. The case study method becomes crucial to capture all sources and flows of funds. One of my methods to capture flows of funds outside of traditional methods has been to conduct analyses similar to what in accounting is referred to as a reverse audit.[24] I analyze firm-level and intra-firm level behavior, tracing flows of funds to the end recipient, through intermediate entities, and from significant donors associated with the firm. These donors might include individual executives, officers, large owners, and their family members. I cross-reference zip codes, places of employment, and names and addresses to capture contributions missed by watch dog groups and scholars in previous studies. This provides a more robust measure of corporate political action than previous studies that limited the study of political activity to umbrella organizations, industry and trade associations, and corporate PACs.

Quantitative statistical analyses provide more rigorous ways of analyzing the relationship between ownership and political behavior. The explanatory variable in the empirical chapters is a composite measure of firm ownership, which accounts for the dispersion of shares, preferential voting rights, and family ties to the firm. Dependent variables capture political strategy and action, which I operationalize as campaign contributions and

[24] Using this method, I also have been able to identify flows of campaign funds from corporations to ideological PACs, for example, from Domino's Pizza Corporation to Ava Maria PAC.

the use of institutions owned for political and ideological purposes (e.g. foundations, trusts, equity funds, and LLCs). I predict that these ownership variables will be significant in explaining: a) why variance in constraints and opportunities at the firm level leads to variance in response to campaign finance reform legislation, b) why firms in the same industry in the same electoral cycle are highly polarized in their contributions, and c) which firms contribute to ideological and highly partisan organizations. I test these three predictions and present the results of each in separate chapters.

1.7.Conclusion

My dissertation provides insights for current debates about why corporations engage in politics as well as specific data showing how they do it. My research both challenges and contributes to existing interest group theories and theories of corporate political strategy. I demonstrate how firm-level analysis—identifying the institutions of ownership and who controls the firm—improves existing theories, formal models, and empirical studies. I find the Principal Owner firm exhibits political strategies different than the textbook Agent Manager firm by responding more rapidly and innovatively to campaign finance reform, exhibiting partisan loyalty and stronger partisan preferences, and engaging in ideological behavior. I will delineate the difference between these two types of firms in Chapter Three.

This dissertation represents the first exploration of how the separation of ownership from management translates into variance in a corporation's political strategy and behavior. My research demonstrates that future studies should consider including a previously omitted variable, ownership structure, as an independent variable in the study of corporate political action. This project contributes to our understanding of how ownership influences corporate political behavior, and thus to the study of campaign finance, interest group theory, and corporate governance.

Chapter 2. Political Models of Firms

2.1.Rational Choice School

Rational choice theory, when based upon a strict economic model of behavior, reduces the firm's political behavior to profit-maximizing and related activities (e.g. rent seeking). Buchanan and Tullock's "political 'profit-seeking' group", however, cannot account for many observed behavior patterns.[25] When the explosion of interest groups becomes so vast that any single interest is no longer able to attain a benefit more valuable than the cost of organizing or contributing, then we should observe a reduction in political action back to an equilibrium point such that the benefits exceed the costs. During the period in which the number of elected federal representatives has remained constant, the U.S. has seen an explosion of organized interest groups and campaign contributions. While some very large payoffs to political action are observed, these cases are typically anecdotal or industry specific. Narrow economic approaches may be limited in their reach for explaining a wider range of political behavior, including that of corporations.

Buchanan and Tullock provide an economic approach to the political process, as it "is useful in that it allows us to escape from the ambiguities surrounding the concept of the public interest".[26] A high level of interest group activism, for Buchanan and Tullock, was the logical outcome of a strategic game and response by self-interested groups. Once a single interest group acts and is successful in obtaining a particular advantage, such as a subsidy or special tax treatment, other groups will observe their success and pursue a

[25] (Buchanan and Tullock 1962)
[26] (Buchanan and Tullock 1962)

similar strategy. Thus they argue that the explosion of interest groups, and corporations in particular, is both a cause and result of a growing public sector and higher expectations of particularistic treatment.[27] Corporations, corporate PACs, and corporate lobbying and associations have been central to the overall growth of the interest group community and campaign finance and lobbying industries.[28]

2.2.Formal and Informational Models

The most recent advances and contributions to the study of interest group behavior have been made by formal theorists and political economists. Sophisticated game-theoretic models are best at communicating theories of behavior at a level of abstraction such that they are generalizable to all actors, places, and times, and thus are especially appealing to unification theorists and comparative political economists. Like their predecessors in economics, these theorists assume strict economic rationality and profit or rent-seeking behavior by interest groups. These models might be especially useful in describing and understanding the role of corporations in trade policy and other strictly economic pursuits.[29] Economic based theories of corporate political action typically start with the premise that industries and corporations seek rents from politicians, following the corruption literature in comparative political economy.[30] Many scholars treat entire industries and multinational corporations as unitary actors, simplifying the decision calculus.

Another leading approach to understanding interest groups in the American politics literature is informational models of group behavior. Building upon Keith Krehbiel's

[27] (Buchanan and Tullock 1962)
[28] (Epstein 1969; Epstein 1969; Vogel 1996)
[29] (Grossman and Helpman 2002b; Givel 2006, 405–18; Grossman and Helpman 1994, 833-850)
[30] (Hula 2000; Ainsworth 1993, 41-56)

formal informational theories of legislative organization, John Wright has developed formal informational models to explain the behavior of interest groups in lobbying legislators. These informational models focus on lobbying behavior. The text-book “service bureau” explanation for lobbying behavior first explained by Latham (1952), Milbrath (1960, 1963) and Bauer, Pool, and Dexter (1963), is that pressure groups are not very powerful, as evidenced by their concentrating limited resources on legislators that already have similar beliefs.[31] Wright rejects the claim that interest groups primarily attain influence through political pressure or financial support, but rather through the provision of needed expertise to information-seeking legislators.[32] In the management discipline, John and Rui de Figueiredo have contributed similar sophisticated informational models of lobbying and information in politics, and claim that information is “a more influential instrument in affecting policy outcomes than campaign contributions”.[33]

While a novel contribution to the field, this theory of interest group behavior fails to explain the billions of dollars of money contributed by interest groups in order to influence electoral outcomes each cycle. As in much of the other literature on interest groups, corporations are treated as unified actors limited to a single goal. There is also no satisfying explanation for why legislators would not seek the information they need, such as economic data, political information, etc. from government agencies, the media, lobbyists, or think tanks, rather than from individual corporations seeking specialized treatment, *but for* the desire of legislators for campaign contributions—or other goods, such as a future

---

[31] (Bauer, de Sola Pool, and Dexter 1963; Latham 1952; Milbrath 1963)
[32] (Wright 2003; Wright 2000, 217-235)
[33] (De Figueiredo 2002125; De Figueiredo and De Figueiredo 2002, 161-181; De Figueiredo and Tiller 2001, 91–122)

lobbying contract, employment or a seat on the board for a family member, donors, or constituents, etc.—from those individual firms. While the provision of information to legislators may be one role of corporations, there are a wide range of other behaviors that are not explained by informational models.

2.3.Corporate Political Action ("CPA")

CPA in Political Science

Several scholars have contributed to our understanding of the political behavior of business, assessing the impact of business elites on an abstract level and through empirically rich and sophisticated research in order to assess the entire business sector's influence on the operations of the entire political system[34] However, relatively little empirical research has been carried out by political scientists on individual corporate political activity, with the exception of political action committees ("PACs").[35] Following the explosion of PAC activity in what Hernson (1998) refers to as the Reform Era (late 1970s through early 1990s), most of the research on corporate political activity became focused on PACs, such that the distinction between a corporation and PAC became somewhat blurred. Corporate political action became synonymous with "contributions from corporate-designated PACs". However, contributing through a PAC is only one of multiple methods of funding campaigns and participating in politics. Of the 5,401,237 corporations that filed taxes in 2003,[36] only 1,538 had PACs in 2003, according to FEC data, or less than .03 percent.

---

[34] (Smith 2000; Epstein 1969; Vogel 1996; Vogel 1989; Vogel 1987, 385-408)
[35] (Wilson 1990281)
[36] 2003 Corporation Returns of Active Corporations. Table 1 - Number of Returns. http://www.irs.gov/pub/irs-soi/03co01nr.xls downloaded February 2, 2007.

Political scientists who have studied variation in corporate political behavior at the industry level have found some differences in contribution patterns that are influenced by industry characteristics. The presence of threats to the industry and reliance on government contracts are two factors that appear to lead to greater political activity. Political threats, however, are usually temporary; continuous threats are a problem for relatively few industries such as tobacco, and relatively few industries heavily rely on federal contracts as a primary source of revenue (e.g. aerospace, defense). The business environment in these industries is not representative of most.

CPA in Industrial Organization Economics

> The basic paradigm of industrial organization, and the basis for regulatory and antitrust policy in the U.S., asserts market structure determines conduct, and that conduct determines performance. - “The Industrial Organization of Corporate Political Participation, ” Grier, Munger, and Roberts (1991, 727)

Industrial organization economics provides theories about the collective behavior of corporations at the industry level. Political scientists and political economists draw heavily upon this literature. Their models of corporate political behavior start from the premise that the structure of the industry drives the strategic behavior of the individual firm. The organizational structure of the *individual* corporation, however, is missing in these studies. Grier, Munger, and Roberts argue that “because most favorable regulation affects the entire industry rather than individual firms...the industry [is] the appropriate unity of analysis”.[37] Starting from the premise that firms only engage in politics to seek regulation

[37] (Grier, Munger, and Roberts 1991, 727-738) This assumption is not tested, nor is supported provided for this claim. Tax consultants and lobbyists who effectively help draft legislation have single corporate clients (and owners of firms) paying them and *not* entire industries. Firms within the same industry are often in competition for government contracts and firm-specific subsidies and privileges. If firms within industries

that will maximize profits for their industry, these scholars set out to answer the question of which industries are more politically active than others.

Following Olson's theory of collective action these scholars argue that industry concentration is an important factor and predict that industries with a small number of large firms will be the biggest participants because they have the most to gain and are best able to overcome collective action problems. Yet as Grier, Munger, and Roberts acknowledge, there is inconsistent evidence that industry concentration matters, and it is unclear in what respect.[38] Furthermore, these scholars conceive and quantify participation as having established a PAC, eliminating other common forms of participation from the analysis.

One problem with Olson's theory is that it treats corporations as individual decision makers in coordinating political action. While the corporation is legally treated as an individual, in reality corporations are comprised of many actors and stakeholders. Corporations themselves are subject to collective action problems in coordinating political action, which would magnify the collective action problems in coordinating coherent political action among firms in the same industry. Furthermore, industry segmentation is problematic in practice. MNCs, family business groups, and venture capital firms all have business operations spanning multiple industries. When analysis is limited to the individual business in a vacuum, the environment affecting the structure of the greater enterprise and other business lines—and how that translates into political strategy—is missed.

---

are unified, we should see lots of coordination and uniformity in their party choice (I show in Chapter 5 that this is not the case).

[38] (Grier, Munger, and Roberts 1991, 727-738)

Other scholars posit that non-market behavior will be either more prevalent or less prevalent in firms that are highly levered (high debt to equity ratio).[39] Grier, Munger, and Roberts argue that highly leveraged firms "bear more inflation risk and offer a higher relative return to equity owners (and therefore) have a greater stake in political outcomes".[40] Brown, Helland, and Smith argue that "firms with higher debt-to-value ratios give less cash to charities and are less likely to establish foundations" while firms with a larger board of directors give more cash to charity and establish more foundations.[41] Both studies are subject to omitted variable bias; other scholars have noted that ownership structure affects both the debt to equity ratios and the likelihood of engaging in non-market activities.[42] Scholars in management have noted that ignoring the ownership structure of the individual firm can bring omitted variable bias and hence misleading findings.[43]

CPA in Management

Management scholars ask why corporations participate in non-market behaviors and analyze the different strategies corporations and corporate actors use in response to external threats, such as political or legislative change. While this literature is typically silent about *why* corporations would chose to contribute to a particular party or ideological organization, the literature is extensive in grappling with the question of *which* corporations engage in the political process. Several comprehensive literature reviews have re-

---

39 "Non-market" is a term used in the strategic management literature to describe philanthropic or political strategies or actions that are not directly tied to the business's core competency and mission to maximize profits on behalf of shareholders. (Grier, Munger, and Roberts 1991, 727-738; Brown, Helland, and Kilhom Smith 2006, 855-877)

40 (Grier, Munger, and Roberts 1991, 727-738)

41 (Brown, Helland, and Kilhom Smith 2006855)

42 (Chaganti and Damanpour 1991, 479-491; McConaughy and Phillips 1999, 123-131; McConaughy 1994; Morck and Yeung 2004, 391-410; Morck 2000; Lenway, Morck, and Yeung 1996, 410-421) For a contrarian position see (Anderson and Reeb 2003, 653-684)

43 (Dyer Jr 2003, 401-416)

cently been published summarizing the findings, conclusions, and degree of consensus in the management field.[44] After examining 43 articles on corporate political action published in scholarly journals, Skippari et al. found 27 different theoretical perspectives, including interest group, collective action, public choice, resource dependence, and industrial organization theories; 32 antecedents or explanatory variables, including firm-specific resources, structure, and constraints, industry structure, market conditions, and government regulation; a dozen different measures of corporate political activity and a dozen different research designs or methods; five levels of analysis (managerial, intra and inter-organizational, intra and inter industry); and at least three levels of government.[45]

Comprehensive literature reviews conducted by other scholars similarly suggest minimal consensus as to when, why, how, and which firms engage in political action.[46] Most find larger firms, and firms dependent upon the government for revenues are more active and contribute greater resources to politics. The existence of political threats, such as from activist groups or cost prohibitive regulations appear to be reasons why some firms and particular industries give more than others. Comprehensive theories that apply generally to all firms across industries are rare.

A few scholars have investigated how the organizational structure of the individual firm might influence its political behavior. The empirical studies in this area assess the impact of a firm's product diversification, internal structure (number of departments and subsidiaries), or foreign ownership. All of them are based upon a managerial theory of the

[44] (Hillman, Keim, and Schuler 2004, 837-857; Skippari et al. 2003; Griffin and Dunn 2004, 196-220; Lamberg et al. 2004, 335-365; Schuler 2002, 336-355; Schuler, Rehbein, and Cramer 2002, 659-672; Griffin et al. 2001, 167-186; Shaffer and Hillman 2000, 175-190; Shaffer, Quasney, and Grimm 2000, 126-143; Getz 1997, 32; Shaffer 1995, 495-514)

[45] (Skippari et al. 200328-29)

[46] (Hillman, Keim, and Schuler 2004, 837-857; Getz 1997, 32; Shaffer 1995, 495-514; Mitnick 1993, 327)

firm and assume a single type of ownership structure, without measuring it.[47] According to the filter model (the firm as a filter of corporate political action) proposed by Rehbein and Schuler, (1999, 1997), organizational structures matter, but only for the decision-making influences on management (i.e. organizational slack or excess resources allow managers to pursue non-economic political goals). In this model, organizational structures are under-identified and it appears that the resources of a firm—rather than its organizational structure—are actually what are measured in this study.

Most empirical studies include only the largest publicly traded companies. Yet theoretical explanations for why size or capital source should matter are understated or not mentioned. Resource-based theories argue that large firms are able to contribute more money to politics. The capacity question begs the purpose question: why do firms give in the first place? The evidence that campaign contributions are a net positive investment, once opportunity costs are considered, is inconclusive. With uncertain returns, investment in electoral politics appears to be a relatively high risk activity relative to many other business ventures and financial investments. Yet many authors in this field do not adequately address the possible reasons why firms might engage in politics.

Size as a predictor of political action is problematic generally, and especially for predicting which party the firm prefers. There lacks a consensus whether or not size is significant as an independent variable, and if significant, in which direction - more than one study concludes small firms are *more* likely to contribute than large firms *ceteris paribus*. Scholars vary in how they define the size of a corporation (number of employees, revenues, market capitalization, or rank on the Fortune 500 list). Most studies severely

[47] (Shaffer and Hillman 2000, 175-190; Rehbein and Schuler 1999, 144-166; Rehbein 1995, 41-61)

limit which corporations are included in the sample in a way that introduces selection bias and potential validity problems (only large to very large firms are included in the first place). Most importantly, size is a rough proxy for other causal mechanisms that need to be further explored.

A fairly compelling argument is that the largest firms are the most visible. Politically motivated issue based groups target the largest publicly traded firms. The largest firms are also the most visible targets for party fundraisers and candidates. As the primary targets of legislation, these firms respond by strategic and substantial contributions. Yet size and public source of capital should not lead to more partisan behavior; one would predict the opposite. Multinational and transnational firms located in nearly every state, with thousands of employees, should have diverse political opinions, ranging from liberal Democrats to conservative Republicans. Individual contributions made by partisan employees should cancel each other out, as any large corporation is likely to employ contributors to both parties. Publicly traded companies are subject to shareholder activist groups and institutional investors from both sides of the political aisle, and thus the corporate PAC should contribute in a more bipartisan or non-partisan manner, if the firm engages in electioneering at all.

2.4.Business is Unified

While empirical studies are mixed, the most prominent claim is that there is at least some degree of unity among the business community at some level. Normative theorists are concerned that greater unity among firms in the business community threatens the Madisonian pluralist solution to a large republic. The political power of the business community is often conflated with the question of unity of opinions on economic issues, trade, non-economic issues, as well as the degree of unity in partisan choice. Few would disagree with the first premise: the business community is a powerful force in U.S. politics. Political economists such as Lindblom argue that business has a privileged position in a market-based democratic system due to their ability to harness resources, get access to public officials, and use existing organizational capacity to influence political outcomes.[48] In addition, businesses provide jobs and make the credible threat of capital and tax flight. Firms can make credible threats to politicians to relocate manufacturing plants, head-quarters, and jobs to other states and countries, thus "offshoring" management, operations, and tax bases. However, the question of alignment *within* the business community along partisan lines remains an area of debate.

The first question is whether business engages in ideological behavior.[49] Every study I reviewed concluded that when business engages in ideological politics, they promote conservative ideological causes.[50] The problem with the research design in these studies is that the researcher almost always makes the mistake of only looking at conservative ideological causes.[51] An unbiased and scientific approach would be to look at who funds both liberal ideological causes and conservative ideological causes. If some economic elites (business owners, executives, hedge fund managers) fund liberal ideo-

---

[48] (Lindblom 1977)

[49] Ideological behavior can be compatible with rational behavior, as well as self-interested behavior. A firm can contribute to an ideological cause, such as a gay and lesbian fund, which may address a business agenda (e.g. attracting a target employee base as a human resources strategy). My point here is that previous studies assume that business firms only engage in ideological behavior to shift public opinion in favor of policies that affect the bottom line, such as free markets, low taxes, obedient workers, etc.

[50] (Burris 1987, 732-744; Lindblom 1977; Burris 1992, 1451-1456; Burris 2005, 249-283; Clawson and Neustadtl 1992; Clawson, Neustadtl, and Scott 1992; Clawson and Neustadtl 1989, 749-773; Neustadtl and Clawson 1988, 172-190; Clawson, Neustadtl, and Bearden 1986, 797-811)

[51] The terms liberal and conservative are problematic. I intend to use these as they are commonly used by party elites and scholars today, ideologically on a left-right dimension.

logical causes, then we would have to conclude that the economic elite is ideologically divided, and not unified toward promoting a conservative ideology.

An emerging debate in the social sciences is to what extent businesses are unified along partisan lines, and at what level of analysis. A common empirical claim is that all business interests are allied with the Republican Party, or at least conservative economic ideologies, albeit spanning both parties at different periods in history.[52] Discrepancy in these findings is largely due to differing time periods analyzed, as well as differences in methodology and which portion of the economic sector is included in the analysis. What is consistently claimed is that businesses are generally unified, if not at the class level at the industry/ sector level.[53]

2.5.Business is Divided

A much smaller and contrarian literature concludes that business is divided in the political sphere. Two comprehensive empirical studies on the unity of business in U.S. politics come from two scholars, one in sociology and the other in political science.[54] While both of these scholars discuss points of discord among the business community in the U.S., (Burris in later works and Smith along issue dimensions), both observe a considerable degree of harmony on issues as well. There are several existing explanations for why businesses divide along partisan lines: 1) the core-periphery theory of business partisanship, 2) inner circle or network theory, 3) managerialism theories, 4) isolationist versus internationalist explanations, 5) Main Street versus Wall Street (also known as

---

[52] For instance, see the debates among (Burris 1992, 1451-1456; Clawson and Neustadtl 1992; Clawson and Neustadtl 1989, 749-773; Schattschneider 1975; Domhoff 1997; Domhoff 1972) There are exceptions on both sides including earlier works of Truman (1951) and Dahl (1958) as well as (Mizruchi 1990, 213-240).
[53] (Useem 1980, 41-77; Schlozman Kay and Tierney 1986)
[54] (Burris 1987, 732-744; Smith 2000)

Yankee versus Cowboy or Sunbelt versus Rustbelt), and 6) regulatory environment (an industry explanation). These six categories are provided by Burris (1987). Others break these explanations into simpler categories that are more easily quantifiable, such as size, industry, and location.[55]

Burris' thorough analysis of partisan political behavior of business found that corporations in regulated industries follow what he calls a "pragmatic strategy of bipartisan support for incumbents with their PAC contributions," while simultaneously funding highly ideological groups and causes outside of the electoral arena.[56] Analyzing 1,000 of the largest U.S. corporations in 1982 and including the 100 largest private companies and 50 largest diversified financial companies (both of which are frequently left out of the analysis due to the difficulty of collecting data), Burris found that some industries give more to incumbents, regardless of party. These industries include those firms which are heavily reliant upon government contracts. Aerospace, defense contractors, utilities, and large commercial banks tend to split their contributions according to the composition of Congress and among incumbents (regardless of which party) who might affect their business. Industries such as chemicals, oil and gas, and wood products include firms with the greatest threats of being subjected to legal, environmental, and regulatory penalties and tend to give to incumbents of both parties, to competitive Republican challengers, and to Republicans in open seat races. While there is some support for the Main Street versus Wall Street theory, it is difficult to tease out how much stems from location and socio-

---

[55] The management literature on corporate political action also includes these variables in order to explain political behavior of corporations. Partisan and ideological behavior, however, has not yet become a point of interest in these studies, and is rarely measured.

[56] (Burris 1987 741)

logical or cultural factors versus the concentration of oil companies, etc. in places like Texas, and internet technology and financial firms on the “Left Coasts”.

Burris also finds that the managerialism theory does not hold; he finds that manager-controlled firms are no more liberal or bipartisan than owner-controlled firms.[57] Scholars have posited that firms run by professional managers behave differently in the political sphere, albeit with very different arguments than mine. Professional managers are posited to be less interested in profit maximization and more open to the demands of other stakeholders, including labor, consumers, and the greater community, more bipartisan at the state level, and more open to the necessity for an expanded role for government in softening economic shocks.[58] If this managerial theory of corporate political preference holds, then we should observe this manager dominated type of firm contributing more money to liberal causes and Democrats than owner-manager firms. In the empirical chapters, I show that in general, the opposite is more likely than not to occur: mid-level managers and MBA executives for hire are more likely to contribute to Republicans. Owners of firms and financial institutions, however, are split in their political preferences, with many making large contributions to and hosting parties for candidates of the Democratic Party and funding liberal ideological organizations.

The argument for why professional managers would be *de facto* more liberal than owner-managers as a whole is not compelling, nor is the argument that professional managers are less concerned than owners with profit-maximizing, although their time ho-

---

[57] While representing an improvement on Berle and Means original analysis, Burris method of identifying owner-controlled firms relies on (Burch Jr. 1972), which is problematic for several reasons, starting with the sample selection of firms based upon the Fortune 500.
[58] A review of this literature is found in (Burris 1987 734)

rizons may indeed differ. The behavior of corporate management in the last decade alone should give pause to the argument that professional managers are less concerned with profits than with societal issues like income inequality, consumer safety, or the environment than are business owners, entrepreneurs, and financial capitalists. Any support for the claim that there is a philosophical divide among "new money" and "old money" would lead one to conclude that hired managers would be *more* conservative than capitalist-owners. I posit there is a high degree of variance in ideological and partisan preferences among successful entrepreneurs, corporate owners, and large investors in capital (today's capitalists include venture capitalists, "angels", private equity partners, buy out barons and hedge fund managers).[59]

Burris concludes that "concern over maintaining access and influence with incumbents, more than any other factor, limits the support of corporations for [Republican] candidates."[60] He finds insufficient evidence for the core-periphery theory (related to size, profitability and industry concentration) or the inner circle theory (i.e. businesses engaged in umbrella organizations such as the Business Roundtable do not have unique partisan preferences).[61] He finds that smaller firms are only somewhat more likely to make contributions based on ideology, and are only slightly more likely to support Democrats (4 percent more than larger firms).[62] This finding that size does not matter seems curious

---

[59] My hypothesis is that managerial structures matter, but in ways not formerly proposed. My research explores the extent ideological preferences, observed by contributions supporting a single party or ideological cause alone, versus instrumentally to individual politicians, are expressed by capitalist owners relative to professional managers, and thus should provide insights into this existing debate.
[60] (Burris 1987 737)
[61] (Useem 1984; Useem 1980, 41-77)
[62] (Burris 1987 740) In later chapters, my findings generally concur with Burris's in this regard. I find, however, that it is not primarily size or resources of the firm, but rather the ownership structures of the firm that are the mechanisms leading to this finding. There is a positive correlation between very large firms and

given the widespread and longstanding claim that large corporations with the greatest resources dominate the political process, largely by funding the Republican Party as it is generally opposed to Labor.[63] It is curious to hear that small firms may have more salient ideological preferences because the largest, publicly traded corporations are the easiest to observe and are the best known, and almost all of the studies of corporations as political actors select only the largest firms, corporations with PACs, and/or biggest contributors to the GOP in their samples. Very little is known about the political preferences, strategies, and behavior of businesses and financial institutions that do not make the top ranks of the Industrial Standard & Poor's list of publicly traded firms.

The large versus small firm argument is similar to the Wall Street verses Main Street argument. Wall Street v. Main Street, however, is more closely related to location and is complicated by reference to the finance industry. Further, these two types of firms are not neatly divisible by partisan lines, or some easy measure of size, such as number of employees or revenues, and not even location in today's business environment. A closely held NYC private equity firm, a multi-billion dollar family-controlled hedge fund, and a Silicon Valley venture capital fund can all be "Wall-Street" types, although the number of employees is no different than what is thought of as a typical "Main Street" business. The family owned and controlled corporate giants—both public and private—do not fit cleanly into *either* of these categories: ex: Omaha, NE based Berkshire Hathaway, Bentonville, AK based Wal-Mart, Bechtel, and Kohl Industries.

---

the probability that firm is an Agent Manager firm (defined in Chapter 3); smaller firms will have a higher likelihood of having a controlling principal owner who drives the political preferences of the firm. However, this does not prevent very large firms from having a principal owner who drives the partisan choice of the firm (for example, the Walton family and Wal-Mart Corporation; the Ford family and Ford Motor Corporation).

[63] (Lindblom 1977; Schattschneider 1975)

Size of a corporation alone should be a poor predictor of a firm's political contributions to which party, which level of government, and what percentage of profits/ revenues. Firms of all sizes contribute to the Democratic and the Republican parties from San Francisco and Orange County. Location in these cases appears to be a better predictor than size of the corporation (by any measure), industry (for reasons earlier stated), or whether the firm is private or public. Location, however, may be a secondary effect of the political preferences of the founder(s), which I posit is the driving factor in many firms.

2.6.Corporate Money in Politics

Corporations in the Campaign Finance Literature

Experiences of the Reform (late 1970s through the early 1990s) and Post-Reform era (mid 1990s to the present) suggests a healthy skepticism about the effectiveness of the most recent campaign finance reform legislation in addressing corporate and "big money" participation in the electoral process. After sweeping reforms brought by the Federal Election Campaign Act of 1974 "FECA", corporations adapted, and there was an explosion in the number of PACs, from which contributions by corporations—through their employees in a separate segregated fund—are allowed. The observed trend during this time frame of parties and PACs working closely together is informative about the relationship of corporate and political actors during the last half of the 20th century. Business and government appear to have an increasingly interdependent relationship. Political candidates for the highest offices are frequently the founders, family members, or at least friends of the corporate and banking elite. Career politicians, their family members, and high-level appointees sit on the boards and are hired by the largest corporations and global equity firms. Business and finance industry friendly politicians dependent upon the checks from business owners and executives are the rule and not the exception in both the Democratic and Republican parties.[64]

The increasingly active role of the business sector in American politics has been attributed to the increasing demand for regulation—from businesses themselves (the bottom-line enhancing regulation), shareholder activists, class action lawyers, consumer advocates, environmental groups, labor, and even religious groups.[65] Politicians' dependence on the private sector has increased with the cost of running a successful political campaign and the continued need to claim credit for the creation of jobs and generation of economic growth in their districts. And according to Wright, congressional committee members are now dependent on business elites and their accountants, lawyers, and consultant-lobbyists to develop acceptable legislation.[66] Most recently, we can include liquidity and economic survival to the list of reasons why the corporate/ financial sector and the political sector are increasingly joined at the hip.

Scholars have not yet been able to explain—and frequently miss—the most partisan, ideologically active, and adaptive firms in U.S. politics.[67] After the Bipartisan Campaign Reform Act ("BCRA") was passed, some business elites responded to the new ban on soft money by contributing directly to 527 political organizations and directly funding

---

[64] For a sample of evidence see: http://www.opensecrets.org/overview/industries.php
[65] (Smith 2000; Epstein 1969)
[66] (Wright 2003)
[67] When the founders, controlling stockholders and beneficial owners of these Principal Owner firms are described anecdotally or included in the data sets of researchers under individual contributions, I have seen and heard them referred to as robber barons (but only in the historical context), fat cats, wealthy individuals, sponsors, significant donors, and megadonors. Other political scientists note that donors may contribute as individuals for business reasons. (Francia and Herrnson 2003) The corporate and financial interests, mechanisms, and range of tactics of these important sources of campaign funds, to my knowledge, have not been systematically studied by a political scientist in the past half century prior to this dissertation.

partisan political communications with only the initial support or implicit consent (and sometimes without) of party elites and politicians. These phenomena raise the opportunity to address questions regarding corporate partisanship and ideological behavior. For example, it is curious why business would effectively act like a party agent, agreeing (or volunteering) to fund political communications that favor a single party. In addition, the finding that business elites are sharply divided in their partisan preferences challenges a general consensus in the political science literature that business acts as a unified interest group.[68] Specifically, a finding that economic elites and the firms they own are divided along partisan and ideological lines would challenge prominent claims that big business is uniformly conservative and allied far more closely with the Republican Party.[69]

---

[68] The best literature reviews and analysis of the degree of unity among American businesses are found in (Burris 1987, 732-744; Smith 2000; Epstein 1969)

[69] (Clawson and Neustadtl 1992; Clawson, Neustadtl, and Scott 1992; Clawson and Neustadtl 1989, 749-773; Neustadtl and Clawson 1988, 172-190; Clawson, Neustadtl, and Bearden 1986, 797-811; Schattschneider 1975; Clawson, Neustadtl, and Weller 1998; Neustadtl, Scott, and Clawson 1991, 219-238)

Chapter 3. A Political Theory of the Firm

3.1. Why We Need a New Theory

> "Separation of management from actual ownership is complete and permanent."[70]

> "…decision making in a firm is the province of managers who are not the firm's security holders."[71]

> "The question that was not asked during the great debate over socialism *versus* capitalism has now been answered: ownership has been split off *de facto* from internal control." - Robert A. Dahl, *After the Revolution?*[72]

The theory I propose presents some challenges to the historical story of the modern corporation's development as told from the managerial perspective. In 1977, Alfred du Pont Chandler Jr.—a relative of the Du Pont family of E. I. du Pont de Nemours and Company—published the Pulitzer Prize winning book, *The Visible Hand: The Managerial Revolution in American Business*. [73] Following on the earlier work of Berle and Means, Chandler described the historical development and separation of a professional managerial class from an owning elite comprised of the industrialist-era capitalist class. This professional class of bureaucrats was also responsible for managing government relations. Scholars followed in the footsteps of Berle and Chandler in the following decades, focusing their attention on the professional class of hired MBAs, and dismissing the robber barons of yesteryear. Founding families came to be viewed as an atavistic hangover in the

[70] (Berle Jr. 1926 675) Adolf Berle served on FDR's "brain trust" in formulating the Second New Deal Reforms, which recommended the Securities Exchange Commission (SEC) as a reform to protect investors.
[71] (Fama 1980 288)
[72] (Dahl 1970)
[73] The Du Pont family, best known as the founding and controlling owner of the DuPont Corporation, also held controlling stakes in General Motors from 1914 to 1957, and in Conoco Inc. in the 1980s and 1990s.

case of the U.S., especially the large publicly traded firm, such that to be publicly traded came to take on the notion "a managerial firm" and to be a family firm implied "privately held, small business". Berle and Chandler described a new era that had dawned, often referred to as the managerial revolution.[74] The disappearance of controlling owners and families, however, has been widely overstated and accepted by scholars as one of the defining characteristics of the modern U.S., multinational corporation ("MNC") or financial institution of any substantive size.[75]

The managerial revolution literature accurately describes the historical role that higher levels of education and technological change had on professionalization. In addition, the growth of the size of industrial firms did result in a trend toward the appointment of non-family CEOs in the middle of the 20th century. Yet founder and family ownership, control, and governance of large corporations and financial institutions has remained surprisingly robust, and may have increased in the past two decades, if the number of founder and family-controlled hedge funds and private equity funds are included. A few scholars along the way recognized that this aspect of the managerial revolution was overstated, and even misleading.[76]

> There is now a widely held opinion that a majority of large firms are controlled by professional managers, that the proportion of large firms controlled by ownership interests is declining, and that, in any event, there is very little difference in behaviour between managerially controlled and owner-controlled firms…This view is misleading to a considerable extent.

