

## THE LOBBY ACTIVITY OF LARGE CORPORATIONS

**Gheorghe HURDUZEU**

The Bucharest University of Economic Studies  
6, Piata Romana, 1st district, 010374, Romania, e-mail: [gheorghe.hurduzeu@rei.ase.ro](mailto:gheorghe.hurduzeu@rei.ase.ro)

**Liviu Bogdan VLAD**

The Bucharest University of Economic Studies  
6, Piata Romana, 1st district, 010374, Romania, e-mail: [livubogdanvlad@biblioteca.ase.ro](mailto:livubogdanvlad@biblioteca.ase.ro)

**Raluca HURDUZEU**

The Bucharest University of Economic Studies  
6, Piata Romana, 1st district, 010374, Romania, e-mail: [raluca.hurduzeu@rei.ase.ro](mailto:raluca.hurduzeu@rei.ase.ro)

**Gheorghe VLĂSCEANU**

The Bucharest University of Economic Studies  
6, Piata Romana, 1st district, 010374, Romania, e-mail: [gheorghe.vlasceanu@rei.ase.ro](mailto:gheorghe.vlasceanu@rei.ase.ro)

**Abstract:** This paper analyzes the corporate actions towards the management of the political environment, the methods to influence it and the ethic framework of corporate political actions. In this respect it is important firstly to understand the role of corporations in the current geopolitical circumstances, and secondly, the systematic understanding of how corporations seek to influence the governmental actors as critical element of corporate strategy or as an adjunct in the process of implementing the strategy. In the purpose of this work, we should note first that the companies are reluctant to discuss their relationship with the government and in particular their involvement in lobbying. This occurs at least partly because of the concern of corporations that such information is commercially sensitive, and also, because of the competitive value. Secondly, the difficulty in discussing the concept of lobby changes due to the continuous (re) definition and semantics of the term. There is no single definition regarding the term "lobby", thus, undermining the attempts to quantify its importance to the efficient functioning of corporations, and the attempts to dispel the assumption that any form of corporate-government relations is essentially corrupted and antisocial as well. Finally, we aim to answer the question: Is the lobby a way to make the economic policies more efficient?

**Keywords:** corporate, policy, strategies, geopolitics, lobby

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## **THE CORPORATIONS AND THEIR ROLE IN THE CONTEMPORARY SOCIETY**

The last three decades have testified a lively debate regarding the role of corporations in society. These entities play an active role and have become more and more important.

The corporation is the most original social invention of the democratic capitalism<sup>1</sup>, created for economic purposes. The motivation for this invention was also social: to increase the welfare of the nation, to generate (for the first time in history) sustained economic growth, this effect has been obtained. However, the corporation – as type of voluntary association - is not only an economic institution, but it is also a moral and political institution. It generates different values, but it also depends on different moral-cultural values and new forms of political governance. In two centuries, the existence of corporations has produced a huge social revolution, moving the focus from the agricultural and industrial activities on business<sup>2</sup>.

The economic and geopolitical role that corporations have come to play in society over 150 years is an important role, not being a 'social threat', but the product of human ingenuity, as they built a complex network of contractual relationships that serve the objectives of the parties within the law. The corporation is not a creation of the state having none of the privileges enjoyed by the state actors, on the contrary the corporation has survived despite the sometimes unfavorable treatment applied by the state (taxes, legal restrictions etc.).

The corporation is not an individual, it does not feel, does not choose, do not benefit from specific taxes or subsidies, however, all these actions can be to the benefit or disadvantage of the individuals who have relationships with corporations (stakeholders: investors, employees, customers).

Today's corporations have become very powerful social and economic agents. The arbitration of the various national structures involuntarily forces a process of convergence and a tendency of opening. The corporate empires stretch across the globe, in some cases their income may exceed the GDP of the country of implantation<sup>3</sup> (for example: Unilever - Best had sales exceeding the GDP of countries like Ecuador, Kuwait, Kenya and others), such a country is clearly dependent on the implanted company.

