In the previous chapter, the discussion was limited to the US context, known for its highly institutionalized pluralistic democratic traditions, high levels of wealth, predominant reliance on stringent command-and-control regulations, and strong government capacity to enforce the law (Hillman and Keim, 1995; Vasudeva, 2005; Vig and Kraft, 2006). Yet, companies operating in other countries experience different societal fields that significantly shape the local policy process dynamic and its associated business responses (Bourdieu and Wacquant, 1992; Giddens, 1984; Jennings and Zandbergen, 1995). Hence, this chapter seeks to conceptually explore how basic political and economic country characteristics may affect the business responses to protective policy process demands.

Of course, country context characteristics are not the only factors affecting business political choices and behavior when responding to the pressures and demands exerted by the protective policy process stages. Among others, global trends, in-country regional conditions, and firm- and manager-level characteristics affect not only business agency but also how firms are socialized into distinct country’s cultural, political, and economic traditions (George et al., 2006; Steinmo et al., 1992). As discussed in Chapter 2, holding these and other factors constant is, of course, the long-accepted, science-based approach to studying specific relationships of interest while acknowledging that other variables may have an effect on such relationships (Kuhn, 1962; Popper, 2002; Rowley, 1997). In Chapter 4, I discuss the effect of firm-level characteristics on the protective policy process–business response relationship.

From an institutional theory perspective, examining the effect of country characteristics on firm responses is very important because the different history and conditions experienced by countries produce disparate socially constructed realities comprising unique political
The protective policy process–business response relationship

and economic institutional orders with particular norms, traditions, meanings, symbols, language, and scripts (Berger and Luckmann, 1967). Indeed, one of the most deep-rooted sociological principles posits that a country’s socially constructed reality contributes to shape the behavior and preferences of individuals and organizations (Bartley and Schneiberg, 2002; Berger and Luckmann, 1967; Friedland and Alford, 1991). Thus, suggesting that strategies adopted by firms are molded in part by the country context in which they are adopted and implemented (Granovetter, 1985). In addition, empirical evidence from cross-country studies has shown that particular country contexts result in distinct cultures of production diverging from a single, ideally efficient, form (Fligstein, 1996).

Of course, a nation’s public policy context is also significantly affected by global trends and pressures. However, these trends and pressures take unique forms depending on a country’s distinctive contextual characteristics such as intermediate institutions that configure local politics and economic activities (Evans, 1995; Jepperson and Meyer, 1991; Meyer, 1980). Examples of these intermediate political and economic institutions include local electoral systems, policy networks, systems of interest representation, and the structure of industry associations (Steinmo et al., 1992). Global trends and pressures are also more influential sources of national policies’ convergence during periods of widespread prosperity and stability in the international arena such as in 1990s (Steinmo et al., 1992). The apparent “end of history” and triumphal march of globalization and free-market “Washington consensus” of the 1990s has yielded now in early twenty-first century to significantly divergent policy approaches to deal not only with environmental and social protection but also with economic and national security challenges (Fukuyama, 1992).

To better understand the importance of country context differences, it is useful to highlight significantly distinct contextual characteristics that tend to prevail in developing countries. Evidently, it is important to stress at the outset that not all of these countries share these characteristics to the same degree. In developing nations, the government’s legitimacy, and thus its stability, is more often in question (Ascher, 1999; Horowitz, 1989). Compared to western industrialized countries, democratic traditions and accepted political advocacy channels in developing nations are more likely to be limited, fragile,
and incipient (Grindle and Thomas, 1991; Horowitz, 1989). Hence, influence and participation in policymaking is usually restricted to relatively fewer interest groups, and freedom of the press is limited resulting in a highly centralized government that faces little scrutiny and that is highly prone to corruption (Horowitz, 1989; Lim and Tang, 2002). These countries are also poor to extremely poor making promotion of economic growth a dominant priority of the policy agenda; as such, social and environmental protection programs tend to receive scant attention by policymakers (Ames and Keck, 1997; Ascher, 1999; Rivera, 2004). Government agencies in developing countries often adopt command-and-control regulations that mimic those enacted in industrialized countries. Yet, compared to their equivalents in industrialized nations, these developing country agencies have a very limited capacity to enforce policies and regulations and tend to suffer from an endemic lack of technical, administrative, and financial resources (Ascher, 1999; Blackman and Sisto, 2005; Rivera, 2004). For instance, despite the serious and widespread environmental degradation problems confronted by China, in 2005 the State Environmental Protection Administration had just 400 employees, with 300 based in Beijing and only about 200 working on a full-time basis (Balfour, 2005: 122; Khan and Yardley, 2007). By comparison, the US Environmental Protection Agency had over 17,000 full-time employees distributed in ten regional offices and more than ten laboratories (Khan and Yardley, 2007).