---

[74] (Berle and Means 1932; Chandler 1977)

[75] (Clark Muntean 2008, 3-26; Stigler and Friedland 1983, 237-268; Stigler and Friedland 1983, 237-268) Challenging the widespread belief in the managerial revolution is a daunting challenge, for cultural and path dependent reasons. The presence and strength of family ownership and control is downplayed in the U.S., in part, due to a strong preference for rational-legal bureaucratic administration over traditional power structures, and for merit-based over dynastic-based economic institutions and reward systems.

[76] (Stigler and Friedland 1983 119 121; Mills 1959) Nyman and Silberston offer a similar critique of the managerial revolution in the U.K. (Nyman and Silberston 1978, 74-101)

> It is based on too narrow a conception of the forms which ownership takes and on too simple a theory of the relationship between ownership and corporate behaviour.[77]

What has changed in the 20th century, to some extent, are the direct and indirect ways in which founders and families control the firm and the visibility of their ownership and very presence. Large, publicly traded firms in particular are likely to downplay their family's presence, as their dominance on the board of directors and common stock holdings reduce the firm's corporate governance ratings.[78]

Over the past few decades, technological advancements, innovation, globalization, and deregulation spawned a new generation of highly profitable corporations, hedge funds, and private equity firms managed by elite founders with characteristics that differ from those of the industrial age. According to the Bureau of Economic Analysis data, the financial services sector of the U.S. economy nearly doubled over the last five decades, expanding from one-tenth to one-fifth of GDP by the mid-2000's. Such growth and profitability heightened the political importance of this sector as a source of employment, economic growth, and campaign funds. Acting rationally, those who are able to gain the most from the booming economy and growing financial sector hire accountants, lawyers, and financial consultants in order to take advantage of lucrative offshore banking options and sophisticated accounting strategies that significantly reduce income, estate and corporate taxes. A portion of the net profits and tax savings is recycled back into the political coffers of parties, politicians, and their agents, who then ensure favorable tax policy.

---

[77] (Nyman and Silberston 1978 74)

[78] For data and further discussion of the various ways families control public companies in the U.S., see (Anderson and Reeb 2003, 653-684; Villalonga and Amit 2006; Anderson and Reeb 2003)

Table 1. Top Industries/Occupations Giving to Members of Congress, 2008 Cycle

Rank	Industry/Occupation	Total	Dem Pct	GOP Pct	Top Recipient
1	Retired	$128,869,941	56%	44%	Barack Obama (D)
2	Lawyers/Law Firms	$126,830,785	78%	22%	Barack Obama (D)
3	Securities/Invest	$63,138,706	65%	35%	Barack Obama (D)
4	Real Estate	$62,104,614	57%	43%	Barack Obama (D)

Source: The Center for Responsive Politics

Note in Table 1, the top industries giving to members of Congress in the 2008 cycle, the Finance, Insurance, and Real Estate or "FIRE" sector, which includes mortgage banking and lending, Fannie Mae, etc., ranks third and fourth, and the top recipient is the current president. The most frequent occupation that contributors list to self-identify is "retired"; these include principal owners of firms, who are not required by campaign finance law to list their ownership status, and hence firm affiliation. Retired, homemaker, or philanthropist will suffice for listing one's occupation, regardless of one's control over a firm. Quite a few in the second ranked industry/occupation, lawyers and law firms, are effectively lobbyists, the hired agents representing the industry and individual firms.

The legal and regulatory environment has also changed in recent years. When contributions from institutions, including corporations and PACs, are restricted, large individual contributions to political coffers grow in importance. "Obama received about 80 percent more money from large donors (cumulative contributions of at least $1,000) than from his small donors, which is far more than any previous candidate."[79] "Fat cat" donors, including successful entrepreneurs, investment bankers, etc. become lucrative targets for expensive campaigns for candidates in both parties.

---

[79] La Raja, Raymond J., "How McCain Hurt Himself and the GOP with McCain-Feingold", *Newsletter of Political Organizations and Parties*, 27(3), p. 2.

3.2. Why Firms Give

The number of politically active interest groups—dominated by economic and financial institutions—and their agents has grown tremendously over the past few decades, so that any *individual* firm's contribution or votes would seem inconsequential to a politician.[80] During the same time, politicians and the polity became more ideologically polarized, and parties have grown more unified and powerful. Given these macro dynamics, it would be logical to conclude that a contribution made by an individual corporation or financial institution would have *less* influence on the politician's decisions and thus policy outcomes. Declining payoffs per dollar contributed in a saturated market, according to industrial economics, should create a disincentive for all but the largest firms in a concentrated industry to contribute to politics.[81] We observe political expenditures from the corporate and financial sector on an unprecedented scale, not just volume in total dollars, but also in number of interests that contribute—including firms of modest size across industries.

My goal is to identify the causal mechanisms underlying a corporation's strategy and the logic behind its political, ideological, and philanthropic endeavors. As these activities may not be recorded on the income statement, especially when conducted by individual representatives or through alternative mechanisms, the degree to which they are profit-maximizing remains unclear. A political theory of the firm must identify actors, incentives, mechanisms, and causal relationships in order to be compelling.

---

[80] (Schlozman Kay and Tierney 1986; McCarty, Poole, and Rosenthal 2006; Schlozman and Tierney 1986)
[81] (Olson 2002 (1971))

While many regression results suggest a correlation between size and political activity, there is no compelling theory why the size of a firm should *cause* a firm to contribute to politics, especially partisan and ideological politics. Firms with larger revenues, it is argued, have greater resources to give to politics. Such resource based theories—as they are referred to in the literature—do not explain why firms give in the first place, and thus are not theories of *why* firms give, but rather an explanation of *how* firms are able to give, once they are motivated to do so. In this case, free cash flow would be a more appropriate measure to use rather than sales revenues, market capitalization, or number of employees—the measures currently used in empirical studies. Further, resource based arguments do not incorporate the opportunity costs of contributions: no explanation is provided for why profit-maximizing firms would chose to contribute to politics rather than invest the resources in a more profitable and less risky venture.

A firm's size might make it more visible and thus a target for political activists, politicians, or campaign fundraisers. In this case the causal mechanism may be a credible political threat to the firm, which provides the incentive for a firm to contribute in response to or to avoid costly regulation, taxes, or sanctions. In this respect, political contributions become a type of insurance payment to hedge against uncertainty and political risk. Alternative explanations are possible. For instance, executives may be simply following a social convention or norm—when a golf partner asks for a donation, one is given.

Nor does it make sense to claim the industry classification *causes* a firm to contribute to a particular party. It may be that some industries are under greater political regulatory threat, or more dependent upon government contracts; however industry does not *cause* the action, but only represents probability of a threat or opportunity and thus stimulus under certain conditions. While threats appear to be a robust argument for explaining corporate political action, we lack a theory which explains why firms that contribute engage in political activity when no serious threat is perceived, why firms continue to give—and give more—after the threat subsides, and why many of the top industries and firms are the least regulated or have an insignificant percentage of revenues from the government.

3.3.The Ownership Model

We need a way to better describe, explain, and predict the range of behaviors actually observed that is updated to the current era. I begin with taking businesses (and indirectly politicians and parties) as they are—and not how they should be according to ideal type or theoretical models. In order to capture how the vast majority of corporations actually *are* organized and how their owners actually behave, I let data inform a theory that more accurately explains and predicts how corporations and their most influential actors interact with political institutions and political actors. I call this political theory of the firm "the ownership model" of corporate political behavior. The ownership model offers explanations, or hypotheses, which I then test in empirical chapters 4, 5, and 6. The first step is to deepen our understanding of how these economic actors organize to engage in politics.

I describe the ownership structures and predicted political behaviors in Appendix B: Diagrams of Two Types of Firm Behavior on page 156. Firms with a controlling owner, such as an entrepreneur or family, are referred to as Principal Owner firms. All other firms are Agent Manager firms. Management as a field splits the entrepreneurial and family business literatures. There are family firms, founding family controlled firms ("FFCFs"), owner-manager firms, entrepreneurial firms, etc. I simplify these into one, the Principal Owner firm, as they exhibit similar political behavior. As far as I am aware, this is a unique typology and labeling.

3.4.Arguments

Starting from a rational choice perspective, the ultimate level of analysis is the individual actor, who designs and modifies the very institutions through which his or her desired actions and goals can best be realized. From an institutionalist perspective, ownership structure either limits or enables the expression of strong partisan preferences. Professional, hired managers with strong political preferences are less able to translate those political preferences into coherent political action on behalf of the firms they manage. Owner-entrepreneurs and family owners who control the firms they own, on the other hand, are better able to translate strong political preferences into coherent political action on behalf of the firms they own and control. The ability to translate strong political preferences into political action is observable in the degree of divergence of individual corporations from political preferences expressed by their industry (Data tables provided in Chapter 5). Political preference can be both liberal and Democratic or conservative and Republican; the ability to translate political preferences is independent of the preference itself.

Corporations are black boxes political scientists need to crack open. Individuals with the most vested interests in the firm provide the keys to understanding the strategic logic of corporations as political actors. I infer from observed behavior that the most vested individual actors in the corporation are driving the political strategy and choices on behalf of the firm. When a corporation lacks such vested owners, those corporations will behave probabilistically in ways predicted by existing economic theories of corporate political action ("CPA").

3.5.Assumptions

Following the rational choice school, I assume "individuals are the only meaningful decision-making units".[82] Further, I view corporations, both for-profit and non-profit, as "organizations created with purposive intent".[83] Combining these two premises, individuals make the decisions to organize and create those institutions and adapt their organizations to respond to opportunities and threats. The relationships among owners, directors, managers, and other shareholders provide information about how a firm is structured and how a firm might behave in the political sphere. Analysis at the level of the firm enables scholars to identify strategic political actors. Firms are heterogeneous, with owners, directors, and officers who exercise unequal control over the firm's strategic decisions, including political contributions. Strategic actors in the corporation seek agenda control, form coalitions, actively design institutions and establish what Douglass North referred to as "rules of the game".[84]

Relaxing the strong assumptions of rational choice, however, I do not assume that individuals are strictly self-interested profit-maximizers. Individuals are generally utility maximizers, where utility is broadly conceived to include maximizing the welfare of that which is beyond the individual's immediate self-interest. Individuals are rational and have

[82] (Buchanan and Tullock 1962)
[83] (North 1990)
[84] (North 1990)

sufficiently coherent beliefs. Such assumptions do not constrain the individual from contributing to politics given ideological or even altruistic motivations (e.g. voting in favor of higher taxes to improve the welfare of others). Given the individuals under consideration are corporate actors, including successful entrepreneurs, executives, and financiers, they are well-educated, sufficiently aware of political ideologies, and make informed partisan choices. These actors are human individuals, and as such are subject to multiple and sometimes conflicting motivations that stimulate complex patterns of behavior. This assumption relaxes the standard premise that, since corporations are theoretically hyper-rational and profit-maximizing, the individual decision makers are limited to the same rationales for engaging in politics.

Relaxing many of the assumptions found in strictly economic-based rational choice approaches presents challenges to developing a formal model of the firm based upon ownership. Such a model, however, is likely to be more representative of the ways in which corporations and corporate actors actually behave. The decision calculus of corporate actors represents a black box in itself, which is difficult to fully analyze given the constraints in collecting this data and the strong incentives to withhold or misrepresent true preferences and strategies. This is particularly a problem given the competitive nature of corporations, the legal environment, and sometimes conflicting pressures to both maximize profits and use the corporation to "do good" and contribute to society in ways other than growing the size of the economic pie. Corporations, especially publicly traded corporations, are under substantial pressure today to engage in "corporate social responsibility", which calls for developing and implementing strategies beyond profit-maximization, such as addressing global warming, human rights violations, and community impact.[85]

Yet contributing firm resources to philanthropic or social endeavors may conflict with the fiduciary responsibilities of management. Conflicts among stakeholders may erupt, as consumers, shareholders, and political activists differ in their political agendas and may not be supportive of the management or corporation contributing to politics in general, especially not a single party or cause that does not have a clear tie to the bottom line, or which may be controversial in nature.[86] Some activities, on the other hand, may be so desirable to stakeholders that the corporation may be motivated to establish a leadership position in it as a public relations strategy. All firms may at times have motivation to engage in such behavior for public relations and product differentiation purposes. I focus here on the differences in political strategy and behavior exhibited between two types of firms, which may extend beyond activity conducted solely for business purposes, such as public relations or human resource management.

3.6.Corporate Political Actors

> And on [corporate executives'] own discretion they decide whether, when, and on what sides of what issues their energies and funds will be thrown into political activities like lobbying or party organization.[87]

Few theories of corporate political *actors* exist. The decision calculus of both individual firms and individuals within the firm is rarely studied in political science, as this is considered the venue of industrial organization, economics, or management. When stud-

---

[85] (Crane, Matten, and Moon 2008)
[86] Tambe, Neil, "Investors Push Companies to Explain Their Politics," July 10, 2006, *Capital Eye* http://www.opensecrets.org/capital_eye/inside.php?ID=224 accessed April 20, 2009.
[87] (Lindblom 1977)

ying corporate political action at the individual firm level, scholars do one of the following: a) anthropomorphize the fictional legal entity of the C Corporation (e.g. Wal-Mart Corporation is Republican, conservative, etc.), b) focus exclusively on contributions to and from the separate segregated fund, such as the PAC, c) limit study of the behavior to the firm's external agent, such as the PAC officers or hired lobbyists, or d) limit interviews to the internal agent, such as the Chief Executive Officer ("CEO"), particularly those of the largest industrial firms.[88] When individual businessmen are studied, connections to the specific corporation(s) they represent are rarely made.[89] Executives have the incentive to present themselves and the firm in the best light, and thus the information gained from interviews or surveys would be suspect. Withholding or misrepresenting information is inherently problematic with these methods, and especially when there is something to hide or portray in a positive light. A preferable alternative is to collect data on observed behavior and revealed preferences of individual actors within the firm.

The degree to which owners, as opposed to independent managers, make political decisions, to my knowledge, has never been systematically studied or empirically tested. The case studies that examine individual actors focus exclusively on role of CEO. David Yoffie calls these CEOs "corporate political entrepreneurs".[90] By focusing exclusively on the CEO, these studies miss the critical role played by principal owners, who have interests in steering the political decisions of the firm. Yoffie claims that political strategy originates

---

[88] (Clawson, Neustadtl, and Weller 1998)

[89] (Francia and Herrnson 2003) These CEOs may or may not be principal owners, but are statistically less likely to be principal owners than the population of large firms in the economy, and the most prominent campaign contributors.

[90] (Yoffie and Bergenstein 1985, 124-139) To avoid confusion, I do not to use the term "entrepreneur" given its connotations with "individualistic and young start-up". The principal owner is frequently an established family—second, third, or fourth generation to the founder—and not a single entrepreneur-owner.

and is driven by the CEO. I test his theory and find it is not well supported empirically. Principal owners (and not management) drive the strategy, except when the CEO is also a founder or heir of the founder. Data on the percentage of the largest publicly traded family firms that also have a family member as CEO reveal that this is the exception and not the rule (approximately one in five).[91] In Chapter 7, a case study on Wal-Mart Corporation provides a detailed example of the institutions and mechanisms by which the principal owner drives the political strategy and behavior of the firm, rather than non-family management.

3.7.Individuals or Families as Principal Owners

When analyzing political strategy, it is important to focus on the individuals who make political choices, rather than searching for its origins in the formal-legal institution itself. As Morck notes, this is "an important distinction, because people, not corporations, make decisions".[92] Institutional blockholders and collective investors such as investment banks are not to be confused with individual and family blockholders, such as founders and their heirs. I avoid the terms "concentrated ownership" versus "diffused ownership" used in the corporate governance literature to describe the ownership structure, because many firms have a principal owner and also have widely diffused stockholders, while other firms have several large institutional blockholders but no principal owner. For example, Wal-Mart Corporation is a publicly traded, widely distributed, family controlled firm. At first glance, this may sound like a contradiction. But as I show in Figure 5 on page 81, it is not. Whether or not the company is publicly traded or privately held is independent of

[91] (Anderson and Reeb 2003)
[92] (Morck 2000)

whether the company is controlled by a founder or family. In addition to legal institutions, Principal Owner firms may use traditional and/or charismatic authority to overcome collective action problems experienced by relatively more rational-legal Agent Manager firms, in order to respond more quickly to political, legislative, and regulatory change by aggregating political contributions to the right decision maker in a short period of time through alternative mechanisms.[93]

The existing scholarship on what I call Principal Owner firms is currently split into entrepreneurship and family business, two emerging fields in management. The focus of this literature is on finding seed financing, managing growth, succession, etc. and not political activity. The assumption is that both types of businesses are relatively small, private, and run by owner-managers. While it is true that small start-up firms are owned by an individual or family, the converse is not a true statement. *It does not logically follow that firms owned by individuals or families are small businesses.* Principal owners control many of the largest publicly traded and privately held conglomerates, MNCs, and financial and corporate empires in the world. The U.S. is not an exception [See Appendix B at the end of the dissertation].

Owners—even if not actively managing the day-to-day operations of the firm—are "the most powerful external force affecting the firms' strategy and performance".[94] Firm strategy includes its political strategy. Scholars have found that ownership offers "a mechanism for institutionalizing power in a firm" and "alters the firm's responsiveness to external contingencies", both of which are needed to overcome collective action problems

---

[93] Max Weber delineated three forms of legitimate authority: rational-bureaucratic, traditional, and charismatic in *Economy and Society*, Part 1, Chapter 3(i,2).
[94] (Chaganti and Damanpour 1991 489)

and implement a coherent and effective political strategy on behalf of the firm.[95] Many of these informal institutions and mechanisms are difficult to quantify, but that does not mean they are not critical factors. Those in the hierarchy under the founding leaders may be pressured to contribute to the political and ideological causes of the principal owner.

Owners of firms may be ideological and contribute for sincere reasons, or for social or expressive reasons. Alternatively, and in addition to these reasons, these individuals may contribute strategically and instrumentally, to gain access and influence. These two motivations need not be mutually exclusive drivers of partisan campaign contributions. The answer to the why question may frequently be "both". Sincere ideological divides over religious, social, cultural, and even aesthetic issues and tastes split economic elites along partisan lines.[96] The ideological divisions among top campaign contributors—the largest of whom are principal owners—appears *not* to be primarily over philosophical or "big picture" economic issues such as trade, tax policy, or government intervention in the economy.[97]

The economic elite include owners of media and entertainment firms, founders and top donors to not-for-profit organizations, think tanks, and universities. The economic elite are largely one and the same as the philanthropic elite, where social networks include activists engaged primarily in ideological and partisan causes.[98] The degree to which ownership of the media, founding and funding of think tanks, universities, and research foundations influences beliefs, politicians, party elites, and the public is a fascinating question for political scientists, albeit beyond the scope of this dissertation.

---

95 (Pfeffer and Salancik 1978; Salancik and Pfeffer 1980 662)
96 (Brooks 2000)
97 (Clark Muntean 2008, Article 9)
98 (Ostrower 1995)

Founding families and successful entrepreneurs share social networks with political elites, and these are often comprised of individuals from one party. The long term investment horizons of family controlled firms make developing long term relationships with party elites a more likely strategy.[99] Party elites may have greater opportunities for solicitation and influence. In addition, the political behavior of Principal Owner firms is more likely to reflect the partisan preferences and ideology of the founder and his or her family and social network.[100] While the initial and primary purpose for establishing corporate and family foundations, limited liability corporations, and trusts may be for liability or tax reasons, these institutions are also common vehicles for contributing to political and ideological causes. If principal owners exercise more direct control over these institutions, they will have the means by which to direct political and ideological contributions made by the firm. My research on mega-donors to ideological federal 527 organizations reveals that a super majority indeed are comprised of Principal Owner firms.[101]

3.8.Questions the Theory Raises

One question raised is why we do not observe more intra-firm partisan polarization. If individuals are the holders of political beliefs, partisan identifications, and ideological leanings, then one might expect to see some executives in the corporation contributing to Democrats, and other executives—most it is thought—contributing to Republicans in most

---

[99] (Hadani 2007, 395-428)

[100] One criticism here is that one can certainly find exceptions to unity in family firms' political preferences, ideological differences among principal owners of a single firm, and generational shifts in political and ideological preferences. My model is not deterministic, rather probabilistic. While I acknowledge exceptions exist, I argue they are the rare exception rather than the rule, and therefore not problematic for my theory.

[101] Named after Section 527 (§527) of the Internal Revenue Service, a 527 organization is "an organization that is created to receive and disburse funds to influence or attempt to influence the nomination, election, appointment or defeat of candidates for public office".

firms. We should see partisan divides within family firms, as well, as members of families do not always agree on their politics, and especially across generations. Curiously, this happens very infrequently. While individuals within the firm may differ in ideological and partisan leanings, in the Principal Owner firm, there is strong partisan unity in the contributions actually made. I have three responses as to why I think this happens. First, firms are hierarchical, and many dynastic families are hierarchical as well. The dominant individual, usually the founder or heir that is most engaged with the business, is likely to have the final say and direct contributions to their preferred party. It is legal to contribute in the name of one's children and through trusts. Considered a separate contribution, the founder/heir is able to circumvent individual contribution limits, sometimes many times over.

Second, people enjoy being with others like them, and thus tend to cluster among like-minded individuals, including those that hold similar values and beliefs. Why do Democrat executives prefer to work for Costco over Wal-Mart, and Republican executives Wal-Mart over Costco? While the founding family may select executives on the basis of their political beliefs, it is more likely that a natural self-selection process is at work. The founder establishes the political and social culture with charisma, family members, and others from their social network. Like minded individuals are likely to join the firm, stay longer, and become politically active.

Another question involves the simplified typology of firms into a binary. This simplification is necessary in order to communicate the logic of the theory, identify and test hypotheses, and establish the clear differences between the two groups. In real life, ownership and control of the firm follows along a continuum. A similar concern is raised in the situation in which there is an unknown tipping point to differentiate the Principal Owner from the Agent Manager firm. Estimating how latent control translates into actual control is only observable when the firm is in crisis, such as when the family must respond to a hostile takeover threat or bankruptcy. I argue that the presence of a founder or founding family is the best existing proxy for control of the firm, and thus the appropriate method for identifying a Principal Owner firm. Following this logic, I code my casual variable as a dummy in empirical chapters [See Addendum 1 in Chapter 4 for coding of dummy composite].[102]

At the limit, Agent Manager firms do not have top executives completely separated from ownership, as they do own stock, and sometimes a fair amount. Changes in executive compensation—namely, stock options—and equity buyouts suggest a weaker schism between managers and owners today than when scholars first spoke of a managerial revolution decades ago. What clearly separates a founder of a Principal Owner firm from a hired CEO of an Agent Manager firm is the time horizon, personal investment and degree of identification with the firm . “Owning entrepreneurs” in particular “cannot detach themselves from their own particular company”.[103] Yet on the end of the continuum, Principal Owner firms have widely distributed shareholders and independent, professional managers. Indeed, many of the largest public traded family controlled firms are characterized by this structure, with four out of five of the top five hundred hiring non-family

---

[102] I ran regressions using two independent sources (Yahoo finance and MSN Money) for inside ownership information by percentage common stock held by five percent and greater beneficial owners. The results were not significant. Upon further investigation, both sources of data were not measuring what I was trying to measure, because all inside management are included (non-family executives and directors), and other family sources of ownership were excluded (lesser than 5 percent owners, pass through corporations). The blockholder database available via Wharton Research Data Services [“WRDS”] does not sufficiently differentiate principal owners, insiders, and institutional investors. To my knowledge, only Andersen and Reeb and Villalonga and Amit have constructed databases of the (family) ownership structures of the S&P 500 with rigorous firm level analysis. Data was not available from Villalonga and Amit. I compared Andersen and Reeb ownership information (slightly dated) with that which I compiled on my own.

[103] (Mills 1959)

CEOs.[104] This does not weaken the theory or argument, rather makes it more robust when I find that families continue to drive the political agenda in the firms where they exercise ultimate control over the governance function, despite delegating much or all of the management and operations to independent agents**.** For an example of the ways in which owning families engage in politics, see Chapter 7**,** which provides a case study of the Walton family and Wal-Mart Corporation.

One of the greatest difficulties with this theory is conceptual. How can a conglomerate, a MNC, or a multi-billion dollar equity fund possibly have a political preference or an ideology? It is difficult to conceptualize that one individual or family could exercise influence over the political decisions of a multi-billion dollar corporation or financial institution. Some might argue that if a wealthy owner is ideological or partisan, that is his or her personal money, regardless of its original source, so there is not, properly speaking, a direct tie to the corporation or financial institution. Yet the identity of the founder and founding family and the firm itself may be so intertwined as to be indistinguishable, not only to party elites seeking contributions, but also to the individual contributing. In a paper that studies the elite social networks of owning families, Palmer and Barber offer the following line summing up my point from Meshalum Riklis, founder of Rapid American as quoted in *Forbes* (March 15, 1971):

"I am a conglomerate. Me personally."[105]

---

[104] (Anderson and Reeb 2003, 653-684)
[105] (Palmer and Barber 2001 87)

Chapter 4. Corporations in American Politics: A Causal Relationship between Ownership and Behavior

4.1.Introduction

This chapter further explores the relationship between ownership structure and variation in political behavior. Contributions include an author-compiled large-N data set that is more representative of the population of U.S. firms than typically found in the literature, and the exploration of corporate and economic elite ideological behavior in the full range of revealed preferences from strong liberal, Democratic to conservative, Republican. Beginning with the full sample, I avoid selecting on the dependent variable by including all non participants in the analysis. Including counterfactual cases, I compare the explanatory strength of the ownership theory relative to existing theories of corporate political behavior. Contributions in 2004, 2006, and 2008 electoral cycles to federal 527 organizations are a proxy for firm engagement in ideological, partisan behavior.

4.2.Data Description

The independent variable data set constructed for this chapter is comprised of a 1,510 firms from the Fortune 1000, Forbes List of America's Largest Private Companies, Family Business America's 150 Largest Family Businesses, and PrivateRaise.com's list of the largest private equity firms.[106] Firms represent sixty-eight industries according to the two-digit level SIC code. This data set of firms is more representative of the population of all firms, and of the population of firms most active in American politics, than most of the

[106] The current database is constructed of cross sectional independent variable data for the year 2006.

literature which typically selects on the dependent variable and/or from a list of the largest, publicly traded industrial firms such as the S&P500.

Dependent variable data (campaign contributions) were collected from the Center for Responsive Politics' website, www.opensecrets.org. I queried contributions to federal 527 organizations by both the name of the firm and the name of the principal owner or chief executive officer ("CEO"). Data were collected one firm at a time, cross referencing zip code, middle initials, etc. whenever possible, and thus I was able to correct for common problems associated with data mining software such as multiple and false matches (e.g. the wrong John Smith). The focus is on federal (as opposed to state-level) 527s in order to best capture ideological contributions and in order to avoid instead capturing local instrumental effects (gubernatorial races, incumbency effects), as my primary research question is "which corporations engage in ideological, partisan politics, why, and what is driving this behavior?" Federal 527s are the preferred proxy, as there are minimal "hold up" opportunities with these instruments.[107] In the absence of a legal, direct solicitation mechanism from the political parties and the politicians, I presume the corporations, corporate actors or their agents are acting out of a coherent national partisan strategy and/or giving for ideological reasons.

4.3.Research Design

In order to make causal inferences with observational data, I select a nonequivalent groups dependent variable quasi-experiment design (NEDV) with pattern matching me-

[107] In other words, it is illegal for politicians and their hired agents to directly solicit contributions from corporations and their members and representatives to these 527 organizations. Assuming the absence of solicitations, the contributions to a federal 527 known for promoting either a pro-Democrat or pro-Republican candidate or ideological cause represents a clean proxy for a sincere, revealed political preference.

thods and include counterfactuals (non-participants or non-contributors in both groups).[108] There are two non-equivalent populations:

I: Principal Owner Controlled Firms

II. Agent Manager Firms

Two samples are randomly selected from these populations by a mathematical procedure.[109] I hypothesize if greater principal owner control of the firm, then more partisan political contributions, *ceteris paribus*. Independent variables provide information about who controls decisions in the firm:[110]

Null hypothesis: No significant difference in political behavior observed between the two groups.

Alternative hypothesis: Political behavior will vary significantly between the two groups as predicted by my theory.

4.4.Preliminary Findings

When collecting the dependent variable data, I found an interesting pattern of behavior: at lower and middle ranges, Agent Manager and Principal Owner firms give similar amounts. However, megadonors are exclusively comprised of Principal Owner firms. These findings are presented as comparative density functions and histograms for the two groups of firms (see Figure 1 and Figure 2 on page 56-56). In the first graph, the dotted line reveals a sharp drop in donations by Agent Manager firms at a maximum, while Principal

---

[108] (Trochim 2001)

[109] Restricting the universe of firms to publicly traded U.S. domiciled corporations would result in a biased sample for estimating corporate money flows into U.S. politics. I discuss the population and sample in chapter six.

[110] (Stigler and Friedland 1983 248) present—but but do not make—an alternative test of management verses ownership de facto control in cases when the firm faces a takeover or unfriendly merger.

Owner firms continue to give on a logarithmic scale denoted by the solid line.[111] Another difference noted while collecting the data, is that Principal Owner firms presented a strong tendency to give in support of a single party, while Agent Manager firms were far more likely to split contributions among both left-leaning liberal 527s and right-leaning conservative 527s. Another interesting finding was that CEOs rarely give to 527s. In Agent Manager firms that contribute, the employee supported PAC typically either gives a lump sum or splits 527 contributions among the most aggressive fundraising 527s, such as the New Democrat Network, the Senate Majority Fund, and GOPAC. Principal Owner firms, on the other hand, are more likely to be megadonors, giving to multiple 527s of the same ideological and partisan leaning. In order to test the effect of ownership structure more formally and to control for other factors, I utilize econometric methods.

[111] In this paper I use decimal logarithms suitable for contributions in dollars.