We must take into consideration the role that corporations play in the international arena of peace and war (geopolitical role). The corporate governance involves not only the economic but also the obligations and ethical and legal constraints (compliance with social problems and maximizing of the economic value). Understanding the interconnections between the modern war and the corporations shows that the social and corporate goals have not yet reached the end of history. The corporations and the competition in an organized market can contribute to long-term social solution. On one hand it can provide modern means to war (it can profit from war, this statement raises the following problem actually quite difficult: the political isolation of business interests related to industrial military enterprises). On the other hand the existant competition on the market can provide what William James called "the moral equivalent of war" the institutions necessary for peace<sup>4</sup>.

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<sup>1</sup> Bainbridge, S.M. (2003), *Catholic Social Thought and the Corporation*, University of California, Los Angeles (UCLA) - School of Law October 22.

<sup>2</sup> Idem.

<sup>3</sup> Branson, D.M. (2006), *The social responsibility of large multinationals corporations*, <http://thinkexist.com>

<sup>4</sup> James, W. (1983), *The Principles of Psychology*, Harvard Business Press.

In 2007, Stephen Barley examined the growth of the influence of corporations in the political process, pointing out their tendency to undermine democracy<sup>5</sup> and concluded that students should reserve most of their time to understanding and studying the influence of the powerful corporations "leviathan"<sup>6</sup> on the democratic system.<sup>7</sup> The author also noted that by lobbying, political contributions and sophisticated public relations campaigns, the corporations and their leaders have turned the political system and a large part of public opinion against the rules. Thus, the ability of law to protect the people and environment from corporate damage suffered. As such, we are currently witnessing a greater involvement of corporations in the political process.

At the same time corporation was and is both a social and productive invention.<sup>8</sup>

The network of the multinational corporations and their subsidiaries, located around the world is materialized in the form of an integrated system, with economic value, social and ethical policy, which occupies an increasingly privileged position in shaping the evolution of the global economy as a whole and each country, as self-standing entity, also influencing the social and political behaviors capable to sustain the transformations necessary to support the development and the economic growth worldwide.

### **THE CORPORATE LOBBY ACTIVITY**

We mentioned that there is no single definition regarding the term "lobby"<sup>9</sup>.

From a historic point of view, the term "lobbying" comes from the tradition that the representatives of the groups of interest used to expect the U.S. president in the lobby of a hotel. Thus, the term of lobbyist refers to those who "are kept on hold" on those who try to influence the actions of powerful people to achieve specific goals<sup>10</sup>. There are two trends in the world in terms of understanding the concept of the lobby. In the continental Europe, the lobbying organizations are seen as representing an attempt to make particular interests prevail to the detriment of general interest and are thus a deviation from the principles of democracy and having more to do with the traffic of influence. In general, Europe-wide the citizens' participation in the exercise of political power is seen as possible only by vote or by referendum, excluding the intermediary role of the lobbying organizations.<sup>11</sup> A different perception on how to reach the policies that serve the public interest exists in the Anglo-Saxon democracy, especially in the U.S. In this case it is considered that the general interest is a result of many private interests and, consequently, the lobbying organizations are designed to mediate the relationship between individuals and state.

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<sup>5</sup> Barley, S.R. (2007), *Corporations, Democracy and The Public Good*, Journal of Managerial Inquiry, 16 (3): 201-15.

<sup>6</sup> Chandler, A.D.; Mazlish, B. (2005), *Leviathans multinational Corporations and The New Global History*, Cambridge University Press.

<sup>7</sup> Palazzo, G.; Scher, A.G. (2008), *Corporate social responsibility, democracy, and the politicization of the corporations*, <http://www.chinadaily.com.cn>

<sup>8</sup> Jensen, M.C.; Meckling, W.H. (1983), *Reflections on the corporation as a social invent*, Midland Corporate Finance Journal, vol. 1, nr. 3.

<sup>9</sup> Taminau, Y.; Wilts, A. (2006), *Corporate lobbying in Europe, managing knowledge and information strategies*, Journal of Public Affairs 6: 122-130.

<sup>10</sup> Idem.