The effect of these country context differences is especially prominent on national governmental regulations that, despite increasing globalization pressures, vary greatly across countries and rely on enactment and enforcement at the country level (Jepperson and Meyer, 1991; Stiglitz, 2006). I argue, accordingly, that variations in country contextual characteristics shape business political power, and its understanding and preferences for environmental and social protection policies, thus moderating – weakening or strengthening – firms’ resistance to pressures and demands exerted during the different stages involved in enacting and implementing these policies. This moderating effect exerted by country context on the policy process–business response relationship arises for multiple reasons.

First, the country institutional context contributes to limit or amplify the level of influence and participation that different groups can exert on government decisions by constraining their political power,
The protective policy process—business response relationship

the payoffs of political involvement, and defining legitimate political action strategies (Amenta et al., 1994; Bartley and Schneiberg, 2002; Friedland and Alford, 1991). Second, it also plays a role in restricting the array of policy alternatives perceived as legitimate and rational by policymakers (Lieberman, 2002). Third, besides its constraining effects, country contextual characteristics also exert a constitutive effect on individuals and organizations, contributing to giving meaning that molds the interests and identities of the actors involved in the policy process (Bartley and Schneiberg, 2002; Clemens and Cook, 1999; Hall and Taylor, 1996; Meyer et al., 1997). Fourth, country context also helps to determine the availability of resources and how they are exchanged by the different actors involved or affected by the policy process (Friedland and Alford, 1991). Fifth, it also plays a role in establishing windows of opportunity or veto points that can respectively advance or derail the consideration of emerging problems, and the adoption or implementation of public policies (Steinmo et al., 1992).

This chapter focuses on four basic characteristics of a country’s political-economic context: (1) the level of democratization; (2) the system of interest representation; (3) the regulatory approach; and (4) national economic income. Obviously, there are many other country-level socio-economic and political characteristics that have an impact on resistance to policymaking by molding how business and other actors construe their interests and configure power relations. A few examples include: political party system structure; independence of distinct government branches; specific rule of electoral competition; class structure; levels of economic inequality; and the level of state intervention in the economy (Steinmo et al., 1992). However, for several reasons, I posit that it is important to begin understanding the moderating effect of these four characteristics.

First, long-standing research focused on classifying distinct country contexts has identified the levels of democratization and wealth as basic omnibus elements that provide an indication of national context development or modernity (Adelman and Morris, 1965; Baron, 2005; Jepperson and Meyer, 1991; Makino et al., 2004). Institutional scholars, in particular, have stressed the importance of the degree of country ‘modernity’ in determining the legitimacy of pursuing not only economic growth but also environmental and social protection goals (Jennings and Zandbergen, 1995; Meyer and Rowan, 1977;
Meyer and Scott, 1983). In more developed societies there is a higher prevalence of institutional rules and myths that portray environmental and social protection as appropriate social goods, facilitating the creation of formal structures and organizations focused on promoting protective regulations (Jennings and Zandbergen, 1995; Meyer and Rowan, 1977).

Second, a country’s level of democratization shapes the interaction of different actors during the policy process by defining which interest groups and political strategies are legitimate, delineating appropriate advocacy procedures and establishing rules for governmental decisionmaking (Ascher, 1999; Grindle and Thomas, 1991; Neumayer, 2001; Payne, 1995). The level of country wealth limits the resources available for political participation and government implementation of public policies and regulations (Horowitz, 1989; Jepperson and Meyer, 1991; Spencer et al., 2005).

Third, besides general indicators of country development, the level of business resistance to the protective policy process can be significantly amplified or weakened depending on which interest groups dominate the policy process and by the costs and flexibility of the restrictions imposed by protective regulations. A country’s system of interest representation indicates the level of government autonomy vis-à-vis business and other interest groups. Thus, it provides an indication of the ability of the business sector to capture the policy process (March and Olsen, 1989; Williamson, 1989). The regulatory approach, on the other hand, determines the costs and flexibility of protective regulations by indicating countries’ preferences for the stringency of protective standards and for the combination of incentive-based and command-and-control regulatory instruments (Gunningham et al., 2003; Vogel, 1986). In the next section, I start by relaxing our initial assumptions about the political context of public policymaking and then shift attention to countries’ economic affluence.