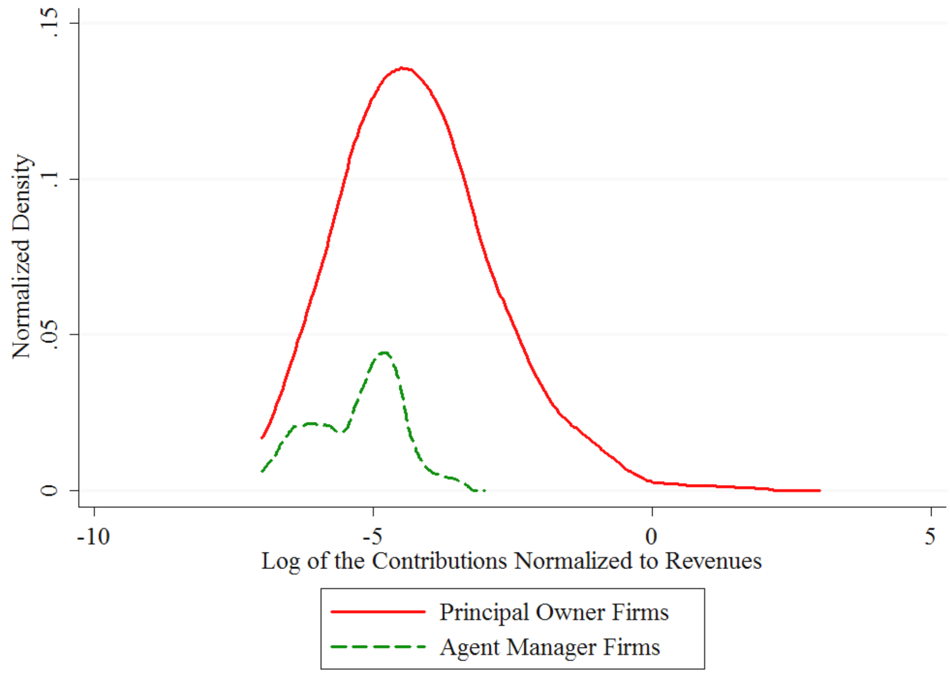


Figure 1: Contrasting Political Behavior of Principal Owner and Agent Manager Firms

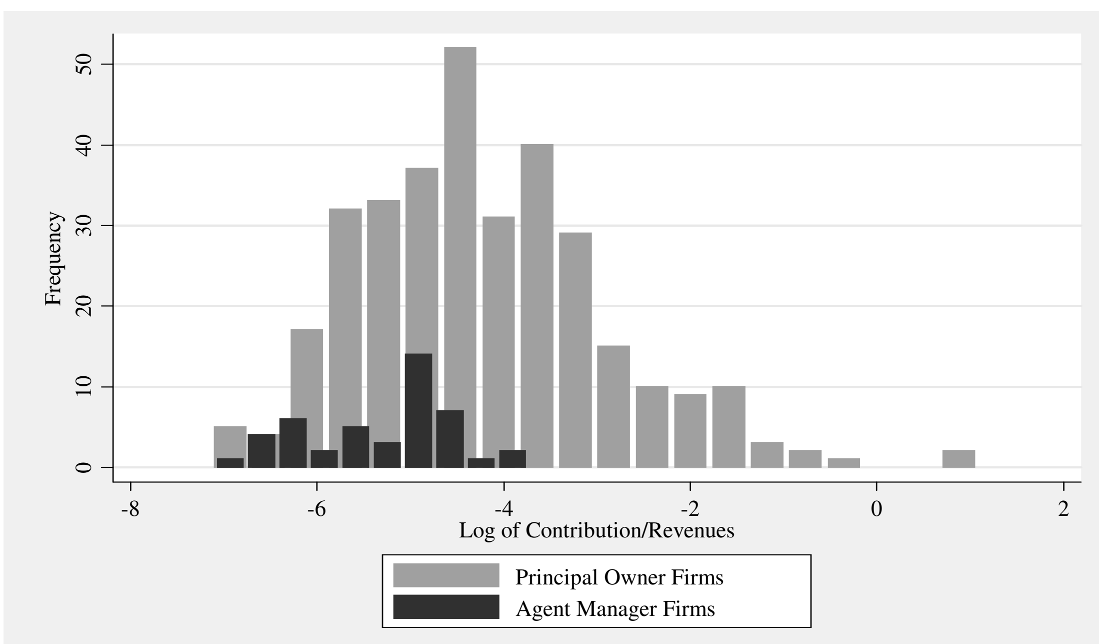


Figure 2: Contribution Patterns to Federal 527s by Ownership Type

In Figure 3 below are scatter and box plots that compare the types of firms in their logarithmic normalized contribution to federal 527s. There is a difference in means of 12.3 times ($10^{1.09}$) in contributions between the two types of firms. For example, if an Agent Manager firm had $10 billion in revenues, their contribution would be $100,000; for the same $10B in revenue, a Principal Owner firm would contribute $1,230,000. In other words, firms with an entrepreneur or founding family contribute a far greater share of the firm's resources to national elections and partisan, ideological politics than do firms with independent managers and no single controlling owner. This is even more pronounced in privately held firms, but the effect is still quite visible in publicly traded firms with a controlling owner.

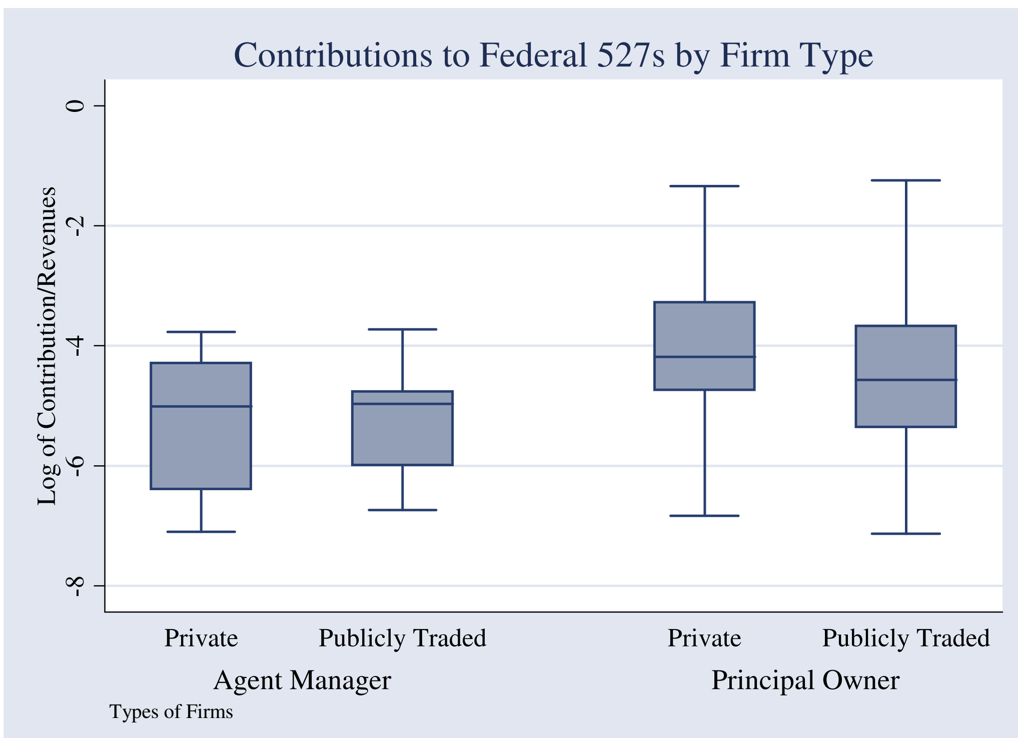


Figure 3: Dedication of Firm Resources to Partisan, Ideological Politics, Variability by Ownership Type and Source of Capital

4.5.Causality Model Based upon Ownership

The causal (treatment) variable is the presence of a principal owner. The principal owner can be an individual or group, such as a founding member, family, or partnership that controls the firm and exercises influence over major strategic decisions, including over political, ideological and philanthropic contributions. For how principal ownership was coded, please see Addendum 1 at the end of this chapter. This information was obtained by confirming a controlling ownership position with at least two sources.[112] Drawing upon the Neyman-Rubin Potential Outcome Model,[113] I define the following causality model for corporate political behavior. T = 1 if the firm receives the treatment and T = 0 if no treatment is received. Y_1 is the outcome expected if T = 1 and Y_0 is the outcome expected if T = 0. The average causal effect is defined as $\theta = Y_1 - Y_0$ where Y_1 is observed outcome (the factual) and Y_0 is unobserved for the treatment group (the counterfactual) and θ is estimated with the difference in means between the treatment and control groups.

The model assumes the following causal structure, with arrows noting the direction of causality. Dotted lines represent partial or indirect causality, and the solid line represents direct causality. No line represents a possible correlation, but no causal pathway (model follows Judea Pearl's method). Defining X_1 as the treatment variable, with observational data Nature does T to X (randomly assign treatment to a treatment group)

---

112 Sources include Lexis-Nexis, Hoover's in-depth company records, SEC filings, finance.yahoo.com, and corporate websites. Many founders, families, and heirs of family-controlled companies self-identify as such on the company's website or in press statements. Other companies required substantial research, including triangulation with other scholars of family control and review of footnotes to Section 13(d) filings.

113 The model makes the following assumptions: 1) stable-unit-treatment-value-assumption SUTVA (no interference among firms – an independence assumption); 2) strongly ignorable treatment assignment (similar to no omitted variable bias). The latter is an overlapping condition that assumes two potential outcomes will be independent of the assignment of the treatment. In other words, conditioning on X, the treatment and control groups are comparable and have common support (i.e. each firm has some probability of receiving the treatment or not).

X_1 = Principal Owner (firm ownership structure characterized by the presence of a controlling entity, such as a founder, founding family, or partnership).

X_2= Capital Source (publicly traded or privately held, a dummy variable in which publicly traded is assigned the value 0 and privately held the value 1).

X_3= Location (state where parent firm is headquartered)

X_4= Firm Size (gross revenue/ sales or assets under management for financial firms)

X_5= Firm Size (number of employees)

X_6= Industry (two-digit Standard Industrial Classification "SIC" Code)

X_7= Government Sales (a dummy variable 1 is assigned to those firms that are either government contractors, or else have a significant portion of total sales to government).

Y_1= Partisan/ Ideological Political Behavior (proxy is contributions to federal 527)[114]

Note that every variable to the right-hand side of X_1 are not directly determined by X_1, but are rather a function of market opportunities and constraints, the nature of the business itself, etc. However, the two variables to the left of X_1 are to an extent determined by X_1, although market factors and the nature of the business also partially determine the choice to go public or stay private, or where to locate headquarters. Therefore, a dotted line denotes where a partial causal or probabilistic relationship exists. The industry is expected

[114] According to the Center for Responsive Politics, a 527 Group is a "tax-exempt group organized under section 527 of the Internal Revenue Code to raise money for political activities including voter mobilization efforts, issue advocacy and the like." I view this as the best proxy for partisan, ideological behavior, because the contributions do not go directly to a particular candidate, but rather for the advancement of a particular ideology or indirectly to influence the outcome of an election in favor of a particular party or partisan candidate. Source: http://www.opensecrets.org/527s/types.asp

to have a stochastic relation to the dependent variable as well. Some industries are more likely to have firms with principal owners and some industries are more active politically than other industries. In addition, some industries (but not most) are more likely to contribute to a particular party, (Republican for oil and gas and Democrat for entertainment, for example). However, since industry does not *cause* partisanship and is only probabilistically correlated with it, I draw no causal line.

My identifying assumption is that conditional upon a few observable characteristics, firm ownership structure is uncorrelated with every other factor that has an independent effect on political contributions. I believe this to be strongly plausible and unproblematic, with the partial exception of X_3, location, which is discussed here briefly. There is a potential chicken and egg problem with location and principal ownership that is potentially difficult to resolve, as founders *a priori* chose the location of their headquarters. However, I have strong reason to believe that business or other idiosyncratic reasons and not the strength of the founder's political ideology are the primary drivers of location in the decision of where to locate a firm's headquarters, and thus believe location to be uncorrelated with the dependent variable.

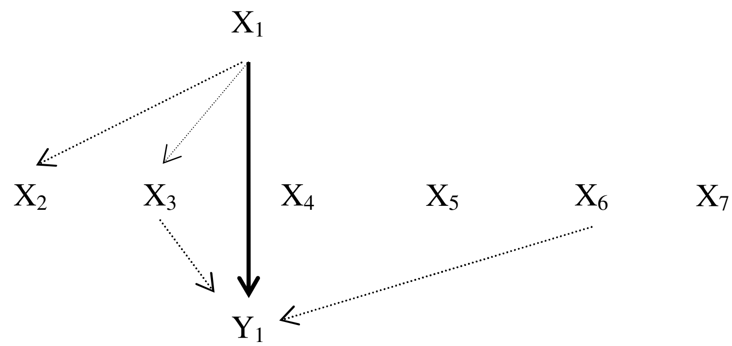


Figure 4: Causal Structure: X_1 = Principal Owner; Y_1 =Political Behavior

4.6. Methodology

Before using the parametric statistical model (i.e. multivariate regressions), I preprocess the data with several semi-parametric and non-parametric matching methods in order to reduce model dependence. Pattern matching methods use control group data to estimate the causal effect on the treatment group. The logic of this approach stems from J.S. Mill's methods of inference where one attempts to maximize unit homogeneity in order to reduce bias and improve efficiency (minimize mean squared errors). Preprocessing the cross sectional data ensures similarity of the treatment and control groups for comparability purposes by resolving the problem of differences in the density functions. Out of five possible methods (*subclass, optimal, full, genetic,* and *nearest*) only three methods work with the data set in this paper; of these, *subclass* provides the optimal balance while retaining the greatest number of firms and *genetic* provides the least bias and the greatest efficiency of the estimated causal effect. Under the sub-classification method, MatchIt classifies six subgroups of relatively homogenous firms according to firm-level control variables (revenues, employees, source of capital, industry, location, and government sales). The matching procedure drops firm observations from the data set due to lack of comparability (Wal-Mart Corporation, for example, which is a principal owner firm, contributor to 527s, and the subject of Chapter 7, was an outlier firm on controls and was dropped). This may at first appear counterintuitive to most quantitative methods and practices that frown upon throwing away data. Matching methods discard data, however, to improve both the bias and the efficiency of the causal effect simultaneously.

The second step is a multivariate matching procedure based on a method developed by Diamond and Sekhon called genetic matching or GenMatch.[115] Artificial intelligence and advancements in data processing are combined with a genetic search algorithm, which finds a set of weights for each covariate such that an optimal balance is achieved. Instead of using the original software GenMatch, however, a simplified version of genetic matching is implemented in the MatchIt package available in R statistical software called *genetic,*[116] which combines two methods: the propensity score of Rubin and Rosenbaum and the multivariate matching based on the Mahalanobis distance between any two column vectors X_i and X_j:[117]

$$md(X_i, X_j) = \left\{ \left(X_i - X_j\right)' \mathbf{S}^{-1} \left(X_i - X_j\right) \right\}^{1/2} \tag{1}$$

where **S** is the covariance matrix of **X**. According to Sekhon, Rosenbaum and Rubin show that matching on the propensity scores produces balance on the vector of covariates X; but both propensity scores and the matching based on Mahalanobis may make the balance worse if the condition of "equal percent bias reduction" does not hold.[118] Sekhon and

[115] (Diamond and Sekhon 2006)
[116] (Ho et al. 2007)
[117] (Diamond and Sekhon 2006 2; Cocharan and Rubin 1973)
[118] (Sekhon , 2)

Diamond uses an extended metric as a result of searching over the whole space of distance metric.[119] The key element is a weighting matrix **W** added to the Mahalanobis metric:

$$d(X_i, X_j) = \left\{ \left(X_i - X_j\right)' \left(\mathbf{S}^{-1/2}\right)' \mathbf{W} \left(\mathbf{S}^{-1/2}\right) \left(X_i - X_j\right) \right\}^{1/2} \tag{2}$$

When W is the identity matrix, the genetic matching method is identical to the Mahalanobis metric (The choice of the non-diagonal elements of **W** is detailed in section 4 of (Diamond and Sekhon 2006).

4.7.Genetic Matching Results

The initial set of data had 1300 companies. After applying the genetic matching procedure described above the dataset was reduced to 1055. Table 2 below provides a summary of the improvements after the matching procedure:

Table 2: Balance Results after Matching Procedure

Summary of Balance for All Data:

	Means Treated	Means Control	SD Control	Std. Mean Diff.	eCDF Med	eCDF Mean	eCDF Max
Distance	0.62	0.4918	0.16	0.756	0.2278	0.2113	0.3542
Public	0.502	0.8103	0.3924	-0.6161	0.1541	0.1541	0.3083
employees	21.2785	33.9589	89.2545	-0.1561	0.1597	0.1323	0.1964
revenues	8.6367	11.9052	25.5779	-0.0728	0.1346	0.1149	0.1673
Togov	0.0661	0.1829	0.3869	-0.4702	0.0584	0.0584	0.1169
siccode2	55.1731	46.8479	18.3874	0.044	0.0285	0.0377	0.1464

[119] (Diamond and Sekhon 2006)

(Table continued)

Summary of Balance for Matched Data:

	Means Treated	Means Control	SD Control	Std. Mean Diff.	eCDF Med	eCDF Mean	eCDF Max
Distance	0.6188	0.6188	0.1682	-0.0003	0.1289	0.1238	0.2215
Public	0.506	0.5073	0.5008	-0.0027	0.1004	0.1004	0.2008
employees	18.7465	18.1457	37.4959	0.0074	0.1069	0.0979	0.1602
revenues	8.143	6.6477	16.7884	0.0333	0.0684	0.0643	0.1205
Togov	0.0668	0.0668	0.25	0	0.0139	0.0139	0.0277
siccode2	48.0521	47.8892	18.9054	0.0009	0.022	0.0344	0.1098

Percent Balance Improvement:

	Std. Mean Diff.	eCDF Med	eCDF Mean	eCDF Max
Distance	99.9642	43.4023	41.4139	37.4784
Public	99.5669	34.8528	34.8528	34.8528
employees	95.2618	33.0574	26.0181	18.4033
revenues	54.2514	49.1592	44.064	27.928
Togov	100	76.2897	76.2897	76.2897
siccode2	98.0435	22.8241	8.8468	24.9458

Sample Sizes:

	Control	Treated
All	585	757
Matched	307	749
Unmatched	278	0
Discarded	0	8

All independent variables are better balanced after the MatchIt procedure was applied. Only the variable “revenues” has a modest improvement.

4.8.Description of Data and Groups after Matching

Of the 1300 firms matched into subclasses, 701 firms are in the treatment group (firms with a principal owner) and 599 firms are in the control group (firms without a principal owner); 829 are publicly traded and 471 are privately held; the 1300 firms span

68 two-digit SIC code industries and are headquartered in 40 states (these are matching criteria); 147 firms are government contractors (resource dependent firms). For the dependent variable, I include a normalized measure (527 contributions divided by revenues) in order to reduce heteroskedasticity and to improve the statistical efficiency of my estimates.

4.9.OLS and Tobit

In Table 3 below provides results comparing an OLS model and a Tobit model. The dependent variable is the total amount of money contributed to federal 527s in all three electoral cycles, normalized to firm revenues. In both models, the causal (treatment) variable, presence of a principal owner, is statistically significant at a 99 percent confidence level. The government contractors variable is not statistically significant in either model. The source of capital is weakly significant (at 90 percent) and negative. From these results I conclude that private firms are slightly more likely to contribute to federal 527s than are publicly traded firms, all else being equal. The number of employees is weakly significant and negative in the Tobit model but not in the OLS model. Table 3 provides results of separate OLS regressions for the six subclasses.

Table 3 : The OLS model (1) and Tobit model (2) for all 1300 Corporations: DV is Log of 527 Contributions Normalized to Revenues

	(1) OLS	(2) Tobit
Principal Owner Present	0.86***	0.86***
	(0.000)	(0.000)
Government Contractors	-0.35	-0.35
	(0.116)	(0.148)
Publicly Traded Stock	-0.35*	-0.35*
	(0.014)	(0.010)
Employees	-0.00	-0.00*
	(0.090)	(0.014)
_se		1.24***
		(0.000)
Constant	-4.81***	-4.81***
	(0.000)	(0.000)
Observations	377.00	377.00
Log Likelihood	-616.65	-616.65
R^2	0.11	
Pseudo R^2		0.04
Prob > F	0.00	0.00

p-values in parentheses
* p<.05, ** p<.01, *** p<.001

Table 4: Six Subclasses Matching Method: OLS Model with DV Log of Normalized 527 Contributions

	(1)	(2)	(3)	(4)	(5)	(6)
	Log of Norm. Contr.	Log of Norm. Contr.	Log of Norm. Contr.	Log of Norm. Contr.	Log of Norm. Contr.	Log of Norm. Contr.
Principal Owner Present	0.51*	0.99***	1.13***	-0.35	1.68***	0.04
	(0.014)	(0.000)	(0.001)	(0.742)	(0.000)	(0.823)
Government Contractors	0.38	-0.70	-0.13	-0.81	0.00	0.00
	(0.108)	(0.371)	(0.864)	(0.522)	.	.
Publicly Traded Stock	0.00	0.20	0.40	0.67	1.14***	0.00
	.	(0.681)	(0.477)	(0.363)	(0.000)	.
Employees	-0.00	-0.00	-0.01*	-0.02*	0.00	-0.02
	(0.994)	(0.249)	(0.040)	(0.037)	(0.548)	(0.081)
Constant	-5.51***	-5.33***	-5.44***	-3.40**	-5.75***	-3.60***
	(0.000)	(0.000)	(0.000)	(0.004)	(0.000)	(0.000)
Observations	88	72	65	32	65	55
Adjusted R^2	0.03	0.04	0.15	0.06	0.01	-0.01
F	2.40	.	4.93	2.39	.	.

p-values in parentheses
* p<.05, ** p<.01, *** p<.001

4.10.Heckman Method (Heckit)

The dependent variable is limited below at zero, resulting in inconsistent OLS estimates (underestimation of the intercept and overestimation of the slope) in the linear regression model.[120] To correct for the censored data (no contributions below zero), I use Heckman's two stage procedure to estimate the parameters in my model.[121] The first step involves running a Probit model to test the effect of ownership structure on the initial decision to contribute to 527s in the first place. The second step is to run an OLS multiple linear regression model in order to estimate the effect of ownership structure on the amount

[120] Long, Scott and Jeremy Freese. 2006. *Regression Models for Categorical Dependent Variables Using Stata.* 2nd ed. Stata Press, 187-216.
[121] (Heckman 1979; Heckman 1976)

contributed, once the decision is made to contribute to 527s. In both stages, I control for possible intervening variables (X_2-X_7).

The Heckit model is written:

$$z_i^* = X_{1i}\beta_1 + \varepsilon_{1i}$$

$$y_i = X_{2i}\beta_2 + \varepsilon_{2i}$$

$$y_i = X_{2i}\beta_2 + IMR + \varepsilon_{2i}$$

If I only estimate the second equation, then the expected value of the error term with OLS is non-zero and is correlated with the factors leading to the initial decision to contribute (the X variables). I use the z* equation to reflect an unobserved index for the propensity to contribute to ideological politics in the first place. The second equation is only observed when the value of ideological contributions is greater than zero. Therefore, another regressor called the inverse Mills ratio ("IMR") is generated and incorporated into the third equation, which is then estimated using OLS. I compare these results with the Tobit method.[122] In the Probit model, I use the variable dv_amt_missing in which I replace the zeroes with "missing values".

4.11.Findings from the Heckman Model

Table 5 and Table 6 list the results of the two stage Heckman model. In stage one (Probit) the propensity to donate to 527s in the first place is evaluated by a "selection equation" (see lower half of table, DV_2=Gave to 527s). In the second stage of the Heckman

[122] When $X_1= X_2$, $\beta_1= \beta_2$, and $\varepsilon_1= \varepsilon_2$, then the Tobit model is essentially the same as the Heckman model.(Grier, Munger, and Roberts 1994, 916)

Model (the upper half the table, DV_1=Log of Norm. 527 Contributions) a Heckit model estimates parameters for the amount contributed to federal 527s (the dependent variable, log of normalized federal 527 contributions). While the number of employees is statistically significant at a 99% confidence level, the beta coefficient is zero. This means that the dependent variable does not depend on the number of employees (there is no perceptible increase in federal 527 contributions per increase in number of employees). Government contractors and publicly traded stock variables are not statistically significant.

In Table 5, from the results of the first step of the Heckman model (i.e. the Probit results) the principal owner variable is statistically significant at the 99% confidence level for the propensity to contribute to 527s in the first place. In addition, the principal owner variable is statistically significant at the 99% confidence level for the second stage, with the dependent variable log of normalized federal 527 contributions. It is important to note that the beta 2.71 is a logarithmic quantity. In other words, firms with a principal owner give $10^{2.71}$=512 times as much, on average, as firms without a principal owner to 527s, *ceteris paribus*.

Other findings not reported in these tables include: the dosage of treatment has a weak effect. This may be due to measurement error, as Yahoo! Finance includes all insiders and 5 percent or more beneficial owners in the variable I used as the dosage variable for percentage ownership. I generated an interactive term of dosage with treatment dummy (presence of principal owner) and two subclasses (three and four) were significant at 95 percent confidence interval. I interpret this to mean that what matters the most is the presence of a principal owner and less so how much stock is actually held by the founder, family, and heirs (although this might be a stronger finding if a more precise measure was used by excluding stockholdings of other directors, managers, and 5 percent beneficial owners that are not related to the founder or founding family).

Table 5: The Two Step Heckman Results of the Population Model (1) and of the Selection Model (2) for All 1300 Corporations

	Heckit
DV_1=Log of Norm. 527 Contributions	
Principal Owner Present	2.71***
	(0.001)
Publicly Traded Stock	-0.16
	(0.419)
Constant	-8.18***
	(0.000)
DV_2=Gave to 527s	
Principal Owner Present	1.55***
	(0.000)
Government Contractors	0.00
	(0.975)
Publicly Traded Stock	0.17
	(0.061)
Employees	0.00***
	(0.000)
Constant	-1.76***
	(0.000)
Mills	
Lambda	1.61*
	(0.019)
Observations	1300.00
χ^2	264.00
P	0.89
Prob > F	0.00

p-values in parentheses
* p<.05, ** p<.01, *** p<.001

Table 6: The Two Step Heckman Results of the Population Model (1) and of the Selection Model (2) for Six Subclasses

	(1) Log of Norm. Contr.	(2) Log of Norm. Contr.	(3) Log of Norm. Contr.	(4) Log of Norm. Contr.	(5) Log of Norm. Contr.	(6) Log of Norm. Contr.
DV_1=Log of Norm. 527 Contributions						
Principal Owner Present	0.83	1.66	2.87	0.83	1.27	4.16
	(0.342)	(0.240)	(0.055)	(0.422)	(0.538)	(0.530)
Publicly Traded Stock		0.79	0.60	0.72	0.86	
		(0.286)	(0.230)	(0.321)	(0.562)	
_constant	-5.92***	-7.13**	-9.18**	-6.99***	-5.07	-10.32
	(0.000)	(0.002)	(0.002)	(0.000)	(0.085)	(0.321)
DV_2=Gave to 527s						
Principal Owner Present	1.88***	1.62***	1.17***	1.04**	1.86***	1.68***
	(0.000)	(0.000)	(0.000)	(0.008)	(0.000)	(0.001)
Government Contractors	0.02	0.36	0.09	0.50		
	(0.929)	(0.677)	(0.847)	(0.380)		
Publicly Traded Stock	6.18***	0.31	0.11	0.03	6.11	
	(0.000)	(0.705)	(0.731)	(0.913)	.	
Number of Employees	0.00**	0.01*	0.01	0.02**	0.01	0.01
	(0.002)	(0.021)	(0.102)	(0.002)	(0.201)	(0.373)
_constant	-7.91	-1.99*	-1.48***	-2.04***	-1.91***	-1.70***
	.	(0.022)	(0.000)	(0.000)	(0.000)	(0.001)
Mills						
Lambda	0.26	0.61	1.99	1.57	-0.30	3.25
	(0.691)	(0.606)	(0.226)	(0.094)	(0.814)	(0.523)
Observations	396.00	252.00	211.00	169.00	150.00	122.00
χ^2	113.60	63.15	35.80	9.03	16.12	11.66
P	0.27	0.42	1.00	0.80	-0.27	1.00
Prob > F	0.00	0.00	0.00	0.06	0.00	0.00

p-values in parentheses
* p<.05, ** p<.01, *** p<.001

Table 7: The (1) OLS Model and (2) Tobit Model for 923 Corporations Selected by GENETIC Matching Method. DV= Logarithm of 527 Contributions Normalized to Revenues

	(1) OLS	(2) Tobit
Principal Owner Present	2.11***	6.68***
	(0.000)	(0.000)
Govn't Contractors	-0.06	-0.18
	(0.797)	(0.776)
Publicly Traded Stock	0.21	0.53
	(0.180)	(0.111)
Number of Employees	0.00***	0.01**
	(0.000)	(0.003)
_se		3.89***
		(0.000)
Constant	-9.08***	-15.03***
	(0.000)	(0.000)
Observations	923.00	923.00
Log Likelihood	-2013.40	-1171.77
R^2	0.16	
Pseudo R^2		0.09
Prob > F	0.00	0.00

p-values in parentheses
* p<.05, ** p<.01, *** p<.001

Table 8: Results from the Two-Step Heckman for 923 Corporations, GENETIC Matching [DV_1= Population Model and DV_2=Selection Model]

	Heckit
DV_1=Log of Norm. Contr.	
Principal Owner Present	2.73***
	(0.001)
Publicly Traded Stock	-0.10
	(0.597)
Constant	-8.26***
	(0.000)
DV_2=Gave to 527s	
Principal Owner Present	1.79***
	(0.000)
togov	0.03
	(0.880)
Publicly Traded Stock	0.18
	(0.061)
Number of Employees	0.01***
	(0.000)
Constant	-2.07***
	(0.000)
mills	
lambda	1.56**
	(0.006)
Observations	923.00
χ^2	152.01
ρ	0.90
Prob > F	0.00

p-values in parentheses
* p<.05, ** p<.01, *** p<.001

4.12.Interpretation

The initial decision to engage in ideological politics appears to be strongly and causally related to the presence of a principal owner in the firm. A much weaker, very small, but also statistically significant relationship between the number of employees in the firm and the decision to engage in ideological politics is found in a few individual sub-classes. However, collectively, there is no perceptible effect of the number of employees on the amount of contribution to 527s in terms of the size of the beta coefficient. Source of capital is statistically significant (and surprisingly, positive) in only one of six subclasses, and being publicly traded is not significant for the entire group. The government contractors variable is not statistically significant anywhere. The link between firm ownership structure and the *amount* contributed to ideological politics is more complex with the subclass method of matching. It is not statistically significant at individual subclass levels after controlling for the initial decision whether to contribute to a federal 527 in the first instance, although the effect of principal ownership presence on amount of contribution is highly significant (99%) when all subclasses are combined. This nuanced effect disappears, however, with genetic matching methods, which show a robust and strong causal relationship between the presence of a principal owner and the initial decision to first engage in partisan, ideological politics, as well as a strong relationship between the presence of a principal owner and the amount contributed.

4.13. Limitations

Future research should utilize alternative proxies for ideological behavior, such as percentage contributed to a single party, and contributions to ideological non-profits and single party or ideological lobbying organizations. Although the Neyman-Rubin model has the advantages of simplicity and clarity, it assumes implicit knowledge of an underlying system and makes certain critical assumptions that are difficult to test. Furthermore, it is important to note that this causal model may not be an accurate forecasting model. Forecasting models need all partial factors contributing to the outcome variable of interest, some of which may not be included in my data set.

The sample selected, while an improvement upon previous studies, still over-represents both publicly traded firms and firms without a principal owner. Only 1 in

512 firms that file taxes in the U.S. are publicly traded, while 829 of the 1300 firms in this sample are publicly traded. Scholars estimate that over 90 percent of all firms are family controlled. In this sample, only 54 percent are controlled by a principal owner (and my definition includes those firms controlled by an individual entrepreneur in addition to those controlled by a family). However, in order to estimate the effect of ownership structure, I needed a sufficiently sized control group, comprised largely of publicly traded, independently managed firms with widely distributed ownership.

4.14. Conclusion

The findings in this chapter challenge a near existing consensus that the largest, publicly traded Agent Manager firms are the most active politically, as there is now more support that this is not the case with 527 contributions, nor does it appear to be that this was the case with soft money contributions before BCRA. Applying pattern matching and causal inference methods represents a potentially significant methodological contribution to the study of business firms in elections and politics. Furthermore, the inclusion of privately held corporations and private equity firms (e.g. hedge funds) in the sample is more representative of the population of all firms and, importantly, many of those which are the most active in ideological and partisan politics in the U.S. on both ends of the political spectrum that have been missing in earlier studies.