<sup>11</sup> Academia de Advocacy, *Cercetare privind Reglementarea Activitatilor de Lobby*, <http://www.academia-de-advocacy.org>, 2003

One of the main differences that need to be made is between the concept of lobbying and the traffic of influence. Therefore, lobbying can be seen as a transparent way of influencing legislative and executive decisions through any type of actions that are aimed to support rights and legitimate interests in promoting, the adoption, amendment or repeal of laws or administrative legislation, by the public authorities. The traffic of influence, on the other hand, is defined in the Romanian law as receiving or demanding money or other benefits or accepting promises, gifts, directly or indirectly, for himself or for another, committed by a person who has influence or let them believe that has influence on a lead officer to do or not do an act that comes into his duties.

The lobby is part of the methods by which groups of interest (namely corporations) – defined as a group of individuals organized to defend and promote the common interests try to influence decision-making, respectively the formulation of the public policy<sup>12</sup> – pursue their objectives. According to the same definition, lobbying is the method through which a group of interest tries to determine an official to take a position or to make a decision to serve the interests of that group.

The objectives of any lobbying activity can be classified into two broad categories<sup>13</sup>: (i) the adoption or rejection of a proposal in the legislative component, and (ii) the issue or refraining from issuing an administrative act, in the executive component.

The analysis of the lobby activities revealed both the existence of positive and negative aspects of them as well. The critics of lobby illustrate the situations in which this activity has degenerated into corruption or the lobbyists' power of persuasion determined the adoption of measures conflicting to the opinions and interests of the majority. The control over the negative impact of lobbying can be obtained by legal regulations. Among the positive effects of lobbying are, certainly, the adjustments of the legislative or the executive actions to meet the needs of a group when that group does not have enough force to sustain the cause through the electoral process.

Since the 1940s Fainsod<sup>14</sup> said that an industry can achieve a favorable regulatory by mobilizing three types of resources: financial (public campaign financing), human (lawyers and lobbyists) and political (political coalition).

Some authors<sup>15</sup> use the term political market strategy as most corporations engage themselves in lobbying also because the consequences are often felt industry-wide. The financial resources and time consumed on "lobbying" by large corporations, although often difficult to determine, certainly imply that, in practice, lobbying will have beneficial effects. Indeed, many large corporations are engaged in such strategies; however, the characteristics of these activities vary in scope and intensity.

In the literature, we may find a variety of terms used to describe this process of interaction between corporations and the governmental actor but if we were to adopt a broader definition, the term lobby describes an attempt to influence government decisions.

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<sup>12</sup> Gorcea A., *Rolul Grupurilor de Interese in Elaborarea Politicilor Publice in Romania*, Europolis, Universitatea Babes-Bolyai, <http://www.polito.ubbcluj.ro/europolis/articol%20Gorcea.htm>

<sup>13</sup> Academia de Advocacy, *Op. Cit.*

<sup>14</sup> Dahan, N. (2005), *A contribution to the conceptualization of political resources utilized in corporate political action*, *Journal of Public Affairs* 5: 43-54.

<sup>15</sup> Baines, P.; Viney, H. (2010), *The unloved relationship? Dynamic capabilities and political market strategy: a research agenda*, *Journal of Public Affairs*, vol. 10, Issue 4: 258-264.

We consider justified the opinion of the authors who argue that the need to build strong links between corporations and government is a direct consequence of the degree to which the government regulates an industry environment. For example, industries such as defense (involving high government spending), pharmaceuticals, food production or the utility (with strong regulatory activities) would be expected to develop and maintain a high efficiency of the political strategies market, rather than in the sectors where government intervention is limited and relatively passive, as if they were not doing so they might actually reduce the size of some competitive companies on the market.

It is obvious that all corporations want the governmental actors to develop legislation or to regulate it and the result to be beneficial to their objectives. For some this process is critical and justifies the additional investment required.

In this respect, there are corporations whose contact with those who take political decisions is so powerful that they are actually involved in co-creating the laws.<sup>16</sup> This is the highest level of political market strategy, and certainly suggests activities that go beyond the scope of the term "lobby" because lobbying involves only active attempts to persuade.

Then, there are corporations that try to change the law in their favor as it is developed. They cannot create the law, but will try to influence it in detail before it is adopted. Thus, the corporations can exercise their influence either through contributions to the legislative process during the advisory periods, or by denying and interpretation of the new legislation or regulatory actions as they are introduced, if there is no opportunity to influence it.