**Political context**

Neo-institutional scholars studying businesses have highlighted the importance of a country’s political context in shaping firms’ responses to economic policies and regulations (Hillman and Keim, 1995; Murtha and Lenway, 1994; Spencer et al., 2005). I follow other scholars in defining a nation’s political context as the set of institutional
structures, norms, roles, and their related systems of interest representa-
tion that delineate how authority, rights, and obligations are obtained and divided among state, business, and other nongovernmental actors (March and Olsen, 1989: 741; Spencer et al., 2005: 322). Most studies examining business behavior and political context have focused on variations in the distinct systems of interest representation in industrialized countries and thus assume higher levels of democratic traditions as given (Hillman and Keim, 1995; Murtha and Lenway, 1994; Spencer et al., 2005). However, besides differences in the types of systems of interest representation, the level of democratization and the type of protective regulations vary significantly around the world affecting the response of business during the different stages of enacting and implementing protective public policies and regulations.

**Figure 3.1** Protective policy process–business response relationship: moderating effect of different levels of democracy (rudimentary illustration)

*Level of democratization*

Regarding the level of democracy, I argue that in countries with more institutionalized democratic traditions, businesses are more likely to display more cooperation during the different stages of the public policy process than in authoritarian regimes (see Figure 3.1 for a rudimentary illustration of this moderating effect). Before I elaborate further on this proposition, I first define democracy, discuss how
it is measured, and then discuss why businesses may display greater cooperation in more democratic countries.

In the most basic sense, democracy is widely defined as government by the people (Dahl, 1971; Lijphart, 1984). It is important, however, to emphasize that a vast literature spanning multiple social sciences continues to debate the “true” meaning of democracy and I cannot begin to do justice to this extensive scholarship in this book. Hence, I follow management and public policy scholars by limiting the scope of our arguments to representative democracy (also called liberal democracy), as opposed to the seldom-practiced direct democracy, where decisions are made by the people without intermediation between the voters and their government (Bollen, 1993). Here, I define representative democracy as a system of country governance in which the supreme power is vested in the people and exercised by them indirectly through representation mechanisms involving periodic free elections in which at least two parties compete, the winning party leads the government until the next election, and every citizen has a right to vote and to be elected (Bollen, 1993; deLeon, 1997; Lijphart, 1984; Przeworski et al., 1996). Besides the democratic rights outlined in this definition, it is also important to emphasize that the extent of representative democracy – level of democratization – existing in a country is also determined by the degree of inherent political liberties allowing individuals the freedoms of speech and association (Bollen, 1993; Dahl, 1971; Lijphart, 1984).

There is a substantial amount of debate regarding how to measure the level of country democratization and multiple scholars have periodically published comprehensive reviews of this literature (Bollen, 1980; 1986; 1993; Elkins, 2000; Przeworski et al., 1996). The controversy among scholars focuses on the indicators that should be used and most strongly on whether democracy is a dichotomous or a continuous variable. Przeworski and his co-authors (1996) argue in favor of a ‘minimalist’ dichotomous scale that classifies countries as democracies if the chief executive position and legislative offices are filled as a consequence of periodically contested elections and authoritarian otherwise (Álvarez et al., 1996: 21; Przeworski et al., 1996; Przeworski and Limongi, 1997: 178–9). Other scholars argue that there is a substantial variation in the degree of democratization across countries over time and that this variation should not be lost in a categorical scale.
I adopt the latter view and agree that the level of democracy can be measured continuously, albeit imperfectly, using a variety of indicators that evaluate two fundamental aspects of representative democracy; the existence of democratic rights and political liberties (Bollen, 1993; Dahl, 1971; Isham et al., 1997). Although scholars differ on their definition and measurement of democratic rights, most scales include the right of citizens to vote, citizens’ eligibility for public office, the right of political leaders to compete for support and votes, and the presence of contested free and fair elections (Dahl, 1971; Isham et al., 1997). In terms of political liberties, most democracy scales use indicators of freedom to form and join organizations and freedom of expression (Bollen, 1993). Extensive time-series data for the indicators of distinct aspects of representative democracy are easily available from multiple sources and cover most countries in the world beginning in the early 1970s (e.g., see freedomhouse.org). Finally, it is important to highlight that comparisons of different democracy scales proposed by multiple authors and organizations show very high levels of agreement (typically above 90 percent) in how countries are classified as democracies or dictatorships (Przeworski et al., 1996: 21; see Table 3.1 for a few examples of country classification based on their level of democratization).