4.15. Addendum 1: Coding

Methodology and Coding Key

PO = Principal owner firm (1 = PO; 0 = AM)
AM = Agent manager (Berle Means) firm

<u>What constitutes a PO firm?</u>

Founder or family owned and controlled (includes apparent and latent control):

1) press statements, self-identification (on company website, in press interview)
2) two or more key executives or beneficiary owners are relatives
3) if publicly traded:
   a) 3.00 or more of outstanding common stock held by individual, family, or trust
   b) presence of dual stock structure (class A and B with asymmetric voting rights)
   c) at least one founding family member or (co) founder is director or executive
   d) presence of foundations, LLCs, trusts, holding companies or other pass through entities funded by corporate stock or profits and owned, managed, or chaired by founder/ family or family agent (e.g. a trusted insider such as a family-appointed lawyer)
   e) exceptional voting rights over ownership claims and/or shareholder agreements
4) private equity firm owned and managed by identifiable PO (venture capital firms, hedge funds)

Chapter 5. Ownership Structure of the Firm as a Predictor of Intra-Industry Variation in Partisan Preferences[*]

5.1.Introduction

Scholars who study corporate behavior often limit their independent variables to industry characteristics, such as size, maturity, amount of regulation or government contracts, market and trade conditions, asset specificity and industry concentration.[123] Industry-level studies are economic and allow consideration of large data sets, as data are frequently organized and readily available at the industry level, whereas firm-level data are more difficult and costly to obtain. However, industry-level studies have their limitations and are problematic for several reasons, which I explore briefly in this chapter. To address these issues, I explore the actual homogeneity of partisan preferences among firms within the same industry, and for multiple industries.

5.2.The Problem with Industry Level Data

Industry or association level analyses do not explain why corporations within the same industry vary dramatically in partisan preference. What is missing in the literature is an assessment of the degree of unity in partisan contributions *within* as well as across industries. Informative data about corporate behavior is lost when aggregating contributions at the industry level. Measures of central tendency assume variation among observations is random and normally distributed. If corporate behavior is non-random and/or

---

[*] Earlier versions of this chapter were presented at the 103rd Annual Meeting of the American Political Science Association in Chicago, Illinois, August 30 - September 2, 2007 and at the 2008 Annual Meeting of the Academy of Management in Anaheim, California, August 8-13, 2008.

[123] (Grier, Munger, and Roberts 1991, 727-738; Schuler, Rehbein, and Cramer 2002, 659-672; Grier, Munger, and Roberts 1994, 911-926; Alt et al. 2003, 99-116)

non-normally distributed, industry level parameters may be poor predictors of individual corporate behavior.

If corporate partisan choice is actually bimodal, then aggregation of contributions, reliance on central tendency measures and regression to the mean would result in critical information loss and invalid conclusions to be drawn. For instance, if an industry comprised of one-hundred corporations were aggregated at the industry-level, and fifty of these corporations gave 100 percent to Democrats and fifty of these corporations gave 100 percent to Republicans, one would conclude that any randomly selected corporation from that industry is either indifferent or is giving to strategically hedge their bets by contributing targeted amounts to both parties. Similarly, if in another sample of one-hundred corporations from a different industry, fifty split their contributions roughly equally among Democrats and Republicans, while twenty five gave 100 percent to Republicans and twenty five gave 100 percent to Democrats, industry-level analysis would suggest that the industry is indifferent or strategically splitting among both parties.

The multitude of studies that focus on a single industry, such as oil and gas, steel, or automobile manufacturers suffer from selection bias and external threats to validity, especially since scholars tend to select on the dependent variable according to the most extreme cases—and those industries are the most unified (most likely because they face a common threat) and are the most likely to seek industry-specific legislation.[124] When studies of corporate political action are limited to analysis across industries, the behavior of individual firms is ignored or treated as randomly distributed. Furthermore, many politi-

[124] (Lenway, Morck, and Yeung 1996, 410-421; Schuler 1996, 720-737; Evans 1988, 1047-1056; Baysinger et al. 1987, 43-60)

cally active corporations do not rely on umbrella organizations, industry associations or PACs as the primary method of political and electoral engagement.[125] Businesses that limit participation to associations or industry PACs may differ in important ways from those businesses who engage in politics through alternative means.

Theoretical questions remain unanswered regarding why *individual* corporations give money to politics generally and specific parties in particular, while others do not contribute or give to the opposite party. We still do not know why individual firms contribute, nor why some firms give primarily to the party least favored by contributors in their industry. Furthermore, political scientists and political economists have not addressed expected collective action problems *within* the firm—such as free-riding individual shareholders or managers who rely on everyone else to contribute, selection problems with party and candidate, and coordination problems in executing a coherent political strategy.

5.3.Existing Hypotheses and Predicted Behaviors

If corporations are economically driven and strategic, then they should contribute to the party that promotes policies that maximize profits, or else split contributions such that opponents of the business interest or practices are appeased, middle-of-the-road legislators can be swayed, and supporters encouraged to champion legislation, regulation, or other desideratum of the firm. If corporations are primarily interested in providing information to committee members, then individual corporations should not contribute large amounts of money (why pay someone to provide a service to them?), especially not to a single party (since committees are bipartisan). Similarly, if corporations are buying access

[125] (Wilson 1990, 281-288; Sabato 1984)

in order to inform legislators of their particularistic preferences, we should observe a distribution of contributions across party lines, particularly in the 2006 election when the majority status in both houses is uncertain. If, on the other hand, corporations are unified in promoting a conservative political ideology—as scholars have claimed—then we should *not* observe a large number of corporations contributing exclusively or primarily to the more liberal Democratic Party. If the interests of corporations are homogenous within their industry, then we should consistently observe individual corporations contributing close to the industry average.

5.4. Alternative Hypothesis

I predict that when a firm has an active principal owner, whether publicly traded or privately held, corporate contributions will be more partisan relative to firms without a principal owner, *ceteris paribus*. The observed behavior pattern within each industry would therefore be as follows: firms that deviate substantially from the mean industry partisan preference will be Principal Owner firms, while those that contribute close to the industry mean will be Agent Manager firms. In order to separate out the effects of capital source from the existence of a principal owner, I delineate four mutually exclusive categories or types of firms along two dimensions of ownership that can be represented in a 2x2 matrix, with type of majority ownership on the x-axis and source of capital on the y-axis (See Figure 5 below).

Type 1: Publicly traded without principal owner

Type 2: Publicly traded with principal owner

Type 3: Privately held without principal owner

Type 4: Privately held with principal owner

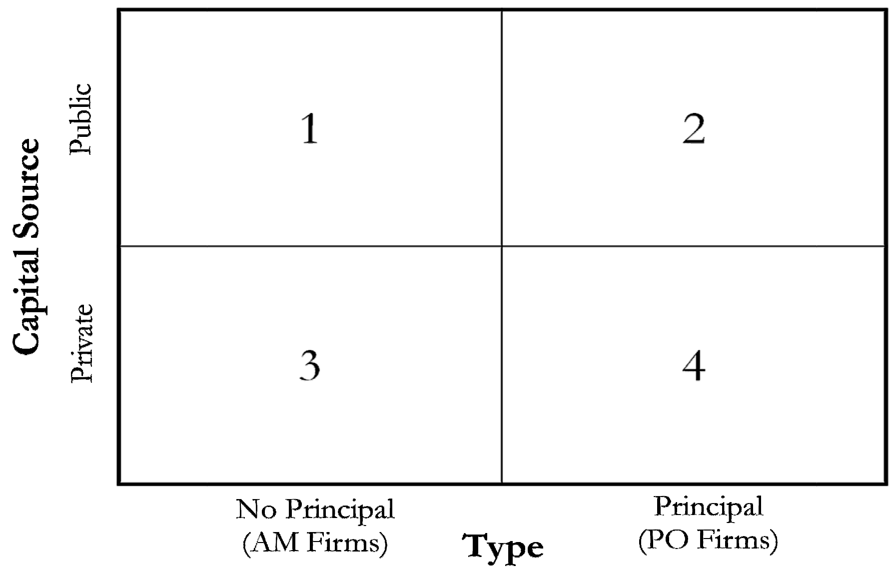


Figure 5: Four Firm Types Based on Ownership Structure and Capital Source

5.5.Methodology

In order to analyze intra-industry variation across multiple industries, I retrieved data on the top corporate contributors across fourteen industries in the 2006 electoral cycle, provided by the Center for Responsive Politics ("CRP") on their website www.opensecrets.org (see Addendum 2 at the end of this chapter for the list of industries included in the analyses). From lists of top contributors within industries, I omitted contributions by umbrella or industry associations. CRP aggregates both hard and soft money contributions made by individuals associated with the corporation and contributions from the corporation's PAC. In order to identify ownership structures, I conducted firm-level analysis utilizing corporate and financial websites and analyzing forms filed with the Security and Exchange Commission for publicly traded firms.[126]

I coded the ownership structure according to capital source and concentration of ownership as follows: 1 = publicly traded, no active principal owner present; 2 = publicly traded, active principal owner present; 3 = private, no active principal owner present; 4 = private, active principal owner present. For the dependent variable, I take the percentage each corporation donated to the Republican Party and calculate the deviations from both a neutral contribution of 50 percent to each party and deviation from the average contribution to the Republican Party made by the top corporate contributors in that industry. This captures the strength of partisanship, first relative to a neutral position, and second relative to the top contributors in the industry. This method captures political action motivated at the individual firm level relative to industry-level factors that might induce contributions to a particular party or splitting contributions among both parties. By holding industry factors constant, this method provides an estimate of the portion of partisan giving that is difficult to observe on a large scale in practice: political behavior motivated by the principal owner.

5.6.Findings: Intra-Industry Variation

Overall, out of the 251 corporations analyzed, 53 percent diverged 20 percent or more from the industry average split in partisan contributions and 27 percent diverged

---

[126] For example, http://finance.yahoo.com and http://moneycentral.msn.com/ownership provide information on ownership for publicly traded companies. Principal owners are identified as founders, family members of founders, and the primary beneficial owners of stock. I do not consider institutional investors such as pension funds and investment banks or independent, hired managers who own stock to be principal owners. I looked for founders and family members as beneficial stock owners, directors, officers, and other top executives. I checked for changes in ownership by consulting corporate profiles and histories, and checking for family presence using data from Anderson and Reeb (Anderson and Reeb 2004, 209–237). Six firms and two industries (out of sixteen initially selected) were dropped from the analysis due to recent takeover activity or other recent changes in ownership.

more than 40 percent. The degree of intra-industry variation itself varies across industries. A few industries, when aggregated, exhibit clear partisan preferences. For example, in 2004, the oil and gas industry overall gave 80 percent to Republicans, while the alternative energy industry gave 70 percent to Democrats.[127] Most industries in the aggregate, however, do not exhibit a clear preference for either party. Aggregating 251 observations across fourteen industries, I find the marginal preference for the Republican Party is just 2.5 percent. Similar indifference patterns are found when data are broken down by industry. For example, in 2004, firms in the venture capital industry overall gave 55 percent to Democrats, while in the savings and loans industry, firms gave 52 percent on average to Republicans. All of these aggregate figures, however, do not provide information about strong partisan preferences of individual firms. When preferences are aggregated at the industry level, strong preferences of individual firms cancel each other out and give a false impression that the partisan preferences of companies within the industry are non-existent or are uniformly weak. Many industries have firms which have strongly polarized political preferences, making it problematic to conclude that firms within those industries are indifferent to the parties or are strategically splitting contributions among both parties (what is observed, however, with aggregated data).

The tables on the following pages reveal intra-industry variation and strength of partisan leanings by ownership structure of the firm, which is only revealed at the level of the individual corporation. I predict that this pattern of behavior will be even more prevalent in industries dominated with companies controlled by founders, heirs of founders

---

[127] Neither of these industries are included of the fourteen included in the regression analyses. I use these two industries from 2004 as examples of industries where stronger partisan preferences are found at the collective level.

(family-businesses), or a small number of like-minded partners, such as with closely-held private equity and buyout firms. Venture capital is an exemplary industry, as is media (most newspapers are still controlled by an owning family in the U.S.). In Table 9 and Table 10 on pages 84 and 85 respectively, notice how taking the industry average partisan contribution split masks the individual strong political preferences of most of the top contributors within the industry, some of whom give 100 percent to Democrats, while others give 100 percent to Republicans. Deviations from the centrist position (50/50 split) and industry average as well as ownership type are noted in the last three columns.

Table 9: Intra-Industry Variation - Venture Capital

2006 Rank	**Venture Capital** Corporation	Amount	Dems	Repubs	Deviation from 50/50 Split	Deviation from Industry Average	Ownership Type
1	Kleiner, Perkins et al	$527,345	68%	23%	27%	4%	3
2	Technology Crossover Ventures	$227,600	100%	0%	50%	27%	4
3	Perseus LLC	$216,660	97%	0%	50%	27%	4
4	H&S Ventures	$157,750	54%	3%	47%	24%	4
5	APAX Partners	$154,139	96%	3%	47%	24%	4
6	Charles River Ventures	$153,050	99%	1%	49%	26%	4
7	Rustic Canyon Group	$134,950	94%	6%	44%	21%	4
8	TA Assoc	$118,250	1%	99%	49%	72%	4
9	Hummer Winblad Venture Partners	$115,800	97%	3%	47%	24%	4
10	Summit Partners	$115,800	43%	56%	6%	29%	3
11	Dmc-Doll Capital Management	$105,000	0%	100%	50%	73%	4
12	Rader Reinfrank & Co	$100,000	0%	100%	50%	73%	4
13	Granite Ventures	$94,200	100%	0%	50%	27%	4
14	New World Ventures	$90,600	93%	2%	48%	25%	4
15	Lauder Partners	$81,336	94%	0%	50%	27%	4
16	Sterling Venture Partners	$76,400	76%	16%	34%	11%	3
17	Bay Partners	$76,050	99%	0%	50%	27%	4
18	Oxford Bioscience Partners	$74,800	100%	0%	50%	27%	4
19	Sunmark Capital	$74,750	0%	100%	50%	73%	4
	Industry average		**69%**	**27%**			

Table 10: Intra-Industry Variation - Printing and Publishing

2006 Rank	Printing and Publishing Corporation	Amount	Dems	Repubs	Deviation from 50/50 Split	Deviation from Industry Average	Type of ownership
1	News America Holdings (Fox News)	$327,000	45%	55%	5%	5%	2
2	Hallmark Cards	$220,408	20%	78%	28%	28%	4
3	RR Donnelley & Sons	$189,900	61%	38%	12%	12%	1
4	Paisano Publications	$152,100	0%	100%	50%	50%	4
5	Las Vegas Sun	$148,000	92%	1%	49%	49%	4
6	Newsweb Corp	$140,050	100%	0%	50%	50%	4
7	Ingram Industries	$133,301	5%	95%	45%	45%	4
9	SPS Studios	$103,550	100%	0%	50%	50%	4
10	Reed Elsevier Inc	$98,250	33%	67%	17%	17%	1
11	McCormack Communications	$93,050	100%	0%	50%	50%	4
12	Phillips International	$88,600	1%	99%	49%	49%	4
13	Royal Printing Service	$87,000	100%	0%	50%	50%	4
14	Rodale Inc	$84,900	86%	12%	38%	38%	4
15	Pruentim Magazine	$76,683	0%	100%	50%	50%	4
16	Recycled Paper Greetings Inc	$74,650	0%	100%	50%	50%	4
17	Atlanta Newspapers	$74,300	100%	0%	50%	50%	4
18	Rivr Media	$73,800	0%	100%	50%	50%	4
19	Investors Business Daily	$73,000	0%	99%	49%	49%	4
20	Zagat Survey	$70,650	100%	0%	50%	50%	4
	Industry average		**50%**	**50%**			

Top contributors in the mortgage banking industry (see Table 11 on page 87) consist roughly equally of firms controlled by a principal owner and firms lacking a principal owner, and consist of both publicly traded firms and privately held firms. When scholars take the industry average contribution, it appears that firms as industry-actors behave as economic theory would predict, splitting contributions similarly among Democrats and Republicans. Analyzing ownership structures at the firm level, I find that only widely held, publicly traded firms [Type 1] and widely held, private firms [Type 3] without a controlling principal owner split their contributions roughly equally among both parties or at least close to the industry average split, as existing theories would predict. Firms with a controlling principal owner, whether publicly traded [Type 2] or privately held [Type 4], consistently exhibit stronger partisan preferences than firms without [Types 1 and 3]. Both publishing and mortgage banking industries provide neat case studies for evaluating the role of principal owners in shifting partisan preferences, because the industry average split by top contributors combined happens to be 50/50 (see Table 10 and Table 11). In the Mortgage Banking Industry (page 87) for instance, all of the firms without a controlling principal owner (Type 1 and Type 3) deviate 7 percent or less from the industry average of 50 percent to each party. With the exception of one firm, those with a controlling principal owner (Type 2 and Type 4), on the other hand, deviate 35 percent or more from the industry average split of 50 percent.[128]

[128] The one exception is Ameriquest. Ameriquest's Arnall family exhibited clear partisan preference for the Republican Party by donating $5 million in 2004, all to the 527 pro-Republican organization "Progress for America". The Center for Responsive Politics does not include contributions to 527s in their industry analyses and thus the partisan preferences of Ameriquest's founding family are understated in this table.

Table 11: Intra-Industry Variation - Mortgage Banking

2006 Rank	Mortgage Banking Industry Corporation	Amount	Dems	Repubs	Deviation from 50/50 Split	Deviation from Industry Average	Type of ownership
1	Fannie Mae	$953,500	53%	47%	3%	3%	1
2	Freddie Mac	$645,552	46%	54%	4%	4%	1
3	SN Servicing Corp	$384,706	0%	100%	50%	50%	4
4	New Century Financial Corp	$347,324	57%	43%	7%	7%	3
5	Countrywide Financial	$225,708	49%	51%	1%	1%	1
6	NVR Mortgage	$101,100	0%	100%	50%	50%	2
7	Federal Home Loan Bank	$90,305	43%	57%	7%	7%	1
8	Group One Capital	$58,400	0%	100%	50%	50%	4
9	Thornburg Mortgage	$52,250	29%	71%	21%	21%	2
10	James B Nutter & Co	$50,000	100%	0%	50%	50%	4
11	Home Trust Mortgage Bankers	$40,900	100%	0%	50%	50%	4
12	Ameriquest Capital	$38,300	39%	56%	6%	6%	4
13	Aspen Mortgage	$31,700	0%	100%	50%	50%	4
14	CityFed Capital	$31,400	100%	0%	50%	50%	2
15	Option One Mortgage (H&R Block)	$30,700	85%	15%	35%	35%	2
16	Security Mortgage	$27,700	95%	5%	45%	45%	4
	Industry average		**50%**	**50%**			

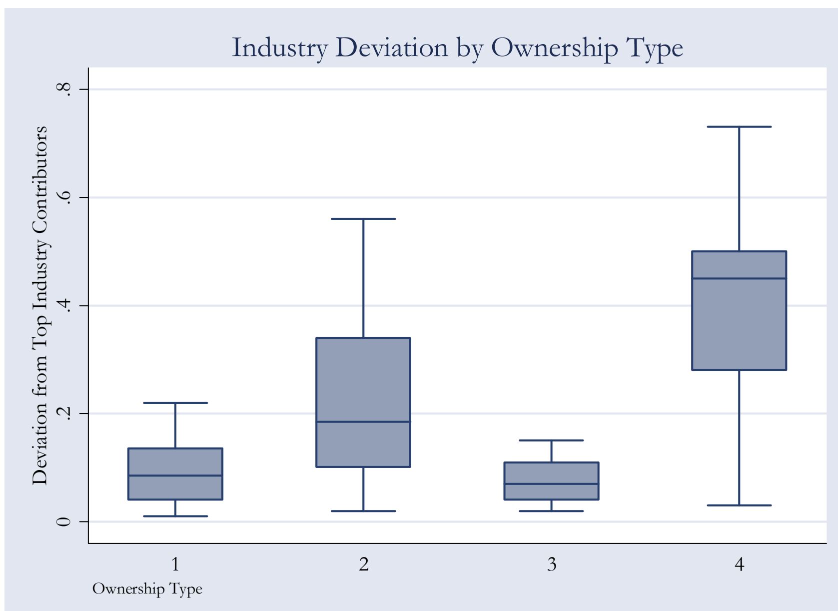


Figure 6 : Distribution of Deviations from Industry by Ownership Type

Key: Description of Four Ownership Types
Type 1: Publicly Traded, No Principal Owner
Type 2: Publicly Traded, Principal Owner
Type 3: Privately Held, No Principal Owner
Type 4: Privately Held, Principal Owner

As the distribution of data presented in box and whiskers plots in Figure 6 above demonstrates, the type of company that diverges the most from top contributors in their industry, on average, is one with a principal owner.[129] There is relatively little difference in industry deviation distributions among publicly traded companies and privately held companies that do not have a principal owner (Types 1 and 3), with both types deviating less, on average, from other top contributors in their industry/ sector. Firms that have a principal owner (Types 2 and 4), on the other hand, deviate significantly more than those firms without a principal owner (Types 1 and 3). Notice that firms that are privately held and have a principal owner (Type 4) are the most likely to exhibit strong partisan preferences, and more than publicly traded firms with a principal owner (Type 2).

In order to examine relationships among the variables of interest, I perform several OLS multiple regressions, with industry deviation as the dependent variable in both restricted and unrestricted models (see Table 12 on page 89 and in Addendum 1, which includes industry regressors). Of all of the different models specified, the unrestricted model (4) using an interactive term with the product of principal owner "PO" and public source of capital has the best fit, explaining 45 percent of the variation in the dependent variable (47 percent of the variation when industry data is included; see Addendum 1). When the publicly traded variable is a single regressor (Model 2), it is significant and has a negative effect, although it only explains 23 percent of the variation. When an interactive term and the principal owner variables are included, however, the significance of the publicly traded

[129] The box contains the range from 25 to 75 percent of the distribution and the line in the box represents the median of the distribution. The whiskers or end bars represent the extreme points within this inter-quartile range. Note that for clarity of presentation purposes, I dropped outlier dots (points outside of the range).

variable disappears (see Model 4 in Table 12 below).[130] The results support my claim that it is primarily the existence of a principal owner that is driving deviation of individual firms from the industry average partisan contribution ratios.

Table 12: Multiple Regressions Estimates Using OLS

Dependent Variable =	Industry deviation from top contributors			
	(1)	(2)	(3)	(4)
Principal Owner	0.230		0.187	0.306
	(0.017)**		(0.019)**	(0.026)**
Publicly Traded		-0.184	-0.133	0.002
		(0.021)**	(0.020)**	(0.024)
Interact (PO*Public)				-0.179
				(0.034)**
Constant	0.102	0.359	0.202	0.101
	(0.010)**	(0.017)**	(0.021)**	(0.021)**
Observations	251	251	251	251
R-squared	0.31	0.24	0.42	0.46
F-statistics	189.19	75.56	126.39	93.01
Adjusted R squared	0.31	0.23	0.42	0.45

Robust standard errors are in parentheses
** significant at 1%

5.7.Conclusion

Individual firm-level data reveal at least some corporations in each industry give to the opposite party "preferred" by the industry as a whole, with many firms giving 100 percent to one party or the other within the same industry.[131] Economic theories of political action alone appear to be insufficient in explaining the range of political behavior actually exhibited by corporate actors. Statistical analysis reveals that firms differ according to ownership structure. I conclude that what is driving the intra-industry diver-

[130] I also included variables for the size of the firm (annual revenues) and location (a dummy variable for firms in WA, OR, or CA, or "Left Coast" firms.) Neither of these variables were significant at the 5 percent level when a principal owner variable was included in the OLS multiple regression.
[131] By "preferred" I mean the industry aggregate average of contributions that favors a particular party. Extending a collective result to that of a particular case is a fallacy of division, which I try to avoid here.

gence is the strong political preferences of owners who hold controlling positions in the company and drive major strategic decisions within and on behalf of these firms.

Furthermore, principal owners have more leeway to engage in partisan politics when they own private firms than when they hold majority positions in publicly traded corporations (thus why greater deviations are observed with Type 4 [see Figure 6]). Publicly traded firms are subject to criticism by diverse stakeholder groups, such as union-affiliated pension funds, environmental and social activists, religious groups, activist shareholders, and a more watchful public. The primary causal factor, however, is not private versus public status, but rather whether a principal owner is present and thus able to drive political strategy and resolve coordination problems on behalf of the firm. Privately held firms without a principal owner, such as large private accounting firms held by a large number of equity partners [Type 3], tend to contribute as economic theory would predict—giving to the party most amenable to its general economic interests and/or splitting contributions according to the partisan composition of Congress. Firms controlled by a principal owner, however, are much more likely to give all of their political money to a single party, whether Republican or Democrat, and regardless of which party holds majority status in the Congress.

Within each of the fourteen industries analyzed, I find at least some corporations contributing all or nearly all of their political money to Democrats during the 2006 cycle, while others in the same party have strong preferences for Republicans. If corporations within the same industry are sharply divided in their partisan preferences, as is observed across multiple industries, then the claim that corporations are politically unified needs to be reassessed.[132] Findings which suggest that ideology might be driving partisan preferences of at least some corporate actors represent a potential challenge to existing strictly economic theories of political action. This behavior is lost with PAC, industry or association level data alone.

[132] The nature of these observed strongly partisan preferences needs to be further investigated. It could be that corporations are relatively unified in economic areas, but individual corporate actors are divided over social or cultural aspects of ideology, reflecting polarization in these areas across the broader population, and particularly among the well-educated elite. If this is true, then it could be said that both parties are relatively uniform and united in economic policy and stance toward business in practice (although not necessarily in rhetoric) while divided among other ideological dimensions, such as foreign policy, abortion, same sex marriage, etc. Partisan choice among principal owners of corporations could be driven by ideological reasons, and not primarily economic reasons. This finding would support class/ elite theorists, who claim unity among corporations on economic issues, but not necessarily non-economic issues.

5.8. Addendum 1: Multiple Regression Estimates Using OLS

Dependent Variable = Individual Firm Deviation from Mean Industry Partisan Preference	
Principal Owner	0.298
	(0.035)**
Publicly Traded	0.010
	(0.037)
Interact (Po*Public)	-0.191
	(0.041)**
indname==A	-0.031
	(0.053)
indname==AGRI	-0.055
	(0.045)
indname==BWL	-0.054
	(0.047)
indname==ENT	-0.027
	(0.056)
indname==HMO	-0.063
	(0.054)
indname==I	-0.080
	(0.045)
indname==IB	-0.099
	(0.058)
indname==IT	-0.035
	(0.046)
indname==PUB	0.021
	(0.044)
indname==R	-0.015
	(0.056)
indname==RE	-0.020
	(0.049)
indname==SL	0.081
	(0.055)
indname==VC	-0.051
	(0.061)
Constant	0.137
	(0.048)**
Observations	251
R-squared	0.51
F-statistics	30.12
Adjusted R squared	0.47
Robust standard errors in parentheses	
* significant at 5%; ** significant at 1%	

Note: The omitted (reference) group is Mortgage Banking. None of the industries are statistically significant, nor is publicly traded status, while the principal owner and interactive variable are significant at the one percent level. These findings strengthen my claim that firm-level analysis is preferred over industry level analysis.

5.9. Addendum 2: Fourteen Industries Codified and Analyzed

1. Venture Capital = VC
2. Retail = R
3. Accounting = A
4. Insurance = I
5. Mortgage Banking = MB
6. Beer, Wine and Liquor = BWL
7. Investments and Securities = IB
8. Computers and Internet = IT
9. TV, Movies and Music = ENT
10. Agribusiness = AGRI
11. Printing and Publishing = PUB
12. Real Estate = RE
13. Health Services/ HMOs = HMO
14. Savings & Loans Banks = SL

Note: These industries and sectors were selected in order to obtain an unbiased sample of diverse businesses with variation in the variables of interest. Industries that were found to have little variation in type of ownership or party preferences were not included. For example, the top contributors from the pharmaceutical and oil industries are relatively uniform in their contributions. In other industries, Agent Manager firms are the more dominant type (e.g. utilities). Further investigation is needed to see if a sample closer to the universe of industries and firms exhibit divergence or convergence. Selecting all of the industries provided by CRP would still not be entirely representative of all firms. The sample of fourteen industries selected in this study is reasonably representative of the universe of industries. If a more representative sample of contributing firms were selected from the universe of all firms, I believe my findings would be robust and even understated.

Chapter 6. Corporate Contributions Post-BCRA: A Reassessment[133]

6.1. Introduction

In 2002, following a period of intense political pressure to reform the campaign finance system and limit the influence of "big money" interests and corporations in American politics, Congress passed the most sweeping campaign finance reform in nearly 30 years. The Bipartisan Campaign Reform Act of 2002 ("BCRA") banned "soft money" contributions made directly to candidate and party organizations, with the expressed goal of ending "the undue influence [corporations, labor unions, and wealthy individuals] exercised or appeared to exercise."[134] The rapid passage of the legislation after the Enron scandal provides a natural experiment to evaluate observed variation in the response to political and regulatory change by corporate and financial interest groups. My research in this chapter explores the extent to which ownership of a firm explains variation in response to campaign finance reform.

Campaign finance experts have generally concluded that BCRA has been effective in reducing corporate contributions, particularly from large and publicly traded corporations. In addition to testing these claims about the impact of BCRA on corporate contributions, this chapter refines previous analysis by incorporating firm-specific data on various measures of size, profitability, source of capital, and corporate structure. I use multivariate regression analysis to identify firm-specific factors associated with the largest corporate

[133] An earlier version of this chapter was presented as a paper at the Midwest Political Science Association's 65th Annual National Conference in Chicago, Illinois, April 12, 2007. This version is nearly identical to that which was published in 2008 in the *Election Law Journal* 7(3): 233-244. I requested and was grantep0d permission from Mary Ann Liebert, Inc. the publisher, to reprint it here.

[134] (Magleby, Corrado, and Patterson 2006 5) The Center for Responsive Politics provides a comprehensive description of so-called "soft money" on its website: http://www.opensecrets.org/newsletter/ce74/softmoney.asp.

contributions in the post-BCRA era. I conclude that optimistic assessments of BCRA's effectiveness in reducing campaign funds from corporate sources are based on partial accounts. BCRA's major effect has been more to shift contributions within the corporate community than to reduce their quantity in the aggregate.

6.2.Existing Claims and Explanations

In the elections immediately preceding the passage of BCRA, campaign finance experts made the following claims:

- "The overwhelming majority of party soft money donors - especially the corporate donors - did not increase their 527 giving or hard money giving to make up for the soft money that BCRA took out of the system." (Malbin 2006 15)
- "Does the scale of giving in 2004 indicate that such [large] donors were mainly switching their soft money from one legalized vehicle to another? Not at all." (Weissman and Hassan 2006 93)
- "Trends include…stagnation…in business giving." (Weissman and Hassan 2006 80)
- "The law did not simply move the major donors' money from one pocket to another: most of the soft money donors in the elections before BCRA—especially the major corporate donors—apparently did not put their former soft money contributions into some other form of election spending." (Malbin 2006 3)

Although some scholars in the field conclude that the reform was successful in constraining the corporate sector, others argue it primarily constrained large, publicly traded firms. For instance, Malbin notes that "the corporations least likely to have replaced their money were the largest publicly traded corporations."[135] A few scholars suggest that small, privately held firms gave considerably more money in the election cycle immediately following passage of the legislation. Boatright et al. note that "individuals associated with

[135] (Malbin 2006 12)

smaller corporations (market values of $2 billion or less) gave almost 100 times more to 527s in 2004," and "individuals associated with privately held firms increased their 527 giving by nineteen times over their 2002 level [in 2004]".[136] There has not been a theoretical explanation proposed for why size or source of capital might cause such wide variation in corporate response to the legislation, nor have these claims been systematically tested. This paper refines previous scholarship by identifying possible causal variables behind observed corporate political behavior and subjecting them to empirical tests.

6.3.An Alternative Account

> [T]he stockholder who holds only a minute percentage of the total stock, like any member of a latent group, has no incentive to work in the group interest…Corporations with a small number of stockholders, by contrast, are not only *de jure*, but also *de facto*, controlled by the stockholders, for in such cases the concepts of privileged or intermediate groups apply (Olson 2002 (1971)).