Finally, there are corporations that need to respond to legislative or regulatory measures because of lack of influence in the legislative or regulatory bodies. The focus of their strategy will be largely placed on managing the potential impact of regulatory or legislative activity scanning through the political environment<sup>17</sup>.

Taminiau and Wilts<sup>18</sup> believe that, for example, the effectiveness of corporate lobbying in Europe depends on the quality of knowledge and the information strategies of corporations. All these authors believe that the financial incentive strategies are not applicable in the EU context, the direct interaction with committees and decision-making bodies of the European Union and providing reliable information for public officials remains the most important way to influence the political environment and the new regulations.

For the politically active corporations this means that, to be able to provide information both for stakeholders and other EU institutions is of strategic importance and the efficiency of lobbying can be achieved by monitoring and processing of the information of all corporations. Thus, the effectiveness of lobbying increasingly depends on the ability of corporations to manage the flow of information and share knowledge internally and externally within the corporation with other stakeholders. Therefore, in Europe, the corporate lobby depends heavily on the knowledge and information management capacity of corporations.

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<sup>16</sup> Dahan, N. (2005), *A contribution to the conceptualization of political resources utilized in corporate political action*, Journal of Public Affairs 5, Issue 1: 43-54.

<sup>17</sup> Baines, P.; Viney, H. – *Op cit*.

<sup>18</sup> Taminiau Y.; Wilts, A. (2006), *Corporate lobbying in Europe, managing knowledge and information strategies*, Journal of Public Affairs, vol. 6, Issue 2: 122-130.

In this context, we consider that it is important for corporations to know how to manage the knowledge and the strategies in their attempts to influence the government decisions. Along with knowledge and expertise, therefore, the ability to understand the political dynamics and the appropriate time to start lobbying is important for corporate lobby in Europe.

Moving to another register, despite the popularity of corporate involvement in politics there is, yet, little discussion of corporate political action in business ethics. Few studies on the ethics of corporate policy actions focus primarily on one or two things in judging ethics, such as purpose, means and consequences, but very few are systematically made to analyze and articulate ethical standards for these corporations and the industries actors seeking to influence the government.

Gao Yongqiang<sup>19</sup> is trying to do so in *An ethical judgment framework for corporate political actions*. Thus, by applying three basic ethical principles, including the utilitarian theory (Bentham, Ricardo, Smith), the theory of rights (Kant, Locke) and the theory of justice (Aristotle, Rawls), Gao proposed an ethical framework for analyzing the corporate political action. This ethical framework focuses on four aspects of annaction, including objectives / purpose, the means used to achieve the objectives, the results and consequences of the process itself. The means and the consequences are considered basic criteria but the objectives and the process contribute to the ethical analysis of corporate lobbying.

The policy actions of the large corporations have been suspected almost since their emergence.

It was argued that these corporations which provide lobbying are harmful to the society, arguing that they corrupted the political system. It is true that most corporate committees that provide for some business lobbyists are perceived to be greedy and self-interested in their attempt to expand their influence towards the boardrooms in government policy making. As a result, the government now responds more often to limited power-interests groups, mainly economic organizations, the wealthy and elite groups of influential people about their wishes instead to the will of the people. It is true that the businesses financed by lobby have captured the political process and prevented other legitimate voices to be heard in the debates on public issues. In this context is the practice appropriate or inappropriate when the corporations try to influence the public policy? While in the past much attention has been placed on the ethic principles and practices for the standards in the government service, very little was done in a systematic way to analyze and articulate ethical standards for those corporations and industries that actively seek to influence governmental actors. In Gao's study, the corporate political actions are ethical if they follow appropriate objectives through appropriate means, with appropriate processes and outcomes and appropriate consequences. However, an ethical corporate political action does not necessarily meet all four criteria. A corporate political action is ethical if it meets all criteria: appropriate means and appropriate consequences. However, when the means and consequences are difficult to measure, and the goals and process are easily identified, when appropriate targets and appropriate process helps in terms of corporate ethical policy actions.

In this context, today's businesses are often challenged by the public for bad or unethical acts performed in the political arena. Some corporations have even suffered the loss of legitimacy and public image after unethical acts were implemented.