Table 3.1 Selected illustrative examples of country classification based on their level of democratization for 2007*

<table>
<thead>
<tr>
<th>democracies</th>
<th>Hybrid regimes</th>
<th>authoritarian regimes</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Sweden</td>
<td>(1) Singapore</td>
<td>(1) Pakistan</td>
</tr>
<tr>
<td>(2) Australia</td>
<td>(2) Turkey</td>
<td>(2) Egypt</td>
</tr>
<tr>
<td>(3) Germany</td>
<td>(3) Venezuela</td>
<td>(3) Cuba</td>
</tr>
<tr>
<td>(4) Canada</td>
<td>(4) Kenya</td>
<td>(4) China</td>
</tr>
<tr>
<td>(5) Costa Rica</td>
<td>(5) Mozambique</td>
<td>(5) Zimbabwe</td>
</tr>
<tr>
<td>(6) Uruguay</td>
<td>(6) Iraq</td>
<td>(6) North Korea</td>
</tr>
</tbody>
</table>

* For all categories, countries are listed in descending order from more democratic to less democratic.

Building upon the discussion of the meaning and measurement of representative democracy, I now examine how different levels of democratization in a country may moderate business responses to the public policy process. My focus in the following section is, however, on extreme cases (highly democratic and authoritarian countries) to illustrate how firm resistance varies with large changes in the level of democracy. Of course, as discussed above, levels of democracy and authoritarianism vary along a spectrum. The moderating effect of the level of democracy on the public policy process–business response relationship arises from traditional democratic rights and liberties. These rights and liberties establish patterns, routines, and roles of political participation, conflict, advocacy, and law enforcement whose meaning, understanding, and appropriateness is mutually accepted and internalized by a country’s government, businesses, and other influential stakeholders (March and Olsen, 1989; Payne, 1995). Freedom of the press, speech, association, participation, and the unhindered right to vote are core rights taken for granted in democratic systems. These rights open information and advocacy channels to multiple grassroots actors that in authoritarian regimes are traditionally, and almost exclusively, enjoyed by business, military, and political elites (Ascher, 1999; Grindle and Thomas, 1991). These freedoms are then used by supporters of social and environmental protection to expedite the process of enacting and institutionalizing protective policies and regulations.

**Freedom of the press and speech**

Institutionalized freedom of the press and speech allows citizens, scientists, interest groups, the media, and interested government officials to be more informed and to monitor the causes and effects of social and environmental problems produced by business activities (Neumayer, 2001; Payne, 1995). In authoritarian countries freedom of the press and speech are often some of the first rights to be suppressed. For example, in Venezuela and Russia, it has been commonplace in recent years to restrain independent news media outlets by controlling the importation of paper and other printing materials, canceling TV channel licenses, threatening and violently attacking journalists, and/or shutting them down outright (Levy, 2008; Romero, 2007).

Free speech traditions make it easier to publicly and timely convey concerns and demands to the media, policymakers, and business
managers about the detrimental consequences of problematic social and environmental protection routines that may be pursued by business (deLeon, 1997; Fischer and Hajer, 1999; Payne, 1995). For instance, in the fall of 2008, it was reported that more than 50,000 Chinese infants have been severely sickened by consuming baby formula adulterated with melamine, a toxic compound that produces kidney stones (Yardley and Barbosa, 2008). All affected babies appeared to have taken formula produced by Sanlu, a joint venture company partially owned by Fonterra, New Zealand's leading multinational dairy company. Yet, according to international media reports, Sanlu “applied pressure to block reporting and used its political connections to prevent some other newspapers from publishing articles about the problem” (Yardley and Barbosa, 2008: A10). These tactics are easier in China where censorship and the strict control of the media are enforced by the central government. Indeed, in early summer 2008, local journalists and media outlets that were aware of an unusual number of sick babies were not allowed to report about it or to investigate the causes (Yardley and Barbosa, 2008). At this time, the Chinese government’s Central Propaganda Department was focused on promoting positive news to hype the Olympic Games. In fact, new government rules enacted in 2007 demanded that Chinese media outlets secure official authorization before running any stories related to food safety. These rules were enacted in response to a large recall in the US of Chinese dog food, also adulterated with melamine (Yardley and Barbosa, 2008). In the end, news about possible problems with poisoned baby formula in China arose first in New Zealand where Fontera executives contacted local government officials (Yardley and Barbosa, 2008).