According to Mancur Olson, firms with a majority stockholder have incentives to behave differently than firms with owners who are widely distributed and separated from control over management.[137] According to the same logic, firms with a controlling owner are likely to respond differently to campaign finance reform than firms owned by small, widely dispersed shareholders. The founders and largest beneficial owners of corporate and financial enterprises are often able to exercise significant control over the top executives, officers, and directors, and thus exercise influence over major strategic decisions made on behalf of the firm, including political spending. Building upon Olson's logic, I posit that

[136] (Boatright et al. 2006 119)
[137] Scholars often refer to these as Berle-Means firms, as they were first described in (Berle and Means 1932). I will refer to them more directly as Agent Manager firms.

firms with a principal controlling owner are able to overcome collective action problems and respond to BCRA by contributing through alternative mechanisms.

Corporate owners who loyally donate to partisan causes and recruit family members and friends to contribute to a single party represent lucrative sources of campaign cash, especially when corporate political action committees are subject to hard money limits, are funded by voluntarily contributions from employees, and are banned from providing soft money to party organizations after BCRA.[138] In addition to resolving collective action problems involved in conducting a coherent political strategy on behalf of the firm, the principal owners of both privately held and closely held, publicly traded corporations may divert a portion of corporate wealth to their personal ideological and partisan agendas. It is virtually impossible for scholars to determine whether a business owner is contributing for personal, ideological, or expressive reasons versus strategic, instrumental, business reasons.[139] As this issue is impossible to resolve at this point, I am agnostic as to whether the contributions of corporate actors are sincere and ideological or strategic and instrumental. Both motivations can spawn very large contributions to political organizations (i.e. 527s, 501(c)4s) dedicated to electoral activities supporting a specific party or candidate.

6.4.A Tale of Two Firm-Types

The following two tables provide a comparative view of two groups of firms. Table 13 on page 99 provides a ranking of the largest corporate contributors since 1986, ac-

---

[138] See Section 101.
[139] According to (Hansen and Mitchell 2000, 891-903)and (Hillman and Hitt 1999, 825-842), philanthropic donations, citizen mobilization, and issue advocacy advertising are constituency-building, profit-maximizing, and long-term political strategies. Such strategies are compatible with instrumental contributions to 527 organizations. However, anecdotal accounts suggest many of these founders are ideological and engage in philanthropic activities that may not be directly tied to profit-maximization.

cording to the Center for Responsive Politics. Table 14 on page 100 provides a rank of the top fifty corporate contributors to 527s by total contributions to 527s after 2002. In both tables, soft money contributions in 2000 and 2002 (the cycles immediately before BCRA became effective) are in the right hand columns and the amount contributed to state or federal 527 organizations in 2004 and 2006 (the post-reform cycles) are in the left hand column. The figures include amounts contributed from all sources, including the firm's political action committee, the firm's treasury, and individuals associated with the firm, including employees, officers, and immediate family members.[140] Firms that are in both tables that are top contributors of all time and top contributors to 527s are listed in bold face. Firms in Table 13 that contributed a larger amount to 527s than soft money in the previous two cycles are italicized. All of the bold face and italicized firms were controlled by a principal owner between 2000 and 2004.

---

[140] Data are from the Center for Responsive Politics ("CRP"). For description of the methodology used to collect the data, see: http://opensecrets.org/orgs/methodology.asp.

Table 13: Top Corporate Contributors Overall Since 1989

Top Corporate Contributors (1989-2006)		Post-BCRA	Soft Money	Soft Money
Rank	Organization Name	to 527s	2002 only	2000 only
1	AT&T Inc	$0	$3,146,971	$3,760,020
2	Goldman Sachs	$110,000	$1,548,035	$1,013,350
3	FedEx Corp	$20,425	$582,469	$1,327,600
4	Altria Group (Philip Morris)	$959,787	$2,901,198	$2,383,453
5	Citigroup Inc	$849,745	$1,593,660	$1,556,610
6	United Parcel Service	$25,083	$652,210	$1,072,871
7	Time Warner	$0	$457,768	$948,645
8	Microsoft Corp	$675,367	$2,691,244	$2,317,266
9	Verizon Communications	$484,565	$1,626,137	$1,473,451
10	JP Morgan Chase & Co	$50,000	$196,111	$35,842
11	BellSouth Corp	$636,035	$1,103,411	$939,236
12	Lockheed Martin	$100,695	$1,112,951	$1,152,350
13	Ernst & Young	$113,545	$763,126	$803,117
14	Morgan Stanley	$40,000	$519,815	$503,275
15	General Electric	$102,210	$733,812	$405,675
16	Bank of America	$52,383	$49,850	$169,527
17	Blue Cross/Blue Shield	$274,825	$1,333,236	$1,104,415
18	RJR Nabisco/RJ Reynolds	$0	$21,500	$1,000
19	Deloitte Touche Tohmatsu	$47,500	$315,500	$569,125
20	Union Pacific Corp	$237,135	$846,329	$837,749
21	AFLAC Inc	$306,815	$1,210,880	$961,325
22	PricewaterhouseCoopers	$11,500	$388,510	$322,967
23	Merrill Lynch	$351,670	$284,469	$531,761
24	Pfizer Inc	$953,081	$1,354,561	$1,558,817
25	Boeing Co	$221,990	$700,482	$828,498
26	***American Financial Group/ UDF***	*$2,842,000*	*$2,533,108*	*$1,280,000*
27	MBNA Corp	$173,630	$640,594	$1,235,905
28	Anheuser-Busch	$405,361	$1,773,578	$968,281
29	Credit Suisse Group	$0	$354,229	$818,600
30	Chevron (ChevronTexaco)	$121,695	$1,010,300	$777,800
31	General Motors	$90,465	$39,100	$59,660
32	Freddie Mac	$0	$4,023,115	$2,398,250
33	UST Inc (US Tobacco)	$640,785	$923,070	$1,041,570
34	Walt Disney Co	$0	$650,900	$784,803
35	General Dynamics	$3,000	$546,067	$469,837
36	Exxon Mobil	$185,820	$365,000	$469,825
37	Prudential Financial	$195,930	$702,747	$826,975
38	GlaxoSmithKline	$494,110	$600,492	$955,695
39	*American International Group*	*$203,085*	*$0*	*$50,000*
40	Southern Co	$74,890	$968,013	$700,415
41	MCI WorldCom/ WorldCom Inc.	$170,920	$511,616	$830,493
42	Archer Daniels Midland	$415,000	$1,764,000	$660,000
43	Eli Lilly & Co	$0	$864,600	$949,270
44	***Alticor/ Amway/ Windquest Group***	*$4,465,000*	*$172,700*	*$1,138,500*
45	***Metropolitan Life***	*$1,200,425*	*$232,535*	*$444,800*
46	CSX Corp	$9,000	$1,035,000	$602,800
47	American Airlines	$50,000	$680,872	$811,572
48	Bristol-Myers Squibb	$247,035	$1,267,817	$1,740,951
49	BP (BP Amoco Arco)	$32,895	$263,930	$918,551
50	Vivendi	$20,000	$785,208	$1,204,738
	Total	$18,665,402	$48,842,826	$48,717,236
	Median	$117,620	$718,280	$878,150

Table 14: Top Corporate Contributors to 527s After BCRA

Top Corporate Contributors to 527s		Post-BCRA	Soft Money	Soft Money
Rank	Organization Name	to 527s	2002 only	2000 only
1	Soros Fund Management LLC	$27,969,690	$393,000	$450,000
2	The Progressive Group	$26,543,395	$50,000	$25,000
3	Perry Homes	$17,835,199	$0	$140,000
4	Shangri-La Entertainment/ L&E	$16,724,029	$9,700,000	$25,000
5	Golden West Finance Group	$13,008,459	$0	$0
6	Rockefeller Financial Services	$10,352,475	$680,000	$115,000
7	Chartwell Partners/ Univision	$9,006,200	$779,000	$506,500
8	H Group Hldgs/ Marmon/ SWC	$8,951,000	$152,500	$434,993
9	Gateway/ Avalon Capital Group	$5,010,000	$372,431	$405,641
10	Ameriquest Capital	$5,002,000	$2,655,000	$490,000
11	A.G. Spanos	$5,000,000	$456,607	$527,000
12	BP Capital	$4,677,000	$73,960	$125,000
13	**Alticor/ Amway/ Windquest Group**	$4,446,500	$172,700	$1,138,500
14	August Capital LLC	$4,072,400	$25,000	$125,000
15	Contran Corp/ Vahli	$3,720,700	$298,293	$565,000
16	Antidote Films, Inc.	$3,626,500	$0	$500,000
17	Newsweb Corp./ Integral Capital	$3,295,000	$7,390,000	$905,000
18	Wal-Mart Corp./ Arvest Bank	$3,176,000	$600,447	$456,275
19	The Tipping Point (TippingPoint)	$3,100,000	$0	$0
20	Bohemian Companies/ Stryker Corp.	$3,055,606	$730,000	$30,000
21	Intersystems	$3,000,000	$2,200	$0
22	Chesapeake Energy	$3,000,000	$0	$100,000
23	**American Financial Group/ UDF**	$2,842,000	$2,533,108	$1,280,500
24	John Hunting Associates	$2,726,000	$25,000	$0
25	Cullman Ventures	$2,659,000	$1,000	$5,000
26	Kellogg/Cleveland Caveliers NBA	$2,584,750	$953,000	$0
27	AgVar Chemicals/ Aegis Pharm	$2,306,844	$918,625	$398,250
28	Real Networks, Inc.	$2,234,000	$25,000	$0
29	Entercom Communications Corp	$2,000,000	$0	$0
30	Propel Software Corp.	$1,855,750	$3,288,786	$619,000
31	Elliott Capital Advisors LP	$1,855,000	$300,500	$255,000
32	Sda Enterprises/ Slim Fast	$1,832,084	$1,450,000	$1,493,000
33	Palmetto Partners	$1,576,000	$50,000	$0
34	Gilder, Gagnon, Howe & Co LLC	$1,471,285	$0	$250,000
35	American Water Works	$1,432,250	$400,126	$272,300
36	Searle/ Kinship Corporation	$1,332,000	$0	$0
37	TRT Holdings (Omni hotels)	$1,260,000	$73,829	$105,000
38	**Metropolitan Life**	$1,200,425	$232,535	$444,800
39	McCormack Communications LLC	$1,125,000	$10,000	$10,000
40	Cox Enterprises/ Atlanta Newspapers	$1,107,000	$255,000	$320,300
41	Paloma Partners	$1,100,000	$1,180,000	$470,000
42	Home Depot	$1,050,000	$516,500	$509,000
43	The Sillerman Companies (SFX)	$1,050,000	$990,000	$124,000
44	UICI	$1,038,000	$6,226	$75,000
45	Boar's Head Provisions Co., Inc.	$1,025,000	$0	$0
46	Liz Claiborne Inc.	$1,017,000	$0	$0
47	Stephens Group/ EOE Inc.	$1,000,000	$45,000	$235,000
48	Aronson, Johnson, Ortiz LP	$1,000,000	$0	$0
49	Clark Enterprises	$1,000,000	$0	$250,000
50	Carsey-Werner LLC	$1,000,000	$0	$85,000
	Total	$228,251,541	$37,785,373	$14,265,059
	Median	$2,621,875	$147,713	$125,000

6.5.Interpretation

In light of the claims made by earlier scholars, certain observations from Table 13 and Table 14 and warrant highlighting. Note on the bottom rows of Table 13, aggregate soft money contributed by the top fifty all time corporate contributors was approximately $49 million in both 2000 and 2002. The combined unlimited contributions (these numbers exclude hard money, which is limited by law) made by the top fifty corporations in this group made a precipitous drop, from $49 million to $18.67 million. The median contribution of $117,620 to 527s after BCRA represents only a fraction of the median soft money contribution of $878,150 (in 2000) and $718,280 (in 2002). On the surface, it seems the reforms were quite successful—except for what appears in Table 14.

Table 14lists the top fifty corporate donors to 527s after BCRA. Forty-three of the fifty firms listed on Table 14 contributed soft money in either 2000 or 2002 or both, and thus apparently treat 527s as a substitute good for banned soft money instruments. Together, the top fifty corporate donors to 527s contributed over $228 million to these so-called independent advocacy groups. In other words, contributions in unlimited forms by firms in Table 14 more than quadrupled **from approximately $52 million (2000 and 2002 cycles) to $228 million (2004 and 2006 cycles).** The median contribution by these fifty firms skyrocketed—from $125,000 (in 2000) and $147,713 (in 2002)—to $2,621,875 after BCRA. In contrast, most of the firms comprising the Center for Responsive Politics' list of top all-time contributors were largely constrained by BCRA. In particular, Agent Manager firms (companies listed in Table 13 that are not bolded or italicized) gave less than $10 million, or just 4 percent of the amount contributed to 527s by the top fifty corporate contributors to 527s in Table 14.

Overall, unlimited contributions from mega-donors coming from the corporate and financial sector to partisan and ideological politics *increased* after BCRA. The owner-executives of corporate and financial enterprises and their benefactors contribute unlimited amounts to partisan and ideological politics as individuals and families, as well as through privately-held for-profit and non-profit organizations, rather than relying primarily on voluntary donations from employees or contributions made directly from the treasuries of publicly traded C Corporations.[141] These findings support Cigler's claim that "…the huge expansion of 527 fundraising and spending so prominent in the 2004 elections was the direct result of the new campaign finance law".[142]

While the parties and candidates themselves are banned at the federal level from directly receiving soft money, the flow of funds from the corporate sector to finance partisan political communications greatly increased after BCRA passed. These funds now flow from megadonors and corporate interests to various non-profit and shell organizations in order to circumvent ceilings on donations and achieve the same goal of soft money contributions: influencing the election in favor of a single party or candidate. This represents a shift in unlimited money donated with the intent to influence electoral outcomes away from soft money vehicles going directly to the parties and candidates, to alternative non-profit and issue advocacy organizations with the same purpose. Now, however, the contributions are more difficult to trace, even for scholars and watchdog groups.

---

[141] C Corporation is the legal classification indicating how the business is organized. Other types include sole proprietorships, partnerships, limited liability partnerships ("LLPs"), limited liability corporations ("LLCs") and S Corporations. The structure of the business entity dictates the type of ownership interest each party will have, affects the degree of control that each party or family member can exercise, and determines tax treatment and degree of personal liability protection. (Weltman 2001)

[142] (Cigler 2006 223)

6.6.Who Are These 527 Megadonors?

Despite claims that BCRA brought a wave of new individual donors who effectively replaced the old soft money corporate contributors, forty-three of the top fifty corporate contributors to 527s (85%) are former soft money donors (see Table 14). Furthermore, almost all of these donors magnify their influence by giving the maximum amount in hard money donations as well as contributing to multiple 527s. The donors to 527s are neither bipartisan nor single issue advocates. Rather, they exhibit strong, loyal, and consistent partisan preferences. Each of the largest donors contributed solely to those 527s associated with the party to which the donor had contributed either hard money or soft money, or both, in previous electoral cycles.[143]

6.7.Formal Analysis

I implement a pre-test, post-test, two group research design to determine why corporations were unequally affected by BCRA. The "test" hinges on the "event"—that is, the cause whose effects we wish to determine—namely, the enactment of BCRA for elections after 2002. My sample is comprised of those firms listed in Table 13 and Table 14. Multivariate regression analyses test which variables best explain the size of contributions to 527s. I define two groups according to ownership structure in order to evaluate how the presence of a principal owner affects the propensity to contribute to 527s. To establish an equal comparison on the pre-tests and post-tests between the two groups, contributions from corporations in both groups include soft money gifts from individuals and their affi-

---

[143] Detailed information breaking out contributions associated with each corporation and listing the top recipient organizations and their ideological leanings is available upon request. Corporations that were bought out, went bankrupt, or otherwise ceased to exist as a corporate entity between 2002 and 2006 were dropped from the list (WorldCom and Enron, for example).

liated institutions (the pre-test) in the two immediately prior electoral cycles and gifts to 527s (the post-test) in the two cycles immediately following BCRA's passage.

I specify an unrestricted model (URM), where *u* is an error term affecting all the observations:[144]

$$\log (527 \text{ contributions}) = \beta_0 + \beta_1 (\text{ownership}) + \beta_2 (\text{size}) + \beta_3 (\text{publicly traded}) + u$$

The restricted model (RM) is specified as follows:

$$\log (527 \text{ contributions}) = \beta_0 + \beta_1 (\text{ownership}) + u$$

All other factors being equal, such as industry-based regulatory threats and randomly distributed strength of political preferences among employees in the private sector, the alternative hypothesis H_3 is that a principal owner-controlled firm will contribute significantly more to 527s than a firm without a principal owner. The null hypothesis H_0 is that ownership structure (the treatment) will have no effect on response to legislative change. In other words, firms without a principal owner will be constrained by BCRA, in the sense that the firm will not contribute significant amounts to 527s. Simple models of the alternative explanations for corporate contributions after BCRA follow:

H_0: Corporations were equally constrained (Cigler 2006 228)

$\beta_1 = 0; \beta_2 = 0; \beta_3 = 0$

H_1: Large corporations were constrained (Boatright et al. 2006 119)

$\beta_1 = 0; \beta_2 \neq 0; \beta_3 = 0$

H_2: Publicly traded corporations were constrained (Malbin 2006 12) (Boatright et al. 2006 119)

[144] Note that this model is a simplification; various measures of ownership, size, and profitability are included in the actual regressions.

$\beta_1 = 0; \beta_2 = 0; \beta_3 \neq 0$

H_3: Corporations without a controlling principal owner were constrained

$\beta_1 \neq 0; \beta_2 = 0; \beta_3 = 0$

If it is true that corporations controlled by a principal owner give more to 527s than do corporations not so controlled, the data should fit Equation H_3 but not the other equations.

6.8. Firm-Level Variables

Various measures of size, profitability, and source of capital are included in order to test alternative hypotheses in the literature. I provide two additional treatment variables (alternative operationalizations of corporate ownership): 1) the presence of a controlling or principal owner, such as the founder or founding family, and 2) percentage shares held by insiders and major (5 percent or greater) beneficial owners.[145] The dependent variable is total contributions to 527s during the 2004 and 2006 cycles, including donations made by the individual firm, the principal owners, family members, and affiliated foundations, trusts, and pass through entities.[146] A logarithmic transformation on campaign contributions prior to regression analysis corrects for the positively skewed dependent variable. This procedure makes the estimates less sensitive to more extreme observations on the dependent variable, in this case a handful of very large contributions to 527s.

---

[145] Firm-level data sources include Lexis-Nexis, Hoover's, EDGAR, Thomson Financial, corporate websites, and Securities and Exchange Commission filings. Eight of the one-hundred firms comprising the original two groups were dropped from the final regression analysis due to lack of available information.

[146] Sources for 527 contributions include both the Center for Public Integrity's 527 search engine, found at their website, http://www.publicintegrity.org/527/db.aspx?act=main, and the Center for Responsive Politics compilations of top donors to 527s found at their website, http://www.opensecrets.org/527s/527contribs.asp?cycle=2006.

6.9.Findings

The regression results are summarized in Table 15 and Table 16. In Table 15, the dependent variable is the amount of contributions from a corporation to 527s in the 2004 and 2006 cycles. In Table 16, the dependent variable is the logarithm of that amount. Size (operationalized as gross revenues) has a slightly negative relationship to contributions and is statistically significant at 5 percent, which provides some *prima facie* evidence for claims made that large firms were constrained by BCRA. However, when a control variable for percentage of the firm held by insiders and major beneficial owners (such as heirs or family members) is included, gross revenue is no longer significant and ownership share is instead the best explanatory variable. For each additional one percent of the stock held, the corporate interest gives $28,534, on average, more to 527s, *ceteris paribus*. A similar relationship holds with gross profit. The coefficients on EBITDA (earnings before interest, taxes, depreciation, and amortization) and leveraged free cash flow "FCF" are not statistically significant and, perhaps surprisingly, both have a negative relationship to the amount contributed to 527s.[147] Source of capital (dummy variable, 1 = publicly traded) is close to significant at a 95 percent confidence level (p-value = .068) and has a negative relationship to size of contributions, which provides some prima facie evidence for the claims made by Malbin et al., albeit weak. However, the sign changes to positive on the publicly-traded variable and source of capital is no longer significant when corporate ownership is included as a control variable. The number-of-employees variable is not sta-

[147] These last two measures included because scholars who have studied corporate political action have posited that firms with greater resources (i.e. greater cash flow) are able to contribute more to politics (Hillman, Keim, and Schuler 2004, 837-857)(Schuler, Rehbein, and Cramer 2002, 659-672). Others, however, have suggested that corporations in distress, life cycle decline, or subject to acute market or political threats are the most likely to engage in political action (Getz 1997, 32)(Shaffer 1995, 495-514)(Epstein 1969)

tistically significant and has a slightly negative relationship to the amount contributed to 527s. These findings support the Olsonian hypothesis that the greater the number of group members, the less likely it is for the firm to engage in a coherent political strategy.

Table 15: Multiple OLS Regression of Firm Characteristics and 527 Contributions

Dependent Variable = Contributions from Corporate Interest to 527s after BCRA					
	1	2	3	4	5
Principal Owner	3,449,019 ** (734,342)				
Insider and 5 Percent Owner Shares		27,447 ** (10,452)	30,133 ** (7,868)		28,534 ** (3,700)
Publicly Traded			315,537 (957,702)		
Gross Revenue ($mil)					1,459 (3,000)
Log of Gross Revenue				-255,619 * (127,513)	
Gross Profit					-5,155 (10,138)
EBITDA					-3,253 (20,025)
Leveraged FCF					3,320 (13,694)
Profit Margin					9,080 (20,223)
No. of Employees					.319 (.338)
Constant		1,117,430 (619,420)	797,008 (970,968)	2,972,562 (512,742)	256,540 (259,121)
No. Observations	92	92	92	92	37
R-Squared	.12	.07	.07	.02	.76
F-Statistics	22	7	7	4	18
Robust standard errors are in parentheses * significant at 5 percent; ** significant at 1 percent					

Table 16: Multiple OLS Regression of Firm Characteristics and Log of Contributions to 527s

Dependent Variable = Log of Contributions from Corporate Interest to 527s after BCRA					
	1	2	3	4	5
Principal Owner	2.656 ** (.310)		2.507 ** (.376)	2.549 ** (.407)	2.244 ** (.552)
Insider and 5 Percent Owner Shares		.024 ** (.003)			.006 (.006)
Publicly Traded			-.253 (.314)		.281 (.350)
Log of Gross Revenue				-.037 (.056)	-.042 (.064)
No. of Employees					.000 (.000)
Constant	11.8222 ** (.273)	12.370 ** (.272)	12.067 ** (.406)	11.960 ** (.373)	11.660 ** (.474)
No. Observations	87	87	87	87	81
R-Squared	.51	.39	.51	.51	.54
F-Statistics	73	54	38	46	20
Robust standard errors are in parentheses * significant at 5 percent; ** significant at 1 percent					

Ownership structure itself appears to be the best predictor of contributions to 527s. A dummy variable controlling for the presence of a principal owner was significant at a 99 percent confidence level with robust standard errors. In the restricted model, without smoothing for extremes (no log of 527 contributions taken), if a corporation had a principal owner, the firm gave approximately 3.5 million more dollars to 527s after BCRA than a firm without a principal owner, *ceteris paribus* (Table 15, Column 1).[148] Table 16 provides the results when a log of 527 contributions is used to control for extremes. The coefficients for ownership variables are robust in all model specifications at the 99 percent confidence level, controlling for various measures of size and source of capital, which were not significant. An interactive term (gross revenues * principal-owner dummy) was not signifi-

[148]Table 15, Model 5 has the best fit, explaining 76 percent of the variance, although due to the lack of availability of data, the number of observations dropped down to thirty-seven. It is informative to note in this case that the number of ownership shares held by insiders and major beneficial owners is statistically significant in all model specifications, while no other variable is statistically significant, despite the fact that most of the companies for which complete data were available were publicly traded.

cant, with a small and negative coefficient. In other words, ownership structure is what is driving the variation in corporate response to BCRA.

6.10.Limitations

Ideally, researchers could systematically compare pre-BCRA soft money and contributions to federal 527s with post-BCRA soft money and contributions to federal 527s. However, we have two problems with available data: 1) limited information on contributions to 527s before BCRA,[149] and 2) the inability to quantify soft money contributions that would have occurred during the 2004 and 2006 electoral cycles had BCRA not been passed. Soft money contributions in 2000 and 2002 are the best proxy for estimating the first missing data problem, while contributions to 527s are the best measure of the second counterfactual problem that we have, although contributions to 527s and soft money are not perfect "substitute goods." The best data available for assessing how interests got around hard money limits when soft money was banned are contributions to 527s, as both mechanisms allowed special interests to attempt to influence electoral outcomes by contributing unlimited amounts.

This paper does not explore the changes in hard money contributions or lobbying behavior, both of which have increased after BCRA according to the Federal Election Commission.[150] However, increases in hard money giving and lobbying does not imply that more indirect political spending has decreased, nor that firms simply transferred from soft money to hard money contributions after BCRA. Again, we have another unobserved

---

[149] According to the Center for Responsive Politics, 2004 is the first year for which we have the full electronic data on federal 527s. http://www.opensecrets.org/pressreleases/2004/Post-BCRA.asp

[150] Press Releases found at http://www.fec.gov/press/press2004/summaries2004.shtml accessed September 2006. See also http://opensecrets.org/bigpicture/ptytots.asp?cycle=2006 and http://opensecrets.org/pressreleases/2007/2006Lobbying.3.15.asp

data or counterfactual problem: we cannot observe hard money contributions or lobbying in the 2004 and 2006 electoral cycles that would have occurred had BCRA not passed. Due to the lack of available data and counterfactual problems, there are limits to the conclusions that can be drawn from this study. We can only infer from the data that are available that it appears that some former soft money contributors and many additional corporate interests are now increasing contributions to federal 527s as a way to overcome hard money contribution limits and engage in partisan electoral politics.

This paper is evaluates the behavior of the largest donors, not the mean behavior of all firms. Therefore, the sample is not representative of the contribution patterns of the entire population of firms. While the cross-sectional sample represents many industries, the sample is not large enough to compare industry-level behavior in contributing to 527s. The only thing I note related to industry is that it seems that private equity (e.g. hedge funds, buyout firms) is an over-represented industry among the top contributors to 527s. Future studies would contribute to our understanding of all firms and industries by starting with a much larger sample of all firms and including industry-level variables, such as coding for the potential threat of regulation and sales to government as a motivation to contribute.

6.11. Discussion: Corporate Contributions after BCRA

In 2004, there was a quintupling of unlimited funds contributed by the fifty top corporate donors in order to influence the outcome of political campaigns. The majority of these funds came from corporate interests in the form of individual contributions to 527s. By utilizing an overly narrow construction of what constitutes a corporate contribution and soft money, scholars have significantly understated the amount of corporate giving and unlimited money from organized special interest groups that occurred after BCRA, thus overstating the legislation's effectiveness.

Principal Owner firms are more likely than Agent Manager firms to contribute soft money and, as this chapter shows, comprise the largest contributors to 527s after BCRA.[151] Megadonors play an increasingly important role in an electoral system characterized by the need for party elites to raise hundreds of millions of dollars to deliver political communications in an intensely partisan and keenly competitive environment. One third of the top fifty corporate donors to 527s are principal owners of publicly traded corporations, who have aggregated contributions through family members and alternative instruments, such as trusts, foundations, and shell corporations. "Private holding companies" and "privately held corporations" have often been used by founders and family owners of large publicly traded corporations as control-enhancing mechanisms over the governance function of the corporations in order to influence major strategic decisions.[152] These mechanisms are now being used to contribute unlimited amounts to politics.

The fact that record-setting political contributions came primarily from owners of privately held firms should not be lightly dismissed. "Privately held corporation" does not infer "small inconsequential enterprise," nor does it preclude control over a public corporation. Indeed, several of the largest corporations and most powerful financial institutions in the world are privately held.[153] Fourteen of the top fifteen corporate donors to 527s are owners of corporations with $1 billion or more in either annual revenues or assets under

---

[151] (Hadani 2007, 395-428)
[152] (Malbin 2006 23; Weissman and Hassan 2006 91; Villalonga and Amit 2005, 385-417)
[153] For example, Koch Industries ($90 billion in annual revenue), Cargill ($70 billion), Bechtel, and Bacardi are family-controlled private firms which are politically active in the United States. Yet scholars of corporate political action commonly select only from the population of publicly traded companies in their samples.

management and one out of five of the top fifty donors to 527s is a principal owner of a private equity firm. My findings suggest further evaluation of a legal environment that discourages political action from publicly visible, independently controlled, shareholder-accountable firms while emboldening less regulated and less publicly accountable corporate and financial interests.

6.12.Questions for Future Research

Individual contributions, especially unlimited and unregulated contributions such as those to 527s, are often directed through family members, trustees, and beneficiaries as a means of funneling what originates as corporate campaign cash. Family controlled corporations are able to legally overcome both corporate and individual limits on hard money campaign contributions by bundling donations through family members, including those under eighteen.[154] Family-controlled corporations, both public and private, are also able to coordinate bundling activities to multiple 527 organizations. In addition, many families own numerous corporations, suggesting that the owning family may constitute a level of analysis to consider in addition to the legal corporate entity.

Drawing a line separating political contributions to gain access or special influence from contributions for purely ideological or expressive purposes has been a perennial difficulty in the on-going debate over campaign finance reform and the preservation of rights to free speech. More research is needed to identify the actual instances of influence buying via contributions to 527s. Scholars thus far have usually concluded that these individual

---

[154] The section of BCRA banning the bundling of contributions from minors was overturned in *McConnell v. FEC* (Dec. 10, 2003).

wealthy donors are contributing money purely for ideological reasons.[155] However, this is an untested assumption; alternative reasons have not yet been explored. It is difficult for scholars and public interest groups to trace contributions made by privately held corporations and private equity firms and it is even more difficult to quantify political influence, as these entities are subject to far fewer regulations than are publicly traded companies and do not have to report financial or ownership data to the public. Therefore, we have no basis for assuming whether contributions made by individual owners of private firms or holding companies and their family members have been strictly motivated by ideology. The companies with which these individuals and entities are associated enter into contracts with government entities, support and oppose legislation, pay taxes, and are subject to regulation.[156] More investigation is needed to evaluate whether principal owners and the enterprises they own have benefited from contributions to partisan 527s.

6.13. Coordination among Top Contributors

In Table 17, I have listed data for the two top contributors overall to 527s. Peter Lewis and George Soros, both the founders and top executives of the firms they, along with their family members, own and control, are coordinating on political donations. In the 2004 election, these two families gave the majority of their contributions to the same 527s, listed below.[157] Together, these two families contributed $54,513,085 which represents 8.93

[155] (Mann 2006 226)
[156] For example, there have been strenuous lobbying efforts to prevent increasing the current 15 percent capital gains on hedge funds rate to the 35 percent ordinary income tax rate. It is not necessarily a coincidence that Democratic candidates are receiving so much money from private equity in the current cycle.
[157] Sources include the Center for Responsive Politics, website www.opensecrets.org, and the Center for Public Integrity, website http://www.publicintegrity.org/527/. Contribution data were collected from these two websites and compiled into tables in February 2007. Given that some contributors are late filers, some funds may be returned, and differences in classification, methodology and timelines between these two watchdog groups and potential coding errors, the contribution amounts discussed and listed in tables in this

percent of all contributions made to 527s since the passage of BCRA in 2002, including those made by unions, but excluding those made to state candidates and parties. In other words, nearly ten percent of all ideological and partisan activity made by these special advocacy groups was paid for by just two families.

Table 17: Coordinated Funding of Multiple 527s among Top Donors

		Top Contributors to 527 Committees			
Rank	Name	Individuals	Money to 527s	Firms Family Own and Control	Top 527s Funded
1	Soros	George	26,992,500	Soros Fund Management LLC	Young Democrats of America
		Jonathan	439,000	Quantum Endowment Fund	Joint Victory Campaign
		Robert	25,000	The Trace Foundation	Americans Coming Together
		Susan Weber	10,000		MoveOn.org Voter Fund
		Jeffrey	3,190		Click Back America
		Andrea Soros Colombel	500,000		ARTSPAC
			$ 27,969,690		
2	Lewis	Peter B.	24,621,595	The Progressive Group	Young Democrats of America
		Daniel R.	1,100,000	Progressive Insurance Corp	Joint Victory Campaign
		Jonathan D.	821,800	Jonathan Lewis Associates	Americans Coming Together
			$ 26,543,395		MoveOn.org Voter Fund
					Click Back America
					ARTSPAC

This was not the first time that Soros and Lewis have coordinated on political contributions. In 2000, both gave the same amount each (along with John Sperling, CEO of the Apollo Group who also gave $1,193,005) to fund California Proposition 36, which enables drug offenders to avoid incarceration under certain conditions (see Table 18).[158]

paper are better conceived as approximations or estimates at a point in time, rather than final and absolutely precise dollar amounts.