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<sup>19</sup> Gao, Y. (2008), *An ethical judgment framework for corporate political actions*, *Journal of Public Affairs*, vol 8, Issue 3: 153–163.

### **AS CONCLUSIONS – IS THE CORPORATE LOBBY A WAY TO MAKE THE ECONOMIC POLICIES MORE EFFICIENT?**

In the economic sphere, the corporate power is exercised through a process of negotiation between corporations and the state agencies, between the corporations and within the latter, between managers and unions. In the sphere of politics, the power manifests itself in the process of negotiation between the political parties, interest groups and the state. The negotiation process is not equivalent to that of free competition. If the latter is of impersonal nature, the negotiation involves special mechanisms where specific elements which are present in political and administrative processes: hierarchy, domination, influence. The negotiation relationship assumes a balance of power between all partners.<sup>20</sup> The opinion of the quoted author is that the use of negotiation can avoid some conflicts of interest that may cause loss but that in order to take advantage of this process a balance of power between the parties involved in negotiation must exist.

The research of prestigious authors draw attention on the negative effects exerted on the economic systems of some actions of the interest groups (in our case corporations), lobbying entering within the scope of their activity. The conclusions of the research conducted by Mancur Olson<sup>21</sup> are summarized by Iancu<sup>22</sup>:

- (i) In an economic and social system in which the most powerful interest groups have the sole purpose of distribution, that system cannot reach the optimal state (efficiency).
- (ii) The corporations, collective action aimed, proliferate and strengthen especially in those societies and economies that have a higher degree of stability.
- (iii) By their nature, the corporations representing the interest groups for collective action, follow closely the interests of their members and have no incentive to make significant sacrifices in the interest of society. The groups will choose their most favorable actions, even if the social costs of change will exceed many times the amount distributed.
- (iv) The expansion organizations for collective action and especially the formation of coalitions for the distribution severely undermine the competitiveness and the growth.
- (v) To achieve the goals, the distribution coalitions use both the influence actions on government policy, and the actions to influence the markets. Such actions have resulted in not only the expected effects but also in a series of side effects underlined in the following two points:
  - (v<sub>1</sub>) The distribution coalitions which take actions to influence the government policies contribute to the proliferation of regulations and the increase of bureaucracy.
  - (v<sub>2</sub>) The agreements between the allied corporations to influence the market relations mean increasing negotiation and organization, which complicates the decision-making mechanisms and increases the transaction costs.

It should be mentioned that the above effects produced by some collective action focused on the distribution of social gains. In principle, in the case of the social benefits of a certain level, their distribution is limited to the members of society at that level. Their division is achieved through a negotiation process that

<sup>20</sup>Iancu, A., (1998), *Bazele Teoriei Politicii Economice*, Ed. All Beck, Bucuresti, p. 38.

<sup>21</sup>Mancur, O., (1965), *The Logic of Collective Action: Public Goods and the Theory of Groups*, Cambridge: Harvard University Press.

<sup>22</sup>Iancu, A., *Op. cit.*, p. 621 - 624



relies on a simple principle: a party wins are losses to the other side or even absence of earnings.

One of the problems that can occur because of the lobbying activities in an environment of corruption is that is possible to create a privileged class of lobbyists agreed to certain institutions and/or persons or dignitary, contrary to the principle of free access to public authorities.<sup>23</sup>

On the other hand, however, through lobby we can promot some niche interests in order to pursue and achieve a maximization of general welfare.

In conclusion, we can say that lobbying can lead to effective public policies but can also have an adverse effect in an unstable institutional environment, poorly regulated or where regulations are not respected.

We would like to conclude by saying that although the public corporations are urged to have an ethical behavior, ethical behavior setting is a challenge. We believe that an ethical behavior does not preclude pursuing their own interests, but should take place in an appropriate manner and with appropriate consequences.

In other words, a corporate ethics policy action should be legal, not violate the fundamental human rights, should not deliberately harm, or if it harms the others then to provide appropriate compensation arrangements. Also, a corporate ethics policy action should have a positive net effect on society, should not make any undue harm to others and should not oppose others involved in lobbying.

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<sup>23</sup> Academia de Advocacy, *Op. cit.*