**Freedom of association**

Well-established freedom of association mechanisms inherent to democratic nations expedite the organization of social and environmental protection advocacy groups and coalitions that are better able to debate, promote, and sustain demands for protective policies and enforcement aimed at improving business social and environmental responsibility (Diamond, 1999; Lybecker and Horan, 2005; Payne, 1995). Indeed, the success of environmental and social protection activists depends to a large degree on their ability to establish organized groups that provide them with increased prestige, authority,
management skills, international connections, and money to mobilize their supporters (Kim et al., 2007).

It is hard to diminish the importance of the freedom of association for the promotion of environmental and social protection of causes. The increased resources, connections, administrative capacities and legitimacy attained by organized groups significantly enhance their bargaining power relative to business and the government (Kim et al., 2007). Because of enhanced resources and capabilities, the members and staff of organized environmental and social protection groups are also much less vulnerable than individual activists to retaliation and/or manipulation by government or other opponent organizations. Additionally, increased resources and capabilities allow more effective organization and deployment of political action. This political action may not only include traditional political action strategies including donations to political parties, issue-specific research, lobbying, public education campaigns, the creation of multi-sector alliances, drafting of laws and regulations, issue framing for agenda setting, and legal defense funds, but also more confrontational tactics such as rallies, demonstrations, sit-ins, picketing, strikes, and even violent protests (Kim et al., 2007; Kingdon, 1995).

Given the enhanced freedom of the press and organization and stronger rule of law traditions, more democratic governments are also less likely to arbitrarily and/or violently restrict the advocacy efforts of social and environmental activists and their organized interest groups (deLeon, 1997; Payne, 1995). Conversely, in authoritarian states repression, threats, and other manipulation tactics are more often used to deal with the demands of these advocacy groups, particularly when they seek to promote protective regulatory restrictions on core sectors of the economy and/or businesses owned by the elite (Kim et al., 2007).

For instance, in 2007 the incoming Guatemalan Minister of Environment received preemptive death threats linked to his future authority to certify the environmental impact assessments of mining projects strongly opposed by local communities, the Catholic Church, and environmentalist groups all excluded from the negotiations between the government and prospective mining companies (Estrada, 2008). Of course, it is important to stress that these death threats may have arisen from multiple sources – such as the military, other government officials, local firms, and/or local landowners.
expecting windfall profits—without any connection and/or support from the multinational mining companies involved in these conflicts. Despite their covert nature, anonymous threats of violence can be a very effective form of manipulating government officials and activists in countries like Guatemala with strong state-corporatist traditions and an unfortunate history involving extreme levels of violence, poverty, corruption, and authoritarian institutions (Petri, 2002).

Freedom of political participation and the right to vote
Freedom of political participation and the right to vote also play a key role in increasing the legitimacy of protective policies, vis-à-vis economic growth policies, as citizens and groups that advocate social and environmental protection can support the election of like-minded politicians that are more likely to promote the adoption and effective enforcement of protective policies perceived as costly by the business sector (Diamond, 1999; Lim and Tang, 2002; Payne, 1995). Nondemocratic states may hold elections to give the appearance of upholding these voting and political participation rights. Yet, in these authoritarian states, multiple groups—from the government and sometimes other sectors of society—often rely on rigging practices aimed at fraudulently manipulating these “elections.” Commonplace rigging practices include stuffing ballot boxes, hiring thugs to intimidate voters and opposition candidates, bribing/extorting public employees to gain their support, and using official funds to promote pro-government candidates. Even more aggressive rigging tactics may include detention or even assassination of opposition candidates. For instance, in 2007–8, intimidation and imprisonment of opposition candidates and their supporters were evident in elections in held in Russia and Egypt, and in the case of Pakistan also included the assassination of the globally famous former prime minister Benazir Bhutto (Chivers, 2008; Constable and Rondeaux, 2008; Gall, 2007; Levy, 2008).

Overall, the combination of greater information, demands, and organized political support for social and environmental protection institutionalized by traditional democratic rights and freedoms, constrains the level of resistance that can be offered by firms during the different stages of the policy process. Hence, I argue that businesses in more democratic countries display more cooperation as they experience greater internalization of the collectively shared
meaning and importance of social and environmental protection. Firms in more democratic countries tend to take for granted the legitimacy of the activist role played by social and environmental organizations and the news media (Gunningham et al., 2003; Mitchell, 1997; Schmidt, 2002). Also, because of their higher internalization of stronger social-environmental protection traditions, companies in more democratic countries more instinctively accept the enhanced use of coercive government mechanisms to enforce protective policies and regulations (Lindblom and Woodhouse, 1993; Mitchell, 1997; O’Rourke, 2004).