[158] Information accessed February 10, 2007 from California Online Voter Guide 2000 at http://www.calvoter.org/voter/elections/archive/2000/general/propositions/topten.html#36 and from California Secretary of State at http://www.smartvoter.org/2000/11/07/ca/state/prop/36/.

Table 18: Coordination of Top Federal 527 Donors in California Proposition 36

Peter B. Lewis CEO, The Progressive Corporation Cleveland, OH 44101	**$1,193,006**	**California Proposition 36** Drugs, Probation and Treatment Program November 7, 2000 Election	About Proposition 36: Requires probation and drug treatment program, not incarceration, for conviction of possession, use, transportation for personal use or being under influence of controlled substances and similar parole violations, not including sale or manufacture.
George Soros CEO, Soros Fund Management New York, NY 10106	**$1,193,005**	**California Proposition 36** Drugs, Probation and Treatment Program November 7, 2000 Election	

According to Jane Mayer at the *New Yorker*, five billionaire business persons—Herb and Marion Sandler (founding owners of Golden West Financial savings and loans corporation), Paul Lewis (owner-chairman of family-controlled Progressive Insurance), George Soros (founder-owner of Soros Management), and John Sperling (founder-owner of The Apollo Group, holding company for the for-profit University of Phoenix)—met with liberal [and Democratic Party] leaders at the Aspen Institute to strategize about progressive politics one week after the Democratic National Convention.[159] The Soros, Lewis, and Sandler families have contributed over $67.5 million, or 11.1 percent of the total contributions to federal 527 organizations in 2004. To conclude, BCRA resulted in a sharp increase in partisan and ideological contributions made by concentrated economic interests, in the form of corporate owning families, which is outside the oversight of the FEC and more difficult for scholars, watchdog groups, and the public in general to trace.

6.14.Addendum 1: Frequency Distribution

Table 19 shows the frequency distribution of donations to 527s made by the ninety-two corporations analyzed in my regression analysis. Six firms from Table 13 (page 99,

[159] Mayer, Jane, "The Money Man: Can George Soros' millions insure the defeat of President Bush?", *The New Yorker*, October 18, 2004, accessible online at http://www.newyorker.com/archive/2004/10/18/041018fa _fact3.

top contributors since 1989) gave nothing to 527s. The majority (84 percent) of these ninety-two firms from both Table 13 and Table 14 (pages 99 and 100 respectively) gave some money to 527s, but less than five million dollars each.

Table 19

$ to 527s	**Frequency**
-	6
5,000,000	77
10,000,000	4
15,000,000	1
20,000,000	2
25,000,000	0
30,000,000	2
More	0

6.15.Addendum 2: Organizational Structure of Funding via 527s

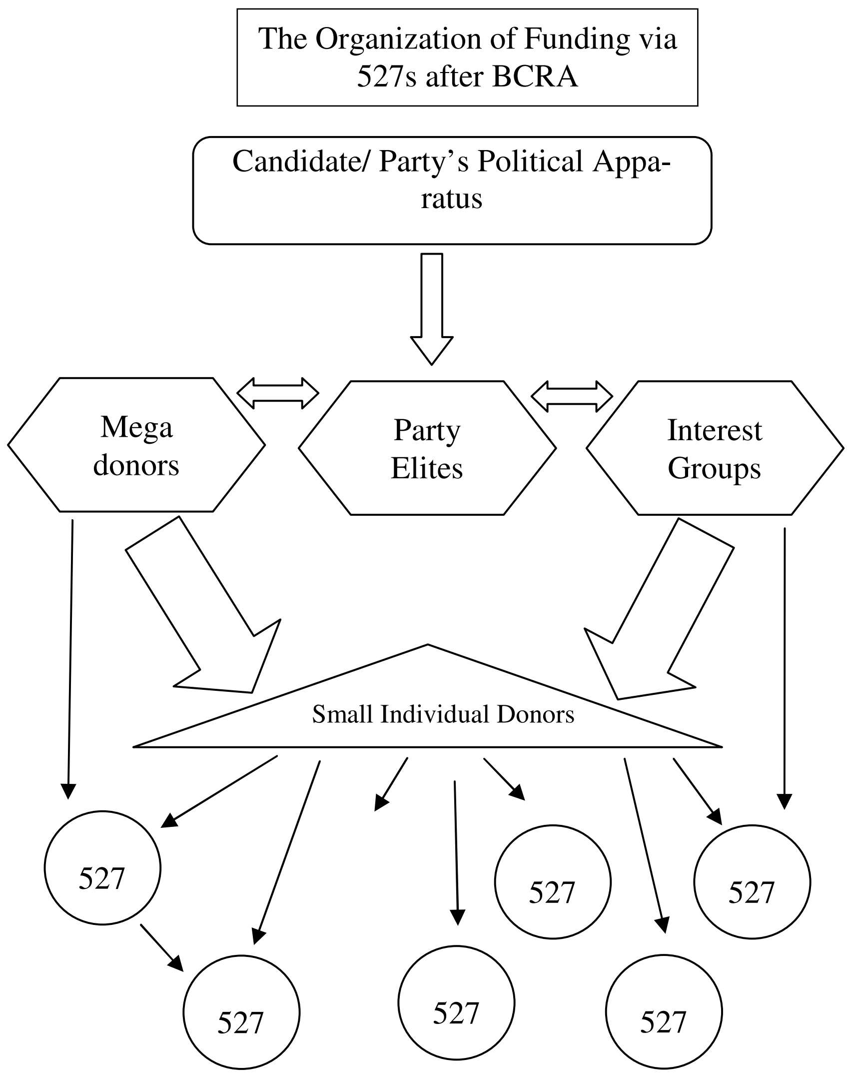


Figure 7: Campaign Funding Apparatus after BCRA.

Note: Thick arrows represent communications such as solicitations while thin black arrows represent actual contributions.

6.16.Addendum 3: Top Donors to 527s after BCRA

Table 20: Top Donors to 527s after BCRA

Section 1: Top Donors to 527s after BCRA Rank	Family	Individuals	Total Money to 527s	Firms Family Owns and Controls	Industry	Top 527s Funded	Party	Forbes 400	Net Worth ($Bil)
1	Soros	George	26,992,500	Soros Fund Management LLC	global private equity	Young Democrats of America	D	27	8.5
		Jonathan	439,000	Quantum Endowment Fund	hedge funds	Joint Victory Campaign; ACT			
		Robert	25,000	The Trace Foundation		MoveOn.org Voter Fund			
		Susan Weber	10,000			Click Back America; ARTSPAC			
		Jeffrey	3,190			Campaign for a Progressive Future			
		Andrea Soros Colombel	500,000			Campaign for America's Future			
			$ 27,969,690			America Votes; EMILY's List			
2	Lewis	Peter	24,621,595	The Progressive Group	insurance	Young Democrats of America	D	152	1.9
		Daniel	1,100,000	Progressive Insurance		Joint Victory Campaign; ACT			
		Jonathan	821,800			MoveOn.org; America Votes			
			$ 26,543,395			Click Back America; ARTSPAC			
						Stonewall Democrats United			
						Punk Voter Inc.; Sierra Club			
						Marajuana Policy; Gay and Lesbian			
3	Perry	Robert (Bob)	**$ 17,835,199**	Perry Homes	home builder	Texans for a Republican Majority	R	n/a	n/a
		Doylene, Darlene				Progress for America Voter Fund			
		Robert, Pat, Kathy				Club for Growth.net; GOPAC, Inc.			
						Swift Boat Vets and POWs for Truth			
						Freedom Works; American Dream			
						Economic Freedom Fund			
4	Bing	Stephen	15,634,772	Shangri-La Entertainment	film production	Joint Victory Campaign 2004	D	389	0.75
		Peter	1,089,257	L&E Associates	real estate heir	Progressive Majority			
			$ 16,724,029			Enviro2004; Stronger America Now			
						Americans for Progress			
						Campaign for America's Future			
5	Sandler	Herb & Marion	**$ 13,008,459**	Golden West Finance Group	savings and loans	Joint Victory Campaign 2004	D	320; 346	2.1
				World Savings Bank	banking	MoveOn.org Voter Fund; Sierra Club			
						Citizens for a Strong Senate			
						New Democrat Network			
6	Messinger	Alida Rockefeller	5,411,200	Rockefeller Financial Services	investment banking	League of Conservation Voters	D	93; 107	8.5
		Ruth	50,000	Rockefeller & Co.	real estate	America Coming Together		283	
		Richard G	31,000	Rockefeller Family Fund	investments	America Votes 2006			
		John D III, IV	$ 5,492,200	Venrock, Inc.	venture capital	21st Century Democrats			
		David		Rockefeller Group International	wealth mgmt	Sierra Club Voter Education Fund			
		Winthrop Paul		Rockefeller Trust Company	trust admin	Grassroots Democrats			
	Harris	John A IV	3,319,500	Changing Horizons Fund	investment banking	League of Conservation Voters	D		
		Jay	1,384,000	Rockefeller Phil Advisors	real estate	America Coming Together			
		Eleanor	4,650		venture capital	New Democrat Network			
		Lawrie	$ 4,708,150		wealth mgmt	State Conservation Voters Fund			
	Bartley	Anne	152,125		foundations	MoveOn.org			
	Rockfeller	combined	**$ 10,352,475**		trusts				

Table 20: Continued

Section 2: Top Donors to 527s after BCRA									
Rank	Family	Individuals	Total Money to 527s	Firms Family Owns and Controls	Industry	Top 527s Funded	Party	Forbes 400	Net Worth ($Bil)
7	Perenchio	Jerry	9,001,200	Chartwell Partners LLC	TV broadcasting	Progress for America Voters Fund	R	85	3
		Andrew J	5,000	Univision		Republican Leadership Council			
			$ 9,006,200	Jerry Perenchio Living Trust		Bush-Cheney Inc Recount Fund			
8	Pritzker	Linda	**$ 8,951,000**	Sustainable World Corp	hotels, casinos	America Coming Together	D	133; 164	20
		Nicholas; Jean "Gigi"		H Group Holdings (Hyatt)	cruise lines	New Democrat Network		7 @ 160	
		Penny; Anthony		Marmon Group; Rockwood	conglomerate	Joint Victory Campaign		207; 258	
		John; Daniel		Hyatt Development Corp		Planned Parenthood			
		Susan; James		EWAM		Campagin Money Watch			
		Karen; Thomas "Tom"				Grassroots Democrats			
		Jay Robert (JB)							
9	Waitt	Ted	**$ 5,010,000**	Gateway	computers	Joint Victory Campaign	D	204	1.7
				Avalon Capital Group	private equity				
10	Arnall	Dawn	**$ 5,002,000**	Ameriquest Capital	mortgage banking	Progress for America Voter Fund	R	85	3
		Roland							
11	Spanos	Alexander Gus	**$ 5,000,000**	AG Spanos Companies	real estate	Progress for America Voter Fund	R	354	1.1
12	Pickens	Boone T.	**$ 4,677,000**	BP Capital	oil and gas	Progress for America Voters Fund	R	103	2.7
		R.H.		Mesa (Petroleum) Inc.	LBO private equity	Swift Boat Vets and POWs for Truth			
						Texans for a Republican Majority			
						Club for Growth.net			
13	DeVos	Richard	2,000,000	Amway (parent hldg co is Alticor)	direct selling	Progress for America Voters Fund	R	73	3.5
		Richard Jr.	386,000	The Windquest Group	multi-level marketing	Republican Governors Association			
		Richard Sr	60,000			GOPAC, Inc.			
		Elisabeth	500			Bush-Cheney Recount Fund			
	van Andel	Jay	2,000,000	Alticor (parent hldg co of Amway)					
			$ 4,446,500						
14	Rappaport	Andrew	3,922,400	August Capital LLC	venture capital	Compare Decide Vote	D	n/a	n/a
		Deborah	150,000			America Votes			
			$ 4,072,400			Click Back America; DASHPAC			
						21st Century Democrats			
						Music for America; Punk Voter Inc.			
						New Democrat Network			

Table 20: Continued

Section 3: Top Donors to 527s after BCRA

Rank	Family	Individuals	Total Money to 527s	Firms Family Owns and Controls	Industry	Top 527s Funded	Party	Forbes 400	Net Worth ($Bil)
15	Simmons	Harold	3,700,000	Contran Corp	conglom hldg cos.	Swift Boat Vets and POWs for Truth	R	61	4.1
	(all in TX)	Annette	5,000	Valhi, Inc.	oil, sugar, chemicals	Bush-Cheney Inc. Recount Fund			
		L E	5,000	Contractor Corporation	corp takeovers	Progress for America Voters Fund			
		Matthew	5,500	Scf Partners	nuclear waste	Club for Growth, Inc.			
		Thomas D	1,200	Simmons and Co Intl	energy				
		Thomas W	4,000	Simmons Vedder and Co	real estate				
		Glenn R.	**$ 3,720,700**	Kronos Worldwide					
16	Levy-Hinte	Jeanne	3,561,500	Antidote Films, Inc.	film production	Grassroots Democrats	D	n/a	n/a
		Jeffrey	65,000			America Coming Together			
			$ 3,626,500			Campaign Money Watch			
						New Democrat Network			
						Planned Parenthood; Sierra Club			
17	Eychaner	Fred	**$ 3,295,000**	Newsweb Corp	radio stations	America Coming Together	D	n/a	0.5
					UPN, TV stations	Citizens for a Strong Senate			
					newspapers	Media Fund; September Fund			
						Voices for Working Families			
18	Walton	Alice	2,600,000	Rocking W Ranch Inc.	venture capital	Progress for America	R	6; 7; 7; 9	85.7
		John T.	560,500	Wal-Mart Stores, Inc.	retail	Committee for Quality Education		11; 89; 116	
		S. Robson	5,000	Walton Enterprises LLC	private banking	New Republican Majority Fund			
		Jim (James)	5,000	Arvest Bank Group	import/trade/distrib	Republican Majority Issues			
		Lynne	5,000	Quantum Partners		Softer Voices			
		Christy	500	True North Partners LLC					
			$ 3,176,000						
19	McHale	Jonathan	1,900,000	The Tipping Point Company	technology	Media Fund	D	n/a	n/a
	Mattso	Christine	1,200,000	TippingPoint Technologies	software	America Votes			
			$ 3,100,000						
20	Stryker	Pat	1,609,293	Styker Corp (SYK)	medical supply	Gay & Lesbian Victory Fund	D	160; 204	3.7
		Lloyd	1,446,313	Bohemian Companies	private equity	Main Street CO; America Votes			
		Ronda E	**$ 3,055,606**	John Stryker Architecture	real estate	Coloradans For Life			
21	Ragon	Phillip (Terry)	2,000,000	Intersystems	software	America Coming Together	D	n/a	n/a
		Susan	1,000,000						
			$ 3,000,000						

Table 20: Continued

Section 4: Top Donors to 527s after BCRA

Rank	Family	Individuals	Total Money to 527s	Firms Family Owns and Controls	Industry	Top 527s Funded	Party	Forbes 400	Net Worth ($Bil)
22	McClendon	Aubrey K	2,125,000	Chesapeake Energy	oil and gas	Americans United to	R	215	1.6
	Ward	Tom	875,000	Seattle Supersonics		Preserve Marriage			
			$ 3,000,000			Club for Growth.net; RSLC			
23	Lindner	Carl H.	2,280,000	American Financial Group	insurance	Progress for America	R	133	2.3
		Robert	510,000	United Dairy Farmers	food products	College Republican Natl Cmte, Inc.			
		Richard E	1,000	Cincinnati Reds	sports teams	GOPAC; Republican Gov Assoc			
		Russell	1,000			Economic Freedom Fund			
		Edith (and Carl)	50,000						
			$ 2,842,000						
24	Hunting	John	**$ 2,726,000**	John Hunting (JRH) Associates	technology	Americans Coming Together	D	n/a	n/a
				grandson of Steelcase co-founder		Sierra Club; 21st Century Dems			
				John R Hunting Living Trust		League of Conservation Voters			
						Campaign Money Watch			
						America Votes 2006			
25	Cullman	Lewis B.	**$ 2,659,000**	Cullman Ventures, Inc.	LBOs	Americans Coming Together	D	n/a	0.05
		Dorothy		Cullman Foundation	day planners	Joint Victory Campaign 2004			
				At-A-Glance		MoveOn.org; Americans for Jobs			
				MeadWestVaco		September Fund			
26	Gund	Louise	2,383,600	Gund beer	beer	EMILY's List; 21st Century Dems	D	4 years	1.7
		Agnes	186,000	Gund Arena	banking	Joint Victory Campaign		listed	
		George	3,000	Louise Gund Foundation	sports teams	America Coming Together			
		Gund Arena	12,150	Kellogg	food & bev	Sierra Club;			
			$ 2,584,750	Cleveland Caveliers; SJ Sharks		Bring Ohio Back			
27	Varis	Agnes	**$ 2,306,844**	AgVar Chemicals Inc.	generic drugs	America Coming Together	D	n/a	n/a
				Aegis Pharmaceuticals	pharmaceuticals	Joint Victory Campaign 2004			
						Democratic Unity			
28	Glaser	Robert D.	**$ 2,234,000**	Real Networks Inc.	web technology	America Coming Together	D	n/a	0.58
				(formerly Progressive Networks)	internet media	America Votes; Iowa Senate 2002			
				RealPlayer					
29	Field	Joseph	**$ 2,000,000**	Entercom Communications Corp	radio broadcasting	Media Fund	D	n/a	n/a
30	Kirsch	Steven	**$ 1,855,750**	Propel Software Corp	software	American Family Voices	D	n/a	n/a
		Michele		Infoseek founder	technology	Gore-Liebermann Recount			
						Campaign for a Progressive Future			
						Campaign Money Watch			

Source: The Center for Responsive Politics: www.opensecrets.org and The Center for Public Integrity: www.publicintegrity.org/527/db.aspx?act=main

Chapter 7. Case Study – Wal-Mart Corporation[*]

In this case study, I explore the ownership and governance of one of the largest publicly traded corporations in the world—Wal-Mart Corporation—in order to identify the full range of political strategies and tactics of its principal owners, the Walton family. I examine the strategies and institutions by which both ownership concentration within the firm and dominance over the firm's political strategy is attained. In addition, I discuss ways in which ownership and campaign contributions are obscured from view and thus often understated. The focus of this chapter is on the internal apparatus of a corporation's political fundraising, and not the outcomes of political investments. While I make note of instances of apparent influence, further research is needed to document and assess the impact of actual influence.

7.1.Who owns and controls Wal-Mart?

> The Walton family is as rich as Bill Gates and Warren Buffett combined; [their] ninety billion dollar fortune is equivalent to the GDP of Singapore. It is reasonable, and useful, to consider the Waltons' combined wealth this way because the family members act and think collectively. They are constantly in contact with each other and with family advisors, and they meet three times a year to discuss and manage their fortune. Because they hold such a huge stake in Wal-Mart, the Waltons have a large, if quiet, influence on our economy and society. They have a say in more than a million jobs in this country.[160]

While numerous scholars have evaluated Wal-Mart's impact on the environment, wages and prices, their studies have been limited to the impact of Wal-Mart stores and

[*] The research for this case study was conducted in 2005 and 2006. The content herein reflects the time period the data were collected. A version of this case study was published in *Business and Economic History On-Line* Vol. 4, 2006. Author is granted all rights to use and reprint.

[160] Andy Serwer, "Inside America's Richest Family", *Fortune* v.150, n.10, November 15, 2004.

operations or the firm's management, practices and policies.[161] My research investigates the strategic roles played in the political arena by the principal owners of the firm: the Walton family. In addition to dominating the retail and grocery markets in several countries that affect millions of lives around the globe each day, the Walton family owns enterprises with a significant and growing market share in financial services.[162] A portion of the wealth generated from the enterprise is distributed to politicians and their political organizations and to organizations and causes furthering the ideological goals of family members.

Wal-Mart is an exemplary case of the political behavior of the Principal Owner firm. In these firms, founding owners and heirs secure control over the firm through shares held in their name, trusts, foundations, and other corporations, and then may use these institutions to fund political and ideological activities. Through the limited liability corporation and various other institutions, the Walton family controls Wal-Mart as a unified blockholder.[163] In 2006, Alice, Helen, Jim, and S. Robson collectively owned nearly 41 percent of shares, and voting rights of shares in the Estate of John were split among them.

---

[161] For an historical piece and more on the legacy of Sam Walton, see Bethany Moreton, "It Came from Bentonville: The Agrarian Origins of Wal-Mart" and other scholars in *Wal-Mart: The Face of Twenty-First-Century Capitalism*, edited by Nelson Lichtenstein, 2006. The compilations in this volume analyzing Wal-Mart do not analyze the current role played by Walton heirs and miss the other institutions the Walton's own and utilize for political and economic dominance.

[162] The family can reinvest a portion of the approximately half-billion dollars per year generated from Wal-Mart stock into venture capital funds, private equity investments, and high growth opportunities, so long as they create legally separate entities from Wal-Mart. Even though Walton Enterprises LLC is 100 percent owned by the family, it can own and control the world's largest retail enterprise and multiple financial institutions without violating legislation intended to separate commerce from banking.

[163] As an affiliated group of shareholders, a blockholder does not need a majority of shares, or 51 percent, in order to exercise control. Leveraged buyout raiders threaten to take control with the purchase of as little as five percent of shares. An anecdotal case of family influencing strategic decisions with as little as two percent holdings is found in the Toyoda family's control of the Toyota Corporation. Greimel, Hans, "Toyota Turns to Toyoda for Help", *Automotive News Europe*, Feb. 2, 2009.

[Table 21 on page 124 provides information on six of the family members that made the Forbes World's Wealthiest 2004 list.]

Table 21: Walton Family Net Worth and Sources

Forbes' World's Wealthiest, Wal-Mart, and the Walton Family					
2004 Rank	Name	Age	Net Worth in Billions	Primary Location	Source of Wealth
10	S Robson Walton	61	$18.3	Bentonville, AR	Wal-Mart
11	Jim Walton	57	$18.2	Bentonville, AR	Wal-Mart
11	John Walton*	59	$18.2	Bentonville, AR	Wal-Mart
13	Alice Walton	56	$18.0	Fort Worth, TX	Wal-Mart
13	Helen Walton	85	$18.0	Bentonville, AR	Wal-Mart
194	Ann Walton Kroenke	55	$3.0	Columbia, MO	Wal-Mart
243	Nancy Walton Laurie	53	$2.5	Columbia, MO	Wal-Mart
387	Stanley E Kroenke	57	$1.7	Columbia, MO	Wal-Mart; Real Estate

* Although Christy Walton, his widow, inherited much of the wealth, Alice, Jim, and S. Robson Walton split the ownership and voting powers over the shares of "Estate of John T. Walton".

I identified and compiled data on the extended Walton and Robson families, many of whom contribute to the same political candidates, PACs, and other political and ideological causes as do the four nuclear family members.[164] The details of extended family members' shareholdings in Wal-Mart are less well known, as only those who own five percent or greater of total outstanding shares or who serve on the board of directors must be listed on publicly available documents. Table 22 below provides information about family members with significant holdings in the corporation who are required to report to the SEC.

[164] The Robson family provided the initial funding to Sam Walton. Sam married Helen Robson.

Table 22: Wal-Mart Company Roster

Shareholder	Relationship	Total Shares	Record Date
ALICE L WALTON	Beneficial Owner of more than 10% of a Class of Security	1,702,500,000	12/06/2000
HELEN R WALTON	Beneficial Owner of more than 10% of a Class of Security	1,681,270,000	07/13/2004
JIM C WALTON	Director and Beneficial Owner of more than 10% of a Class of Security	1,690,990,000	09/28/2005
JOHN T WALTON	Director and Beneficial Owner of more than 10% of a Class of Security	1,692,680,000	06/03/2005
S ROBSON WALTON	Chairman of the Board	1,685,180,000	09/22/2004
E STANLEY KROENKE	Director	31,425,961	03/31/1998
STEUART L WALTON	Shareholder	N/A	
THOMAS LAYTON WALTON	Affiliated Person	N/A	
JAMES L WALTON TRUST	Director	N/A	
Source: Thomson Financial	N/A: not required to list if shares held is less than 5% of total outstanding.		

In Table 23 on page 126, the stockholdings, voting and disposition powers are listed for each family member. Family members also hold voting shares in the Walton Family Foundation—where they also serve as directors on the board—as well as the Estate of John T. Walton, the HR (for Helen Robson) Walton Trust, and other smaller trusts.

Table 23: Walton Family Stockholdings in Wal-Mart

BENEFICIAL OWNERSHIP OF COMMON STOCK						
Reporting Person	Aggregate Number of Shares of Common Stock Beneficially Owned	% Out-standing Common Stock	Number of Shares of Common Stock as to Which Reporting Person has: Sole Power to Vote	Shared Power to Vote	Sole Power to Dispose	Shared Power to Dispose
Helen R. Walton 1/	1,681,270,819	40.38	764,080	1,680,506,739	764,080	1,680,506,739
S. Robson Walton 2/	1,687,898,143	40.54	2,876,663	1,685,021,480	2,819,213	1,685,021,480
Estate of John T. Walton 3/	1,680,521,685	40.36	14,946	1,680,506,739	14,946	1,680,506,739
Jim C. Walton 4/	1,693,062,082	40.66	10,478,426	1,682,583,656	10,478,426	1,682,583,656
Alice L. Walton 5/	1,691,373,246	40.62	6,978,958	1,684,394,288	6,978,958	1,684,394,288
Calculated using the 4,163,490,196 shares of common stock outstanding on Oct. 31, 2005.						

The total family's percentage of ownership over the company has increased incrementally but steadily, from approximately 38 percent five years ago to nearly 41 percent today. Since John's death in June 2005, the "Estate of John T. Walton" has been established, in which "S. Robson Walton, Jim C. Walton, and Alice L. Walton act in the capacities of co-personal representatives and now execute voting and control as managing members of Walton Enterprises LLC, of which the Estate of John T. Walton is also a managing member".[165] At the same time, fewer common shares are outstanding in 2005 than in 2004, suggesting further concentration of ownership despite significant growth of the enterprise over the same period. This would give remaining family members greater voting rights and control over Wal-Mart and the affiliated organizations that its profits fund.

The shares of common stock owned by Walton Enterprises—the limited liability corporation owned 100 percent collectively by the four family members—include 2,076,917 shares held by "a corporation organized and operated for charitable purposes as to which S. Robson Walton, Jim C. Walton, and Alice L. Walton are directors thereof and share voting and dispositive powers".[166] This refers to the Walton Family Foundation, which is: a) funded by Wal-Mart profits, dividends, and appreciation in stock price, b) a tax-advantaged shell/ conduit, c) a method of consolidating voting power, and d) a means of engaging in and maintaining oversight of ideological and philanthropic endeavors.

7.2.Who Controls Wal-Mart's Board of Directors?

Control is established by setting the rules of the game. In order to identify who controls the firm, one must look at the appointment, removal, and voting rules found in the footnotes of proxy statements, amendments to SEC filings, and amended articles of incorporation. At Wal-Mart, the legal structure allows for power and control to stay within the Walton family in the event of the death of a family member. When John Walton died unexpectedly in June 2005 in a plane crash, Jim C. Walton replaced him on the board of

[165] Schedule 13G, Amendment No. 25, Wal-Mart Stores, Inc. No. 931142-10-3, Filed 12/31/05, p.12, www.sec.gov/archives/edgar/data.
[166] Footnote 2(e) to attached Schedule A, "Beneficial Ownership of Common Stock" of Schedule 13G, Amendment No. 25, Wal-Mart Stores, Inc., No. 931142-10-3, Filed 12/31/05, according to Rule 13d-1(d) of the Securities Exchange Act of 1934.

directors at Wal-Mart, joining Chairman S. Robson Walton to ensure at least two family members sit on the board at all times. Stan Kroenke was a third family member on the board of directors before he left in May of 2001.[167]

At most companies, board members can be elected even with only one shareholder vote, because shareholders can vote "yes" or "withhold" and the withhold votes don't count, yet existing theoretical and formal models of the corporation generally assume directors hold equal power. [168] Not all directors have equal powers at Wal-Mart, as family members enjoy greater control than non-family members. Walton heirs on the board attain greater removal and appointment power than the remaining independent directors at Wal-Mart Stores, Inc.[169] When a replacement director is chosen, only the remover—the Walton heir—is allowed to choose a replacement. The Walton family is not mentioned by name in the bylaws, but rather via reference to the Certificate of Incorporation—a document that is not available on the Wal-Mart or SEC websites—or as the beneficiaries of more than five percent stock, of which there are only Walton family members.

7.3.Management and Governance at Wal-Mart

Wal-Mart is not an enterprise that is passively owned by heirs who no longer associate themselves with the business. When asked "What is the Walton family's perspective on Wal-Mart today?" Chairman and Director S. Robson "Rob" Walton replied: "… the

---

[167] Moore, Paula, "Kroenke's Wal-Mart Ties Becoming a Little Looser", Denver Business Journal, May 25, 2001.

[168] "Democracy in the Boardroom," *Comstock*, April 13, 2006. A distinction is often made between directors who are insiders, or management, and those who are independent, or non-management. Family status and ownership stakes represent additional dimensions to consider when evaluating control over the board, management, and firm.

[169] "The Amended and Restated Bylaws of Wal-Mart Stores, Inc., Effective as of March 3, 2005," p. 8, www.walmartstores.com.

Walton family has never felt better about the company and our future."[170] From this comment it is evident that the identity of the family and the firm is blurred in the minds of the Chairman and other family members. Such identification would stimulate a desire to retain control over important strategic decisions at the firm. These strategic decisions and control by the family include the corporation's philanthropic and political contributions, as Rob notes: "I have no doubt that Wal-Mart's level of giving and the way it is directed reflects my parents' priorities."[171]

One way of retaining family control is to keep a close reign on management. One factor that earned Wal-Mart the title "Most Admired Company" on *Fortune* magazine's list in both 2003 and 2004 includes its policy of promoting from within the firm. Wal-Mart exhibits an unusual willingness to promote to executive management those that do *not* have degrees from Wharton, Harvard, or Stanford. The Walton family supported Sam Walton School of Business at the University of Arkansas, which specializes in retailing and consumer products marketing, logistics, and supply chain management provides a continuous pool of loyal managers for Wal-Mart. The Walton family prefers locally raised and educated CEOs such as Lee Scott or David Glass, loyal to both the company and the family.

The management and operations of Wal-Mart make the headlines of multiple newspapers on a nearly daily basis, and attract the attention of scholars from UC Santa Barbara to Yale.[172] The common focus when analyzing the chain's enormous economic

---

[170] Wal-Mart 2005 Annual Report, p. 15.
[171] Wal-Mart 2005 Annual Report, p. 15.
[172] UC Santa Barbara held a conference in April of 2004, "Wal-Mart: Template for Twenty-First-Century Capitalism." UC Professor Nelson Lichtenstein has edited a compilation of those papers into a 350 page book by the same name (2006) targeted to a wider public audience, which is highly critical of the firm. Scholars in the text overlooked the roles played by current heirs and largest owners of the firm. Corporate governance and ownership structure are not discussed. James Hoopes, "Growth Through Knowledge:

power, the so-called "Wal-Mart effect", or more specific strategies and actions, is its executive management, and specifically, the most visible representative: non-family member and CEO, Lee Scott. The story often told is one of a faceless capitalism: an enormous corporation led by powerful independent executives, fueled by huge salaries, who make all of the big decisions in the firm. Those who express concern with Wal-Mart's political power also point the finger at management.

Anti-Wal-Mart activists waste their resources attacking independent managers such as Mr. Scott, who is not the principal, and thus does not hold ultimate power over the firm's strategic positioning and long-term decision making. A thorough investigation of the firm's ownership and corporate governance structure and breakout of actual political contributions reveals a different story. The CEO does not have a material ownership position in the firm, nor do other non-family executives. Further evidence that independent management does not control Wal-Mart or always drive its strategy is found in the pattern of political contributions.

7.4.Political Contributions

Political contributions from independent managers of the firm at Wal-Mart are minimal. Between 1990 and 2004, CEO Lee Scott contributed a total of $2,000 as an individual (to George W. Bush in 2004) and nothing directly to Members of Congress or their campaigns. In contrast, note the following patterns present in contributions from the principal owners in Table 24: 1) indirect contributions to 527 organizations, 2) extensive

Wal-Mart, High Technology, and the Ever Less Visible Hand of the Manager," Chapter 4, compares Wal-Mart's independent executive managers to the founding owners of Carnegie Steel, DuPont, and Standard Oil. Without determining first that all four of these are family-controlled firms, he inappropriately applies a managerial theory of the firm to the analysis of Wal-Mart.

use of other entities and relatives to fund the same party and/or political organization, 3) uniformity in amounts when multiple family members contribute.

Table 24: Large Individual Contributions from Family Members. Individual Family Member Political Contributions: $25,000 and Up [3/31/2000 to 10/20/2004]

Contributor	Occupation	Date	Amount	Recipient
WALTON, ALICE	ROCKING W RANCH	10/20/2004	$1,000,000	Progress for America (527)
WALTON, ALICE	ROCKING W RANCH	10/7/2004	$1,000,000	Progress for America (527)
WALTON, ALICE	ROCKING W RANCH	8/3/2004	$600,000	Progress for America (527)
KROENKE, STANLEY COLUMBIA,MO 65203	THE REALTY INC	10/19/2000	$220,000	RNC/Repub National State Elections Cmte
WALTON, S ROBSON MR BENTONVILLE AR 72712	WAL-MART	11/4/2002	$150,000	Republican National Cmte
WALTON, JIM MR BENTONVILLE AR 72712	ARVEST BANK GROUP INC.	3/19/2002	$100,000	National Republican Congressional Cmte
WALTON, JOHN MR JACKSON WY 83001	WALMART	8/14/2002	$100,000	Republican National Cmte
WALTON, JOHN T BENTONVILLE AR 72712	WAL - MART	7/17/2000	$100,000	Republican National Cmte
WALTON, ALICE MINERAL WELLS TX 76067	RETIRED	11/28/2000	$90,000	Republican National Cmte
WALTON, JIM BENTONVILLE AR 72712		3/31/2000	$55,000	National Republican Congressional Cmte
WALTON, JOHN T BENTONVILLE AR 72712		9/23/2002	$50,000	Democratic Senatorial Campaign Cmte
WALTON, JIM BENTONVILLE,AR 72712	ARVEST BANK GROUP INC	10/19/2000	$50,000	RNC/Repub National State Elections Cmte
WALTON, LYNNE BENTONVILLE,AR 72712	ARVEST BANK GROUP INC	10/19/2000	$50,000	RNC/Repub National State Elections Cmte
WALTON ENTERPRISES LLC BENTONVILLE, AR		6/6/2001	$25,000	2001 President's Dinner Cmte
WALTON, ALICE L MS MINERAL WELLS,TX 76067	NONE	6/23/2004	$25,000	Republican National Cmte
WALTON, JOHN T MR BENTONVILLE,AR 72712	TRUE NORTH PARTNERS/ CHAIRMAN	6/23/2004	$25,000	Republican National Cmte
WALTON, CHRISTY R MRS BENTONVILLE,AR 72712	HOMEMAKER	6/23/2004	$25,000	Republican National Cmte
WALTON, JIM MR BENTONVILLE,AR 72712	ARVEST BANK GROUP INC./BANKING	4/29/2005	$25,000	National Republican Congressional Cmte
WALTON, JIM MR BENTONVILLE,AR 72712	ARVEST BANK GROUP INCORPORATED/BANK	5/23/2003	$25,000	National Republican Congressional Cmte

(Table continued)

Contributor	Occupation	Date	Amount	Recipient
PENNER, CARRIE W(alton) MRS BENTONVILLE,AR 72712	HOMEMAKER	6/17/2004	$25,000	Republican National Cmte
PENNER, GREGORY B MR BENTONVILLE,AR 72712	WAL-MART STORES/C.F.O.	6/17/2004	$25,000	Republican National Cmte
PENNER, CARRIE W MRS BENTONVILLE,AR 72712	HOMEMAKER	6/24/2004	$25,000	2004 Joint State Victory Cmte
PENNER, GREGORY B MR BENTONVILLE,AR 72712	WALTON ENTERPRISES/ EXECUTIVE	6/24/2004	$25,000	2004 Joint State Victory Cmte

Source: Center for Responsive Politics

None of these large individual contributions are from a corporate PACs, which is limited to contributing $1,000, $5,000 and $20,000 to candidates, national party committees, or other PACs or political organizations, respectively, per cycle.[173] Since November 4, 2002, Wal-Mart CFO and Walton Enterprises executive Greg Penner, Rob Walton's son-in-law, contributed $25,000 as Wal-Mart C.F.O. and $25,000 under Walton Enterprises in 2004. His wife Carrie Penner, daughter of Wal-Mart Chairman Rob Walton, contributed $50,000 to the Republican Party in the same year. Scholars, journalists, and campaign finance reform advocates have not yet linked these contributions, among others, to Wal-Mart Corporation.

Table 24 above is not exhaustive, and thus represents only a small sample of types of contributions from various family members—I list only a total of $3.82 million here, $2.83 of which was contributed in the 2004 and 2006 cycles.[174] Contrast these amounts to totals one would obtain by searching for contributions from individuals at “WalMart”. I searched on the opensecrets.org search engine for all individual contributions in the 2004 and 2006 cycles from individuals listing their occupation or employer as “WalMart” or

[173] These are the limits after BCRA. A table of contribution limits is provided on-line at http://www.votesmart.org/resource_govt101_07.php?q=print .
[174] A more detailed and comprehensive record is available from the author.

"Wal-Mart". The result: a total of 372 records and $342,591 from all employees (including family members listing themselves as an employee or their occupation as with the firm). In 2004, Wal-Mart Stores PAC contributed a total of $1.67 million to all federal candidates (78 percent to Republicans)—well under the $2.6 million a single family member—Alice—contributed to a single 527 organization in the same year.[175] The family clearly contributes more to politics on behalf of the firm relative to other employees or executives—individually and collectively. My purpose here is not to trace comprehensive amounts over time, or to trace contributions to a particular candidate, committee, or party (although the firm and the family clearly prefer Republicans). The motivation for the case study is to illuminate the strategies, institutions, and processes by which a family enterprise contributes to politics.

The Walton family has contributed tens of millions of dollars to political campaigns over the past two decades, and much of that funding has escaped the public eye. Non-Federal Receipts, for example, which are "Exempt from Limits", would likely be missed by the public and watch dog groups. I would estimate ninety percent of contributions from family members who are affiliated with Wal-Mart Corporation as executives or beneficiaries would be overlooked by the public and watchdog groups, as only Rob Walton (underlined in Table 25 below), who is the Chairman—although not the CEO—of Wal-Mart, is likely to be connected in any way to the firm.

---

[175] All but $21,258 of this amount were from individual donors who gave less than $200. According to FEC data released November 2, 2005 as reported by the Center for Responsive Politics at www.opensecrets.org/pacs. See top of Table 24 on page 10 for details on Alice Walton's 527 contributions.

Table 25: Example of Contributions Overlooked

Soft Money from Walton Family from 3/20/1998 to 9/10/2004		
Non-Federal Receipts "Exempt From Limits"		
Alice Walton		100,000
Jim Walton		381,000
John Walton		381,000
Lynne Walton		50,000
Rob Walton		150,000
Stanley Kroenke		224,811
Carrie Walton Penner		74,892
Greg Penner		35,000
Walton Enterprises LLC		35,000
Total	$	1,431,703
Percent likely to be missed		**90%**

7.5.Political Contributions through Tiered Ownership Structures[176]

During a period of increased public scrutiny of big box retail stores, changes in campaign finance law and uncertainty in the regulatory environment, a complex and flexible institutional structure provides many advantages. The corporation and family are able to fund political campaigns and ideological causes, while for the most part staying under the radar. Social networks and methods of identification such as the family name may enable these contributors to claim credit and potentially win influence with politicians and party elites in support of their family's economic interests. This case study provides a timely and detailed example of the complex web of political finance through a single family and its institutions acting as a unified and coordinated interest. Data mining soft-

[176] For an example of a tiered ownership structure, see page 2 of the letter enclosing mandatory Senate Public Financial Disclosure Report for Senator Diane Feinstein of California, dated July 15, 2005: "The spouse of the Senator [Diane Feinstein, D-CA], Richard C. Blum, is the Chairman of Blum Capital Partners, L.P. (BCP L.P.) and general partner of Richard C. Blum & Associates, Inc. (RCBA Inc.). Mr. Blum's ownership's interest in BCP L.P. is the general partner of several investment partnerships. Mr. Blum has an ownership interest in RCBA Inc. and in several of the investment partnerships. Additionally, the investment management firm has ownership interests in the investment partnership and some of the partnerships have investments in other partnerships. This results in a tiered ownership structure."

ware have not been able to find many of these contributions, and further, synthesize the information into a coherent whole. In order to identify and aggregate contributions from one interest group—in this case, the Walton family and their corporate interests—it is best to begin with an analysis of the tiered ownership structure of the greater enterprise.

All links in this case tie back to Walton Enterprises LLC, the tax-advantaged institution established by Sam Walton, by which the Walton family heirs maintain control over Wal-Mart. In addition to generating tax-free wealth and the capital to launch new business endeavors, the limited liability corporation provides a source of funds for making large political contributions. Contributions can be made through other Walton-founded non-stock corporations and financial entities, or through the individual heirs, who can contribute and list their occupation as homemakers, retired, none, etc. In addition to Wal-Mart and its PAC, the Waltons have used the following family owned institutions to contribute to politics over the past fifteen years: Walton Enterprises LLC, Arvest Bank, Arvest Bank Group, Arvest Bank Group PAC, True North Partners, JCL Corp., Quantum Partners, the Llama Co., Rocking W Ranch, Inc., and the Bank of Bentonville.

Venture capital and bank holding companies, via the Waltons, their PACs and employees, provide funding to Wal-Mart Stores PAC, selected leadership PACs, congressional campaigns and partisan committees. Contributions have also been made through loosely regulated venture capital firms Quantum Partners, JCL Corp., and True North Partners, where John Walton was the former Chairman. John, Jim, and Alice all have direct experience with investment banking and venture capital, while S. Robson Walton, Chairman and eldest son of Sam Walton holds a law degree from Columbia and an undergraduate degree in accounting and business. Thus the children of Sam have the requisite professional training and experience to run, or at least oversee, these complex legal and financial institutions.

Members of the Walton family and their firms' directors and executives also fund Wal-Mart's political activities by passing through contributions to a PAC affiliated with the family's bank holding company, Arvest Bank Group, and subsidiaries including Arvest Bank are 96 percent owned by the Walton family. Arvest itself is a tiered ownership structure, with parent company Arvest Holdings. Jim Walton is Chairman of Arvest Bank Group while his wife Lynne Walton has served as President. John, Helen, and Rob served as directors at Arvest Bank Group, while Jim served as Chairman. The family contributes to Wal-Mart PAC directly as well as directing funds to Arvest Bank Group (the firm). Alice, Jim, and Rob (and formerly John) Walton provide funds to Arvest Bank Group's PAC, which in turn contributes to Wal-Mart Stores PAC. While CEO of Wal-Mart, David Glass, a family friend and currently director at Wal-Mart, contributed to Arvest Bank Group PAC. Bank of Bentonville, which Sam Walton purchased many years ago, gives to Arvest Bank Group PAC.

Over the same period of time that Wal-Mart started to receive greater press coverage and became the focal point of several political issues, such as health care policy, banking, employee relations, and balance of trade, the Walton family began using their *other corporations* to contribute to political campaigns. For example, in Table 26 below, four Walton entities independently made the top ten federal political contributions list in the 2004 election cycle for the state of Arkansas. Nearly one quarter of Walton federal contributions, State of Arkansas in 2003-2004, came from Walton-controlled corporations *other* than Wal-Mart: Arvest Bank, Arvest Bank Group, and True North Partners.

Table 26: State of Arkansas Contributions from Walton Owned Corporations[177]

Rank	**AR: TOP CONTRIBUTORS,** 2003-2004 Source: Center for Responsive Politics	Amount
1	Wal-Mart Stores	$2,119,432
4	Arvest Bank	$259,428
6	Arvest Bank Group	$217,907
8	True North Partners	$100,000

7.6.Staying Out of the Spotlight

For the most part, the family members avoid associating the Walton name too closely with Wal-Mart stores and advertising their role and wealth gained from the firm's operations—as evidenced by their low profile in the press, as well as complex and tiered ownership structures. The family is not completely removed from the public eye, however, as two family members serve on the board of directors of the publicly traded firm, books are published on the legacy of Sam Walton, and Forbes and Fortune attribute the Walton fortune to an inheritance from Wal-Mart.[178] The extent of ownership and control of the Walton heirs, as well as their political and ideological contributions, has been largely overlooked, which is somewhat surprising given the publicity and political discussion the enterprise generates.[179]

---

[177] According to the Center for Responsive Politics, "[Table] …show[s] the biggest contributors giving PAC and individual donations to federal candidates and parties in this state. The contributions came not from the organization itself, but from its PAC, its individual members, owners, or employees, and those individuals' immediate families. Totals listed under "top contributors" show only those dollars raised by federal candidates and parties within this state. They do not necessarily represent the total for the organization nationwide - nor are the contributors necessarily based inside the state itself." Downloaded May 5, 2009 at http://www.opensecrets.org/states/donors.php?state=AR&cycle=2004.

[178] Forbes (2004), however, was incorrect in stating that the other siblings (besides S. Robson) do not participate in the affairs of Wal-Mart. This contradicts facts, such as documents filed with the SEC and interview admitting regular family meetings are held to discuss oversight of the firm [Serwer (2004)].

[179] The closest attempt thus far made by The Institute on Money in State Politics: Chris Synness, "Names in the News: Wal-Mart and Its Founding Family," Aug. 2, 2004.

> Much of the confusion about the extent of family control derives from the fact that mechanisms used by families to exert their influence over management (voting, trusts, foundations, holding companies) are deliberately designed to keep the identities of shareholders hidden.[180]

Much has been written about the observed activities, such as the public relations efforts, lobbying activities, and PAC contributions. Discovering the origins of a multinational public corporation's political strategy, however, is a more daunting task. The press and scholarly analysis is silent about the ownership structure and the role played by family members is virtually unknown. It is rational for principal owners of large firms to protect themselves and their families from potentially negative publicity by delegating much of the management of the firm to agents. The same is true with political activities. Lobbyists, public relations professionals, and PAC managers are hired agents. For both the source of the political strategy and possible benefits gained from political activity, one must dig deeper and find the principal(s).

Many principal owners lack visibility to the public and the common stockholders, though they retain significant influence over critical decisions, including the firm's political strategy and ideological contributions. Principal owners of firms hire trusted accountants and lawyers to create holding companies, trusts, partnerships, and foundations to grow wealth, preserve capital, avoid estate and income taxes for the family, minimize federal and state tax liabilities for the corporate entities, retain family control, and polish the family firm name.[181] Although the main purpose in setting up these structures is usually wealth preservation (tax minimization) and ensuring control remains in the family,

[180] (Lansberg, Perrow, and Rogolsky 1988 3)

[181] (Kilbourn and Kilbourn 2003)Walton family entrusts top corporate finance and securities law firm Cravath, Swaine & Moore LLP with the Walton Family Foundation. These are lucrative lines of consulting business for accounting firms, who hire lawyers, CPAs, and MBAs to design and sell these legal and complex structures to corporate clients.

an additional feature of tiered ownership, pass through entities, and trusts is the ability to fund political campaigns in a way that can signal the recipient without being easily traceable by the public, FEC or watchdog groups.

7.7.Campaign Finance Tactics

The extended Walton family, as well as the four direct heirs, donate from multiple locations. Owners of firms often live in and contribute through multiple residences and hire the accountants and lawyers necessary to establish holding companies in multiple locations. Therefore, what is reported by watch dog groups, who typically data mine contributions by zip code or a single business or personal residence address, is understated.

In addition, the Walton family contributes under multiple names and occupations. Daughter and heiress Alice contributes to politics under the names of Alice Walton, Alice L. Walton, Alice Walton III, Ms. Alice Walton, and Mrs. Alice Walton and contributes under the following occupations: 1) retail intern, 2) The Llama Co. (investment bank, of which she is the founder), 3) rancher, 4) retired, 5) self-employed/ investments, 6) Rocking W. Ranch, Inc., 7) entrepreneur, 8) Bentonville Public Schools substitute teacher, 9) Llama Sports Management, 10) homemaker, 11) housewife, 12) none, 13) n/a, 14) Wal-Mart, and 15) Walton Enterprises. Chairman of Wal-Mart and Sam Walton's eldest son donates in the name of S. Robson Walton, Robson Walton, Rob Walton, Samuel R. Walton, and S R Walton. Carrie Walton Penner, daughter of S. Robson Walton and married to Wal-Mart's CFO (Chief Financial Officer), is also listed as Carrie Penner. Even though Mrs. Walton-Penner lists herself as a homemaker, she also lists herself as an education consultant, and was paid $33,725 under contract with Wal-Mart for international operations consulting from August 25, 2004 until January 31, 2005. Several other family members provide multiple occupations, names, and titles under which they contribute as well. A global search under "Wal-Mart" or a particular executive, family member, zip code, or occupation would only return a fraction of the total contributions. In order to find all of these, I first identified the names and zip codes of all extended family members, and their employment and ownership stakes at Wal-Mart and other family-controlled corporations. Next I conducted searches on the campaign contributions activity of each individual, cross referencing with each institution and zip code. Finally, I traced the flow of money through corporations, banks, foundations, trusts, partnerships, individuals, PACs, and 527 organizations.

Further innovation is required in order to be able to claim credit for campaign contributions and stay under the radar of anti-Wal-Mart activists and campaign finance watch dog groups. Information can be communicated to politicians and campaign managers by "signaling donations". Family members often contribute identical amounts (e.g. $1,111 donated repetitively by Greg and Carrie Walton Penner, Alice and Christy Walton; $1,487 multiple times by Lynne and Christy Walton in the same cycle).[182]

7.8.Conclusion

As this case reveals, principal owners can be the originators and coordinators of political and ideological strategy and the main contributors, and not their agents, the hired managers. Complex legal structures, in part, perpetuate the assumption that Dahl called

---

[182] Other methods include donating in repeating intervals of declining increments, or repetitive or symbolic dates, or by adding specific indicators in the occupation as a signal to certain recipients. I have not seen wide use of these techniques at Wal-Mart or by the Walton family.

"incontrovertible": that ownership and management have been "split apart".[183] Family-controlled firms have the necessary incentives and institutions to coordinate political action such as trust, coordination mechanisms, and redundancy. Legal institutions act as shelters or pass through entities by which founders and their families can fund the campaigns of legislators, judges, and executives at all levels of government. Officeholders and their agents—lawyers, lobbyists and accountants—make, interpret, and enforce the rules of the campaign finance game.

Compliance managers and auditors at accounting firms are hired to ensure that laws are not broken, the proper forms are filed, and new campaign finance rules are put into practice. Often these same professionals work with consultants, accountants, lawyers, and lobbyists at the same or partner firms to create strategies and instruments for their clients—firms, politicians, and high net worth individuals—to stay one step ahead of the reform game. The creation of foundations and trusts is highly lucrative for high net worth clients—including corporate founders, heirs and private bankers—for tax savings, wealth preservation, and control over the firm (through vote shares when the foundation is funded by voting stock). In addition, establishing a foundation improves the legitimacy and reputation of the family name and firm through philanthropic giving and legacy-building—leaving something immortal behind, such as a family name on a football stadium or auditorium. A separate fund also provides the ability to contribute to ideological and political causes of one's choice. Legislated rule changes on contributions, oversight committees, and watchdog groups alike have not removed the fundamental ex-

[183] (Dahl 1970)(Weissman 2009, 1-231)

isting incentive structures to innovate on supplying highly-motivated political candidates and parties, who demand (multi-) million-dollar campaign war chests to win elections.

As the Walton family case study illustrates, while not always visible, families continue to play powerful roles in the development and decision-making of the corporations they own. Yet they are infrequently studied and rarely evaluated as a unit or special interest group. These findings suggest further research is needed into the ways founders and heirs exert influence over a corporation's directors and executives, and how they use institutions to engage in political activity.

FINIS

Until this dissertation research began, political scientists omitted the variable of ownership structure from their theoretical and empirical models. This variable holds important implications for the study of corporate political action, campaign finance, interest groups, and, I will argue in this conclusion, the political system. It has well been established that the Congress and the voters have become increasingly ideological and politically polarized over the last two decades.[184] What I have shown here is that perhaps the hardest case institutions—corporations—are also divided along party lines, when they are owned and controlled by a founder or family. The organization and control of firms, therefore, represents a promising and under-explored area for political science and political economy.

A finding that the largest donors to 527 organizations were former large soft money donors supports the hydraulic theory of campaign finance, which states that when the political money supply is cut off from one source, strategic actors will find another way to finance their political activities. Many Principal Owner firms gave through multiple 527s as well as through pass through entities that are nested and tiered, which obscures the primary contributors, as well as their economic interests, strategic objectives, ideological agendas, coordination with parties, the media, and other top fundraisers from the public view.[185] In other words, opacity is optimized. Firms often hire the best accounting and

---

[184] (Jacobson 2008; Jacobson 2003, 1-36)(Poole, Rosenthal, and Poole 2007; McCarty, Poole, and Rosenthal 1997)

[185] Principal Owner firms are overrepresented in the lists of "megadonors" (those who comprise the top lists of individual donors), and via family members, alternative entities, and networks. These firms collectively

law firms to optimize opacity, which are core competencies of those professions. Throughout my dissertation research, I untangled many webs. A background in corporate accounting was helpful.

What C. Wright Mills said in 1956 appears to be an apt description of the current business environment:

> Today, the success of the corporation depends to a considerable extent upon minimizing its tax burden, maximizing its speculative projects through mergers, controlling government regulatory bodies, influencing state and national legislatures. Accordingly, the lawyer, *lobbyist, and accountant* [*my emphases*] *are* becoming - pivotal figure*s* in the giant corporation.[186]

My findings suggest some support for such elite theorists as well as sociologists, who generally find similar characteristics and common bonds among the political and economic elite and dominant influence of the "wealthy capitalist class" in both the Republican and Democratic parties.[187] The degree of unity among political and economic elites does appear fairly strong in terms of a broad consensus in support of free trade and a clear preference for the market system, albeit tempered with various degrees of government intervention. There may be partisan quibbling over marginal tax rates, the importance of global warming as a policy issue, and the extent government should intervene to subsidize and protect certain industries. Parting of ways among elites over the details of economic policy, however, does not resemble a clash of economic classes, with one party demanding

---

contribute dozens of times that which is allowed in hard money as an individual donor. For example, of the top twenty organizations (according to the Center for Responsive Politics) that contributed between $3.3 and $51.45 million each to 527s in 2004, three were unions, two were tiered 527s, two were heirs of corporate dynasties (Pritzker-Hyatt, Rockefeller-Standard Oil), and one was a traditional special interest group (Sierra Club). Twelve of the twenty top contributors were corporations in the oil, savings and loan, mortgage lending, entertainment, real estate/ construction, technology, consumer products, insurance and global finance/ private equity industries.

[186] (Mills 1959)

[187] (Mizruchi 1990, 213-240; Domhoff 1997; Domhoff 1972; Burch Jr. 1972; Zeitlin 1974, 1073-1119)

redistribution of wealth, property, and privilege, contrary to some rhetoric, claims, and hopes.

In many other respects, however, my findings of partisan polarization support the pluralists' claims. Like the general public and Congress, partisan business owners may have substantial cleavages in their opinions of the Iraq war and the environment, as well as social or moral issues, such as same sex marriage, legalized abortion, regulation of drugs and pornography, and religious expression in schools and other public places.[188] These primarily non-economic, ideological differences, at least in part, drive the political preferences of some hedge funds managers and founders of multi-million and billion dollar corporations, as noted by their donations to ideological organizations.[189]

The splitting of elites into two groups, Democrats and Republicans, includes geographic divides at the micro or community level, social networks, associations, media, associations, and private and public institutions.[190] Finding significant partisan and ideological divides among economic elites suggests support for Dahl and the pluralist school, in this respect. There remains diversity of opinion, and thus evidence of a healthy pluralism, as corporations and the elite are divided along party lines. Yet the economic and social characteristics of the top funders of political communications, parties, and campaigns remain remarkably uniform, with many comprised of families on the Forbes' lists of wealthiest individuals, who are owners of firms.

---

188 (Jacobson 2008)

189 In investigating the sharp partisan divides of principal owners across several industries, I can only posit that personal preferences of the owners over these non-economic policies are driving the divide. For example, these ideological orientations seem to divide the principal owners of Costco from the principal owners of Wal-Mart.

190 This includes clubs and even universities (e.g. one does not find many Democrats at Pepperdine or BYU, nor Republicans at UC Santa Cruz). As Keith Poole and Gary Jacobson have pointed out, this leads to even greater polarization, as groups become more isolated and talk past each other instead of engaging in dialogue from a common Archimedean point.

Where there is a divide over economic policies, such as universal health care, or the right to join a union, the difference is similar to that described by C. Wright Mills fifty years ago between the "old guard" practical conservatives (today's Republicans) and the sophisticated, more flexible, "business liberals" (today's Democrats), who…

> …have taken over and used the dominant liberal rhetoric for their own purposes, and because they have, in general, attempted to get on top of, or even slightly ahead of, the trend of these developments, rather than to fight it as practical conservatives are wont to do.[191]

The continued dominance of both political parties, however, by economic elites, both internally—through the politicians themselves—and externally—through interest group influence—suggests a resounding upper class accent in the pluralist heaven.[192] The degree to which this is problematic—or not—is a philosophical and normative question that is beyond the scope of this dissertation.

Directionality remains an issue, as it is not always clear if it is business or political elites who initiate the relationship. What is clear is that the relationship between political and economic elites is deeply intertwined, co-penetrating and co-dependent. We do not know exactly what is driving the strong and loyal partisanship of business and financial elites. One plausible explanation is sincere ideological positions held by the founders and their families. In many cases, this theory appears to hold water, as the top donors also contribute substantial amounts to philanthropic organizations and foundations with mission statements in line with their left or right-leaning ideology. For example, the Waltons of Wal-Mart are loyal supporters of the free school choice or voucher movement, and

---

191 (Mills 1959)

192 For the approximate net worth and stockholdings of members of Congress and the associated potential conflicts of interest see http://insidertrading.procon.org/viewresource.asp?resourceID=001580. Note seven of the ten wealthiest members of the Senate are Democrats. Allusion to Schattschneider (1974, 34-35).

George Soros of the family-controlled Quantum Fund and Peter Lewis of the family-controlled Progressive Insurance, both billionaire seed financiers of the largest 527s in 2004, are also marijuana legalization activists.[193] Contributions to non-profit ideological organizations appear to be sincere in these and other cases. Regardless, political scientists might be concerned for three reasons.

First, the funding and use of non-profit organizations for political ends is socially inequitable and highly concentrated, as all of the top donors are billionaires or multimillionaires (see Table 20 on page 118). These organizations fund political communications, and messages may reflect the personal preferences of a minute elite, which might be far from the median voter, yet influential in moving public opinion. The concern is heightened when an interest group bypasses the political party in order to have direct contact with the voter.

Second, expressing sincere ideological preference and attempting to buy access, influence, or political insurance are not mutually exclusive, and may be synergistic. Politicians asking wealthy donors to contribute to their favorite charity and later either person leveraging that relationship for quid pro quos is not a new trick in the money game. Third, the sheer amount of resources that are contributed and more, that are available to contribute—latent economic and hence political power—of these 527 donors may indirectly buy policy biased in favor of the contributors. It may be the case, and indeed appears to be the case much of the time, that unlimited contributions to non-profit organizations represent a way around campaign finance limits, and are effectively a replacement for soft money,

---

[193] Gizzi, John, "Peter B. Lewis: 'Aviator' of the Left?" Foundation Watch, Capital Research Center, available at : http://www.capitalresearch.org/pubs/pdf/FW0505.pdf. See Chapter 7 for more and sources on Walton family philanthropy.

which was banned under BCRA. Contributions to 527s are not the only loophole, although they are my dependent variable in chapters four and six.

When I was collecting the data, matching the individual donors to their economic interests, analyzing my findings, and eventually publishing a paper, I knew relatively nothing about the impending housing, liquidity, and economic crisis. Looking back, I see the overrepresentation of 527 megadonors from mortgage banking, mortgage lending, hedge funds, real estate, insurance, and global private equity (see Table 14 on page 100 and second footnote of this conclusion). A future project includes researching whether top donors received more governmental assistance (bailout money, emergency loans, TARP funds, etc.) than non-donors or small donors. The finding of a strong positive relationship between amount of contribution and amount of assistance would suggest the need to focus on funding mechanisms other than PACs to find payoffs.

Chapter four is the end product of a two year data collection and analysis project, during which I identified the ownership structure of each of approximately 1,500 firms. The sheer number of founder and family controlled firms that dominate the financial, economic, and political landscape in the U.S. belied much of what I had been told in business school and read in political science and political economy. [I have published a book chapter that delves further into the reasons why founder and family controlled firms are underestimated and understudied in American universities.]

Technological advances, globalization, innovation, and recent economic and financial turmoil has led to rapid and substantive change to the political economy of the U.S., if not globally. For example, hedge funds are a multi-trillion dollar industry that has contributed tens of millions of dollars to legislators and the executive branch, and spent millions more on lobbying.[194] Yet the hedge fund industry has not been assigned its own standard industrial classification "SIC" code, nor are hedge funds or private equity funds included in the vast majority of the literature or studies in economics, political science, and management, as these are not part of the publicly traded S&P 500 or 1000, and thus do not have easily downloadable data. I followed this industry for two years and paid for a subscription to PrivateRaise.com in order to find more information about these funds, the majority of which are controlled by a principal owner. The largest private equity and hedge funds are included in the population from which I sample in chapter four.[195] Far more research is needed in this area, and I plan to do more in the future.

Although representatives from both Agent Manager and Principal Owner firms may contribute to politics for personal or familial gain or to enhance business opportunities and minimize threats for competitive advantage, the principal owners of firms will generally have greater leverage, resources, and prominence in their social networks than hired non-family, non-owning executives. While making large contributions for expressive and social reasons may not problematic for democracy, these last two reasons or perks for contributing appear more problematic for democracy, as well as for free markets. The challenge for policy makers is protecting the rights to free political expression while addressing the threat and appearance of corruption and influence. The dilemma is that we cannot tell *a priori* whether contributions, including those made indirectly through 527s and 501(c)s, are primarily or exclusively made for expressive or social reasons versus

[194] Industry profiles can be found at http://www.opensecrets.org/industries/index.php Even more troubling are the apparent conflicts of interest in appointments to the executive branch and the revolving door between Wall Street and D.C.
[195] I note which of the top contributors to 527s are private equity and/or hedge funds in Addendum 3, found at the end of Chapter 6.

personal, familial, or corporate gain. Collecting data on motivations *ex post* is highly problematic. Donors and their recipients want to be seen in the best light, so interviews and surveys provide biased answers. The observed rise in non-market activity, which includes philanthropic contributions as well as political contributions, the relationship between them, and their role in gaining political advantage warrant further investigation. This is particularly the case since non-profit organizations played a much bigger role in fundraising in the 2008 election cycle.[196]

The last question my research may raise is, “does it matter”: What is the effect of these campaign contributions? Existing scholarship suggests we need not be concerned.[197] Yet a lack of political will and incentives to enforce campaign finance law and track down *quid pro quos*, the “under the radar” nature of influence and favor buying, and the tendency to focus resources and attention on the most egregious cases results in a dearth of data on the subject in the U.S. As quantification and large-N samples are requirements for political scientists to publish, these studies are typically not an area of focus. This does not mean that the N is not large; we cannot conclude that influence buying and illegal or “legalized corruption” is not a problem without these data at all levels of government. Identification of the social networks and improving our understanding of the relationships and interdependencies among economic and political elites is an important first step in identifying the payoffs to and effects of corporate money in politics.

Opacity is critical to efficacious influence buying, quid pro quos, and solicitation by parties and candidates (e.g. “hold ups”). Strategic actors, both political and economic,

---

196 Jansen, Bart, “Nonprofits Wield Some Serious Campaign Cash,” *CQ Today Online News*, March 8, 2009, downloaded 3/9/2009, at http://www.cqpolitics.com/wmspage.cfm?docID=news-000003069470.
197 (Boatright et al. 2006, 112-138; Ansolabehere, De Figueiredo, and Snyder 2003)

are aware they are being actively scrutinized by media and watchdog groups and therefore modify their behavior accordingly. Yet by focusing exclusively on PACs, as these data are easier to download and interpret, scholars stay under the lamplight where reporting requirements are the most rigorous and limitations on contributions are the strictest and most enforced. Unsurprisingly, the discipline does not find compelling evidence of a relationship between campaign contributions and outcomes, such as changes in stock prices or in how legislators vote.

An improved approach would include looking in the dark for pieces of the puzzle. Improvements in constructing measures of corporate political action and attention to individual firms and major actors within the firm is needed in order to: a) do a better job at capturing variation among individual firms, b) identify and understand corporate political strategies, c) trace money flows to political parties, candidates, political organizations and their agents, and d) evaluate how contributory instruments and tactics change in response to political, regulatory, and legislative change. How corporate political action is constructed and measured itself, therefore, warrants further discussion.

APPENDICES

Appendix A: Table of U.S. Based Family Controlled Firms

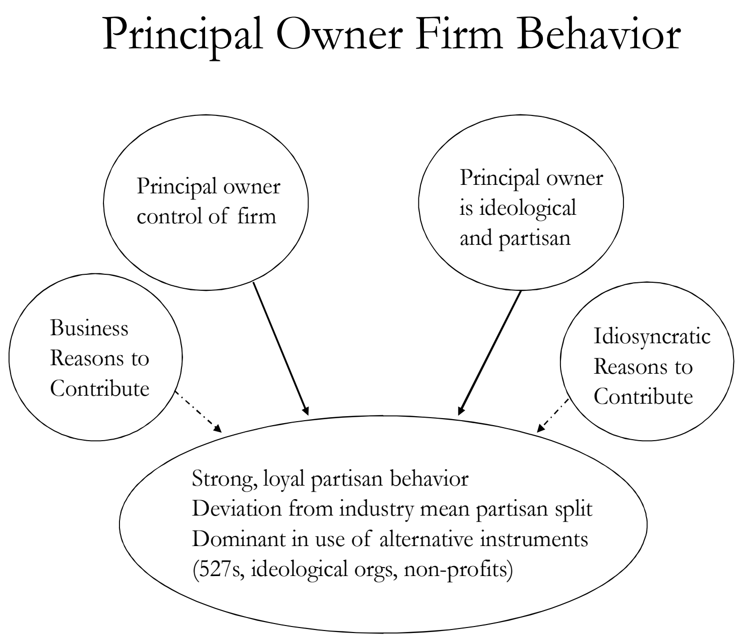
U.S. Family Owned and Controlled Companies			
They span all industries, including those which are highly regulated.			Approx
They come in all sizes, including the world's largest enterprises.			($ Bil.)
Year: 2005-2006			Annual
C Corporation	Family name	Industry	Revenues
A.G. Edwards	Edwards	stock brokerage	$3
Advance Publications	Newhouse	media	$5
Aflac	Amos	insurance	$15
Alberto-Culver	Lavin and Bernick	personal care products	$3
Alticor (Amway)	Van Andel and De Vos	household products	$5
American Century	Stowers	mutual funds	$2
American Financial Group	Lindner	insurance	$5
American Greetings	Sapirstein	greeting cards	$2
Anheuser-Busch	Busch	beer	$14
Apollo Group	Sperling	educational services	$3
Archer Daniels Midland	Andreas	agricultural products	$38
Barnes & Noble	Riggio	booksellers	$6
Bechtel	Bechtel	construction services	$12
Brown-Forman	Brown	distillery	$2
Cablevision Systems	Dolan	cable t.v.	$4
Campbell Soup	Dorrance	food products	
Cardinal Health Inc.	Walter	health care and drugs	$84
Cargill	Cargill/ MacMillian	global commodities	$60
Carlson	Carlson	hotel conglomerate	$2
Carnival Corp and Carnival plc	Arison	cruise lines	$23
Cincinnati Financial Corp	Schiff	insurance	$5
Cintas	Farmer	industrial services	$4
Clear Channel Communi-	Mays	broadcasting	$8

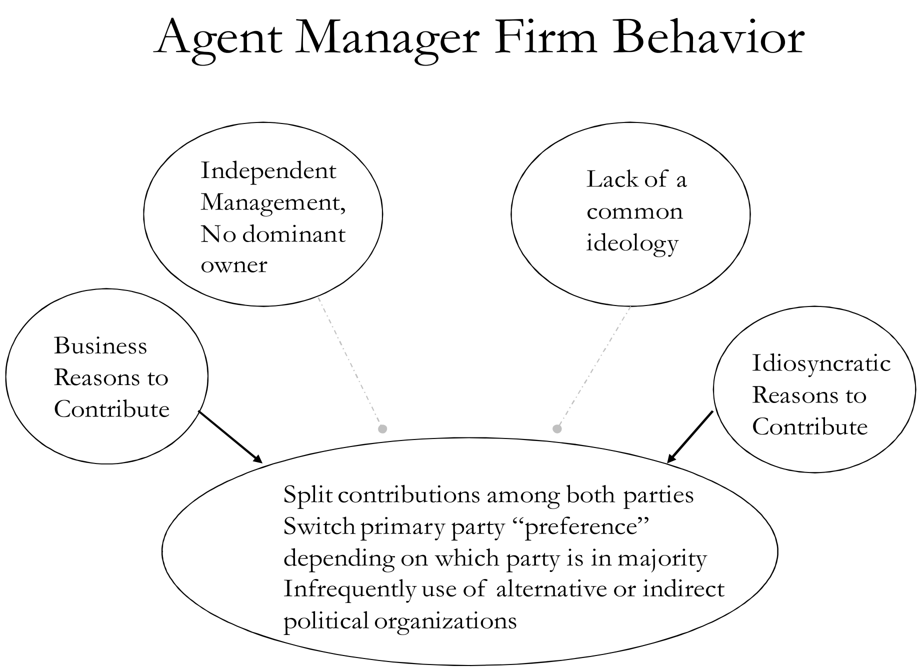
cations			
Comcast	Roberts	cable	$25
Constellation Brands	Sands	distillers and winery	$5
ContiGroup	Fribourg	food conglomerate	$18
Corning	Houghton	materials	$5
Cox Enterprises	Cox	telecom conglomerate	$12
Danaher	Rales	industrial equipment	$9
Devon Energy	Nichols	energy	$11
Dillard's	Dillard	department stores	$8
Dollar General	Turner	retail stores	$9
Dow Jones (WSJ)	Bancroft	newspapers; media	$2
Duchossois Industries	Duchossois	racetracks; rail, military equip	$2
E&J Gallo Winery	Gallo	wines	$2
EchoStar	Ergen	satellite TV	$9
Enterprise Rent-A-Car	Taylor	car rentals and leasing	$7
Estee Lauder	Lauder	cosmetics	$5
Family Dollar	Levine	retail stores	$7
Fidelity Investments (FMR)	Johnson	investment banking	$9
Forbes	Forbes	media	
Ford Motor Co.	Ford	automobiles	$165
Franklin Resources	Johnson	mutual funds	$5
Gap, The	Fisher	apparel stores; ecommerce	$16
General Dynamics	Crown	aerospace; defense	$24
Gordon Food Service	Gordon	food distributor	$3
H Group Holdings	Pritzker	holding co for Pritzker enterprises	$2
H&R Block	Bloch	tax and other services	$5
H.E. Butt Grocery	Butt	food stores, bakeries	$10
Hallmark Cards	Hall	greeting cards, stores	$5
Hasbro	Hassenfeld	toys, home entertainment	$3
Hearst	Hearst	media	$4
Hoffman-La Roche	Hoffman	pharmaceuticals	$26
Huntsman	Huntsman	chemicals	$9
Illinois Tool Works	Smith	industrial equipment	$10
Imperial Sugar	Kempner	sugar refiner	$2
J.B. Hunt	Hunt	trucking	$3

J.F. Shea	Shea	homebuilder	$2
Jabil Circuit	Morean	electronics	$4
JM Family Enterprises	Moran	auto dealership	$8
Johnson Diversey	Johnson	floor care, hygiene	$3
Kelly Services	Kelly/ Adderley	business services	$5
Kinder Morgan	Morgan	oil pipelines	$13
Knight Ridder	Knight and Ridder	media	$3
Koch Industries	Koch	oil and gas; other	$80
LeFrak Organization	LeFrak	real estate; home builders	$4
Levi Strauus	Haas	jeans mfg	$5
Loews	Tisch	conglomerate	$17
Longs Drug Stores	Long	drug stores	$5
Marmon Group	Pritzker	mining equipment; railroad cars	$6
Marriott	Marriott	hotel, timeshares, gaming	$12
Mars	Mars	food processing	$17
Masco	Manoogian	building materials and stores	$13
McClatchy	McClatchy	media conglomerate	$1
McGraw-Hill	McGraw	publishing, advertis-ing	$6
McWane	McWane	hydrants, pipes	$2
Meijer	Meijer	retail; groceries	$11
MetLife	Echer	insurance	$46
Milliken & Co.	Milliken	textiles	$4
Molex	Krehbiel	computer parts	$1
Molston Coors	Coors	beer	$6
Murphy Oil	Murphy	oil	$4
Neiman Marcus	Smith	department stores	$3
New York Times	Sulzberger	newspapers	$3
News Corp.	Murdoch	media conglomerate	$17
Nordstrom	Nordstrom	clothing stores	$8
Overstock.com	Byrne	dot com commerce	$1
Ownes Corning	Corning	materials	$5
Perdue Farms	Perdue	poultry	$3
Perot Systems	Perot	technology	$2
Port of Seattle	Dinsmore	ports	$1
Publix Super Markets	Jenkins	supermarkets	$16

Qualcomm	Jacobs	technology	$3
S.C. Johnson	Johnson	consumer products	$5
Schneider	Schneider	trucking	$3
Sierra Pacific	Emmerson	lumber	$2
Simon Property Group	Simon	real estate development	$3
SSA	Smith	frieght handler	$1
Stryker	Stryker	medical products	$3
Toll Brothers	Toll	luxury home builder	$3
Tyson Foods	Tyson	chicken	$24
Viacom	Redstone	media conglomerate	$27
Wal-Mart Stores	Walton	retail	$250
Warner Brothers	Ochs	entertainment	$42
Warner Music	Bronfman	media	$4
Washington Post	Graham	newspapers	$3
Weyerhaeuser	Weyerhaeuser	timber products	$19
Winn-Dixie Stores	Davis	supermarkets	$12
Wm. Wrigley Jr. Co.	Wrigley/ Offield	food, gum	$1
Non-U.S. Domiciled with U.S. presence (a few examples)			
C Corporation	Family name	Industry	Revenues
Merck	Merck	Pharmaceutical	$23
Novartis	Landolt	Pharmaceutical	$41
Roche	Hoffman, Oeri	Pharmaceutical	$26

Appendix B: Diagrams of Two Types of Firm Behavior





REFERENCES

Ainsworth, S. 1993. Regulating Lobbyists and Interest Group Influence. *The Journal of Politics* 55, (1): 41-56.

Alt, J. E., F. Carlsen, P. Heum, and K. Johansen. 2003. Asset Specificity and the Political Behavior of Firms: Lobbying for Subsidies in Norway. *International Organization* 53, (1): 99-116.

Anderson, R., and D. Reeb. 2004. Board Composition: Balancing Family Influence in S&P 500 Firms. *Administrative Science Quarterly* 49, (2): 209–237.

Anderson, R. C., and D. M. Reeb. 2003. Founding-Family Ownership and Firm Performance: Evidence from the S&P 500. *The Journal of Finance* 58, (3): 1301-1328.

———. 2003. Founding-Family Ownership, Corporate Diversification, and Firm Leverage. *The Journal of Law and Economics* 46, (2)(October): 653-84.

Ansolabehere, S., J. M. De Figueiredo, and J. M. Snyder. 2003. Are Campaign Contributions Investment in the Political Marketplace Or Individual Consumption? Or "Why is there so Little Money in Politics?" *MIT Sloan School of Management Working Paper* 4272-02.

Bauer, R. A., I. de Sola Pool, and L. A. Dexter. 1963. *American Business and Public Policy: The Politics of Foreign Trade*. New York: Atherton Press.

Baysinger, B. D., G. D. Keim, Zeithaml, and C.P. 1987. Constituency Building as a Political Strategy in the Petroleum Industry. In *Business Strategy and Public Policy*, eds. Marcus, Kaufman and Beam, 43-60. New York: Quorum Books.

Berle Jr., A. A. 1926. Non-Voting Stock and "Bankers' Control". *Harvard Law Review* 39, (6) (April): 673-93.

Berle, A. A., and G. C. Means. 1932. *The Modern Corporation and Private Property*. New York: Macmillan.

Boatright, G. R., M. J. Malbin, M. J. Rozell, and C. Wilcox. 2006. Interest groups and advocacy organizations after BCRA In *The Election after Reform. Money, Politics and the Bipartisan Campaign Reform Act*, ed. Michael J. Malbin, 112-138. Lanham, Md.: Rowman & Littlefield.

Brooks, D. 2000. *Bobos in Paradise: The New Upper Class and How They Got There*. New York: Simon & Schuster.

Brown, W. O., E. Helland, and J. Kilhom Smith. 2006. Corporate Philanthropic Practices. *Journal of Corporate Finance* 12, 855-77.

Buchanan, James M., and Gordon Tullock. 1962. *The Calculus of Consent, Logical Foundations of Constitutional Democracy*. Ann Arbor: University of Michigan Press.

Burch Jr., P. H. 1972. *The Managerial Revolution Reassessed: Family Control in America's Large Corporations*. Lexington, MA: D. C. Heath and Co.

Burris, V. 2005. Interlocking Directorates and Political Cohesion among Corporate Elites. *AJS* 111, (1): 249-83.

———. 1992. PACs, Interlocks, and Regional Differences in Corporate Conservatism: Comment on Clawson and Neustadtl *The American Journal of Sociology* 97, (5): 1451-6.

———. 1987. The Political Partisanship of American Business: A Study of Corporate Political Action Committees. *American Sociological Review* 52, (6): 732-44.

Chaganti, R., and F. Damanpour. 1991. Institutional Ownership, Capital Structure, and Firm Performance. *Strategic Management Journal* 12, (7): 479-91.

Chandler, A. D. 1977. *The Visible Hand: The Managerial Revolution in American Business*. Cambridge, MA: Harvard University Press.

Cigler, A. J. 2006. Interest Groups and Financing the 2004 Elections. In *Financing the 2004 Election*, eds. D. B. Magleby, A. Corrado and K. D. Patterson, 208-240. Washington, D.C.: Brookings Institution Press.

Clark Muntean, Susan. 2008. Analyzing the Dearth in Family Enterprise Research. In *Theoretical Developments and Future Research in Family Business.*, eds. P. H. Phan, J. E. Butler, 3-26. Charlotte, NC: Information Age.

———. 2008. BCRA's Impact on the Political Expenditures of Corporate Interests. *Forum: A Journal of Applied Research in Contemporary Politics* 6, (1): Article 9.

Clawson, D., and A. Neustadtl. Myopic Methods: Measures of Conservatism in Corporate PAC Analysis. *American Journal of Sociology*, 97: 1456-1461.

———. 1989. Interlocks, PACs, and Corporate Conservatism. *The American Journal of Sociology* 94, (4): 749-73.

Clawson, D., A. Neustadtl, and J. Bearden. 1986. The Logic of Business Unity: Corporate Contributions to the 1980 Congressional Elections. *American Sociological Review* 51, (6): 797-811.

Clawson, D., A. Neustadtl, and D. Scott. 1992. *Money Talks: Corporate PACs and Political Influence*. New York, NY: BasicBooks.

Clawson, D., A. Neustadtl, and M. Weller. 1998. *Dollars and Votes: How Business Campaign Contributions Subvert Democracy*. Philadelphia: Temple University Press.

Cocharan, W. G., and D. B. Rubin. 1973. Controlling Bias in Observational Studies: A Review. *Sankhya: The Indian Journal for Statistics* A, (35): 417-46.

Crane, Andrew, Dirk Matten, and Jeremy Moon. 2008. *Corporations and Citizenship* . Cambridge, UK; New York: Cambridge University Press.

Dahl, R. A. 1970. *After the Revolution?* New Haven: Yale University Press.

De Figueiredo, J. M. 2002. Lobbying and Information in Politics. *Business and Politics* 4, (2): 125-9.

De Figueiredo, J. M., and R. J. P. De Figueiredo. 2002. The Allocation of Resources by Interest Groups: Lobbying, Litigation and Administrative Regulation. *Business and Politics* 4, (2): 161-81.

De Figueiredo, J. M., and E. H. Tiller. 2001. Organizing and Engaging in Nonmarket Activity: A Transactional Analysis of Corporate Lobbying at the Federal Communication Commission. *Journal of Economics and Management Strategy* 10, (1): 91–122.

Diamond, A., and J. S. Sekhon. 2006. Genetic Matching for Estimating Causal Effects: A General Multivariate Matching Method for Achieving Balance in Observational Studies. *Institute of Governmental Studies,* (WP2006-35).

Domhoff, G. W. 1972. *Fat Cats and Democrats: The Role of the Big Rich in the Party of the Common Man*. New York: Random House.

Domhoff, W. G. 1997. *Who Rules America? Power and Politics in the Year 2000*. 3rd ed. USA: McGraw-Hill Companies/ Mayfield Publishing Co.

Dyer Jr, W. G. 2003. The Family: The Missing Variable in Organizational Research. *Entrepreneurship Theory and Practice* (Summer): 401-16.

Epstein, Edwin M. 1969. *The Corporation in American Politics*. Englewood Cliffs, N.J: Prentice-Hall.

Evans, D. 1988. Oil PACs and Aggressive Contribution Strategies. *The Journal of Politics* 50, (4): 1047-56.

Fama, E. F. 1980. Agency Problems and the Theory of the Firm. *Journal of Political Economy* 88, (21): 288-307.

Francia, P. L., and P. S. Herrnson. 2003. *The Financiers of Congressional Elections: Investors, Ideologues, and Intimates.* New York, NY: Columbia University Press.

Getz, K. A. 1997. Research in Corporate Political Action: Integration and Assessment. *Business & Society* 36, (1): 32.

Givel, M. 2006. Punctuated Equilibrium in Limbo: The Tobacco Lobby and US State Policymaking from 1990 to 2003. *Policy Studies Journal* 34, (3): 405–18.

Grier, K. B., M. C. Munger, and B. E. Roberts. 1994. The Determinants of Industry Political Activity, 1978-1986. *The American Political Science Review* 88, (4): 911-26.

———. 1991. The Industrial Organization of Corporate Political Participation. *Southern Economic Journal* 57, (3): 727-38.

Griffin, J. J., and P. Dunn. 2004. Corporate Public Affairs: Commitment, Resources, and Structure. *Business & Society* 43, (2): 196-220.

Griffin, J. J., C. S. Fleisher, S. N. Brenner, and J. J. Boddewyn. 2001. Corporate Public Affairs Research: Chronological Reference List. Part 2: 1958–84. *Journal of Public Affairs* 1, (2): 167-86.

Grossman, G. M., and E. Helpman. 2002a. *Interest Groups and Trade Policy*. Princeton, NJ: Princeton University Press.

———. 2002b. *Special Interest Politics*. Cambridge: MIT Press.

———. 1994. Protection for Sale. *The American Economic Review* 84, (4) (Sept 1994): 833-50.

Hadani, M. 2007. Family Matters: Founding Family Firms and Corporate Political Activity *Business & Society* 46, (4): 395-428.

Hansen, W. L., and N. J. Mitchell. 2000. Disaggregating and Explaining Corporate Political Activity: Domestic and Foreign Corporations in National Politics. *The American Political Science Review* 94, (4): 891-903.

Hart, D. M. 2004. “Business” is Not an Interest Group: On the Study of Companies in American National Politics. *Annual Review of Political Science* 7: 47–69.

Heckman, J. 1979. Sample Bias as a Specification Error. *Econometrica* 47, (1): 153-61.

———. 1976. The Common Structure of Statistical Models of Truncation, Sample Selection and Limited Dependent Variables and a Simple Estimator for such Models. *Annals of Economic and Social Measurement* 5, (4): 475-92.

Hillman, A. J., and M. A. Hitt. 1999. Corporate Political Strategy Formulation: A Model of Approach, Participation, and Strategy Decisions. *The Academy of Management Review* 24, (4): 825-42.

Hillman, A. J., G. D. Keim, and D. Schuler. 2004. Corporate Political Activity: A Review and Research Agenda. *Journal of Management* 30, (6): 837-57.

Ho, Daniel E., Kosuke Imai, Gary King, and Elizabeth A. Stuart. 2007. Matching as Nonparametric Preprocessing for Reducing Model Dependence in Parametric Causal Inference. *Political Analysis* 15, (3) (July 1): 199-236.

Hula, Kevin W. 2000. *Lobbying Together: Interest Group Coalitions in Legislative Politics*. Washington, D.C.: Georgetown University Press.

Jacobson, G. C. 2003. Party Polarization in National Politics: The Electoral Connection *Congress and the Presidency* 30, (Spring 2003): 1-36.

Jacobson, Gary C. 2008. *A Divider, Not a Uniter: George W. Bush and the American People : The 2006 Election and Beyond*. New York: Pearson Longman.

Kilbourn, E. Michael, and E. Michael Kilbourn. 2003. *Disinherit the IRS : Stop Uncle Sam from Claiming Half of Your Estate ... Or More*. Rev ed. Franklin Lakes, NJ: Career Press.

Lamberg, J. A., M. Skippari, J. Eloranta, and S. MÄKinen. 2004. The Evolution of Corporate Political Action: A Framework for Processual Analysis. *Business & Society* 43, (4): 335-65.

Lansberg, I., E. L. Perrow, and S. Rogolsky. 1988. Family Business as an Emerging Field. *Family Business Review* 1, (1): 1-8.

Latham, E. 1952. *The Group Basis of Politics: A Study in Basing-Point Legislation*. Cornell, NY: Cornell University Press.

Lenway, S., R. Morck, and B. Yeung. 1996. Rent Seeking, Protectionism and Innovation in the American Steel Industry. *The Economic Journal* 106, (435): 410-21.

Lindblom, C. E. 1977. *Politics and Markets: The World's Political-Economic Systems*. New York: Basic Books.

Magleby, D. B., A. Corrado, and K. D. Patterson, eds. 2006. *Financing the 2004 Election*. Washington, D.C.: Brookings Institution Press.

Malbin, M. J. 2006. Assessing the Bipartisan Campaign Reform Act. In *The Election after Reform. Money, Politics and the Bipartisan Campaign Reform Act.*, ed. M. J. Malbin, 1-16. Lanham, Md.: Rowman & Littlefield.

Mann, T. E. 2006. Lessons for Reformers. In *Financing the 2004 Election.*, eds. D. B. Magleby, A. Corrado and K. D. Patterson, 241-260. Washington, D. C.: Brookings Institution Press.

Marcus, G. E. 1980. Law in the Development of Dynastic Families among American Business Elites: The Domestication of Capital and the Capitalization of Family. *Law & Society Review* 14, (4): 859-903.

McCarty, Nolan M., Keith T. Poole, and Howard Rosenthal. 2006. *Polarized America: The Dance of Ideology and Unequal Riches*. Cambridge, Mass.: MIT Press.

———. 1997. *Income Redistribution and the Realignment of American Politics*. Washington, D.C.: AEI Press.

McConaughy, D. L. 1994. Founding-family-controlled corporations: An agency-theoretic analysis of corporate ownership and its impact upon performance, operating efficiency and capital structure. Doctoral Dissertation, University of Cincinnati.

McConaughy, D. L., and G. M. Phillips. 1999. Founders versus Descendants: The Profitability, Efficiency, Growth Characteristics and Financing in Large, Public, Founding-Family-Controlled Firms. *Family Business Review* 12, (2): 123-31.

Milbrath, L. W. 1963. *The Washington Lobbyists*. Chicago: Rand McNally.

Mills, C. Wright. 1959. *The Power Elite*. New York: Oxford University Press.

Mitnick, B. M., ed. 1993. *Corporate Political Agency: The Construction of Competition in Public Affairs*. Vol. 163. Newbury Park, CA: Sage Publications.

Mizruchi, M. S. 1990. Similarity of Ideology and Party Preference among Large American Corporations: A Study of Political Action Committee Contributions. *Sociological Forum* 5, (2): 213-40.

———. 1989. Similarity of Political Behavior among Large American Corporations. *The American Journal of Sociology* 95, (2): 401-24.

Mizruchi, M. S., and T. Koenig. 1988. Economic Concentration and Corporate Political Behavior: A Cross-Industry Comparison. *Social Science Research* 17, : 287–305.

Morck, R., and B. Yeung. 2004. Family Control and the Rent-Seeking Society. *Entrepreneurship: Theory and Practice* 28, (4): 391-410.

Morck, R. K. 2000. *Concentrated Corporate Ownership*. Chicago: University of Chicago Press.

Neustadtl, A., and D. Clawson. 1988. Corporate Political Groupings: Does Ideology Unify Business Political Behavior? *American Sociological Review* 53, (2): 172-90.

Neustadtl, A., D. Scott, and D. Clawson. 1991. Class Struggle in Campaign Finance? Political Action Committee Contributions in the 1984 Elections. *Sociological Forum* 6, (2): 219-38.

North, D. C. 1990. *Institutions, Institutional Change and Economic Performance*, eds. J. E. Alt, D. C. North. Cambridge, UK: Cambridge University Press.

Nyman, S., and A. Silberston. 1978. The Ownership and Control of Industry. *Oxford Economic Papers* 30, (1): 74-101.

Olson, M. 2002 (1971). *The Logic of Collective Action: Public Goods and the Theory of Groups*. Vol. XX. Cambridge: Harvard University Press.

Ostrower, Francie. 1995. *Why the Wealthy Give: The Culture of Elite Philanthropy*. Princeton, N.J.: Princeton University Press.

Palmer, D., and B. M. Barber. 2001. Challengers, Elites, and Owning Families: A Social Class Theory of Corporate Acquisitions in the 1960s. *Administrative Science Quarterly* 46, (1): 87-120.

Pfeffer, Jeffrey, and Gerald R. Salancik. 1978. *The External Control of Organizations : A Resource Dependence Perspective*. New York: Harper & Row.

Poole, Keith T., Howard Rosenthal, and Keith T. Poole. 2007. *Ideology & Congress*. 2 rev ed. New Brunswick: Transaction Publishers.

Rehbein, K. A. 1995. Foreign-Owned Firms' Campaign Contributions in the United States: An Exploratory Study. *Policy Studies Journal* 23, (1): 41-61.

Rehbein, K. A., and D. A. Schuler. 1999. Testing the Firm as a Filter of Corporate Political Action. *Business & Society* 38, (2): 144-66.

Sabato, L. 1984. *PAC Power: Inside the World of Political Action Committees*. New York: Norton.

Salancik, G. R., and J. Pfeffer. 1980. Effects of Ownership and Performance on Executive Tenure in U.S. Corporations. *Academy of Management Journal* 23, : 653-64.

Schattschneider, E. E. 1975. *The Semisovereign People : A Realist's View of Democracy in America*. Hinsdale, Ill.: Dryden Press.

Schlozman Kay, L., and J. T. Tierney. 1986. *Organized Interests and American Democracy*. New York: Harper and Row.

Schuler, D. A. 2002. Public Affairs, Issues Management and Political Strategy: Methodological Approaches that Count. *Journal of Public Affairs* 1, (4) (January): 336-55.

———. 1996. Corporate Political Strategy and Foreign Competition: The Case of the Steel Industry. *The Academy of Management Journal* 39, (3): 720-37.

Schuler, D. A., K. Rehbein, and R. D. Cramer. 2002. Pursuing Strategic Advantage through Political Means: A Multivariate Approach. *Academy of Management Journal* 45, (4): 659-72.

Sekhon, J. S. Multivariate and Propensity Score Matching Software with Automated Balance Optimization: The Matching Package for R. *Journal of Statistical Software* VV, (II): 2, www.jstatsoft.org.

Shaffer, B. 1995. Firm-Level Responses to Government Regulation: Theoretical and Research Approaches. *Journal of Management* 21, (3): 495-514.

Shaffer, B., and A. J. Hillman. 2000. The Development of Business-Government Strategies by Diversified Firms. *Strategic Management Journal* 21, (2): 175-90.

Shaffer, B., T. J. Quasney, and C. M. Grimm. 2000. Firm Level Performance Implications of Nonmarket Actions. *Business & Society* 39, (2): 126-43.

Skippari, M., J. Eloranta, J. A. Lamberg, and P. Parvinen. 2003. *Conceptual and Theoretical Underpinnings in the Research of Corporate Political Activity: A Bibliometric Analysis*. Working Paper 2003 ed. Finland.

Smith, M. A. 2000. *American Business and Political Power: Public Opinion, Elections, and Democracy*. Chicago, IL: University of Chicago Press.

Sorauf, F. J. 1992. *Inside Campaign Finance: Myths and Realities*. New Haven, Conn.: Yale University Press.

Stigler, G. J., and C. Friedland. 1983. The Literature of Economics: The Case of Berle and Means. *Journal of Law and Economics* 26, (2): 237-68.

Trochim, William M. K. 2001. *The Research Methods Knowledge Base*. 2nd ed. Cincinnati, Ohio: Atomic Dog Pub.

Useem, M. 1980. Corporations and the Corporate Elite. *Annual Review of Sociology* 6, : 41-77.

Useem, Michael. 1984. *The Inner Circle: Large Corporations and the Rise of Business Political Activity in the U.S. and U.K.* New York: Oxford University Press.

Villalonga, B., and R. Amit. 2006. *Benefits and costs of control-enhancing mechanisms in US family firms.*Working Paper, Harvard Business School.

———. 2005. How do Family Ownership, Control, and Management Affect Firm Value? *Journal of Financial Economics* 80, : 385-417.

Vogel, D. 1996. *Kindred Strangers: The Uneasy Relationship between Politics and Business in America*. Princeton: Princeton University Press.

———. 1987. Political Science and the Study of Corporate Power: A Dissent from the New Conventional Wisdom. *British Journal of Political Science* 17, (4): 385-408.

Vogel, David,. 1989. *Fluctuating Fortunes: The Political Power of Business in America*. New York: Basic Books.

Weissman, R. et al. 2009. *Sold Out: How Wall Street and Washington Betrayed America.* March 4, 2009 Wall Street Watch Report by the Consumer Education Foundation.

Weissman, S. R., and R. Hassan. 2006. BCRA and the 527 groups. In *The Election after Reform. Money, Politics and the Bipartisan Campaign Reform Act.*, ed. Michael J. Malbin, 79-111. Lanham, Md.: Rowman & Littlefield.

Weltman, B. 2001. *J. K. Lasser's Finance & Tax for Your Family Business*. New York: John Wiley & Sons, Inc.

Wilson, G. K. 1990. Corporate Political Strategies. *British Journal of Political Science* 20, (2): 281-8.

Wright, J. R. 2003. *Interest Groups and Congress: Lobbying, Contributions, and Influence*. NY: Longman.

———. 2000. Interest Groups, Congressional Reform, and Party Government in the United States. *Legislative Studies Quarterly* 25, (2): 217-35.

Yoffie, D. B., and S. Bergenstein. 1985. Creating Political Advantage: The Rise of the Corporate Political Entrepreneur. *California Management Review* 28, (5): 124-39.

Zeitlin, M. 1974. Corporate Ownership and Control: The Large Corporation and the Capitalist Class. *The American Journal of Sociology* 79, (5): 1073-119.