Of course, firms may still actively use resistance strategies to oppose protective regulations in highly democratic countries (Oliver, 1991). However, in these countries some of the most aggressive resistance tactics such as defiance – in the form of violence and disregard of government authority – are considered radical deviances of the institutionalized democratic order and thus seldom adopted or even considered by firms because of their long-standing social and legal illegitimacy (Baron, 2005; Lindblom and Woodhouse, 1993; Mitchell, 1997). Additionally, as I discussed in the policy capture section of the book (see Chapter 3), the most aggressive form of resistance – manipulation tactics aimed at capturing the policy process – is difficult to sustain by business in highly democratic countries like the US. This is mainly because in democratic regimes multiple interest groups, not just businesses, have the rights, expertise, and resources to compete and influence decisionmakers at different stages of policy process (Teske, 2003).

Conversely, in authoritarian regimes business is more likely and able to rely on manipulation tactics for multiple reasons. First, environmental and social protection groups are more likely to be excluded – violently if necessary – from policymaking advocacy and mobilization. Second, the state is less autonomous from economic interests as its legitimacy and capacity to stay in power is more dependent on economic growth than on: (1) citizen consent; and (2) its ability to democratically combine and adjudicate the myriad of disparate interests held by those governed (Dahl, 1973; Lindblom and Woodhouse, 1993). Third, government decisions that are considered arbitrary can seldom be challenged successfully because of a lack of an independent judicial system and legislature (Grindle and Thomas, 1991).
To be sure, it is important to stress that manipulation strategies that enable business to capture the policy process must be maintained over time through long-term co-opt, influence, and control tactics. In authoritarian countries, because of the lack of freedom of expression and repressive tactics against opposition, these manipulation tactics are not as conspicuous as other forms of less aggressive resistance used in democratic regimes. Hence, it may seem as if businesses are not offering high levels of resistance to protective policy process demands in authoritarian countries when in fact resistance is sustained at the highest level in the form of manipulation that results in policy capture. Crises generated by big accidents offer rare opportunities to reveal aggressive manipulation tactics often used by business in authoritarian countries to resist adoption and/or implementation of environmental and social protection standards. To illustrate this point, it may be useful to consider the following example. In 2007 a coal mine explosion that killed 105 workers in Linfen, China (Shanxi Province) generated an unusual public uproar that forced the Chinese government to pursue a rare investigation (Barbosa, 2007). This inquiry revealed that the company owning the mine, Ruizhiyan Mining Co., had for a long time used illegal mining and worker safety practices that were overlooked by local public officials receiving bribes in the million dollar range from Ruizhiyan’s managers (Cody, 2008). This accident, considered the second most fatal mining disaster in 2007, is just one of many contributing to a government-reported death toll of 3,786 miners in 2007 making the Chinese mining industry the deadliest in the world (Cody, 2008). Our arguments in this section suggest the following proposition:

**Proposition 2:** Other things being equal, a country’s level of democratization moderates the inverted U-shaped relationship between the protective policy process and firms’ responses in such a way that firms operating in less democratic countries are more likely to offer higher political resistance during the different stages of the policy process than firms operating in more democratic countries.

**Policy network style: pluralistic versus corporatist systems**

Besides stressing the degree of democratization, political science’s neo-institutional theory also highlights the importance of identifying
the system of interest representation to characterize a country’s political context (March and Olsen, 1989; Schmitter, 1974). A country’s system of interest representation is defined as the “mechanism by which latent private desires are turned into actual public policies” (Crepaz, 1995: 401). It is usually classified into three ideal-type categories: state-corporatist, neo-corporatist (also called liberal corporatist), and pluralistic depending on the nature of the interdependencies between the government and organized interests representing business, unions, and other advocacy groups and on the country’s emphasis on consensual policymaking (Katzenstein, 1994; Murtha and Lenway, 1994).

**Corporatist systems.** Since Schmitter’s seminal paper in 1974, there has been a substantial amount of research that has explored the nature and characteristics of corporatist systems (Crepaz and Lijphart, 1995; Scruggs, 1999; Williamson, 1989). As originally conceptualized, Schmitter (1974) defined a corporatist structure as:

a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports. Schmitter, 1974: 93–4

This broad definition covers two main types of corporatism that need to be distinguished: state-corporatism and neo-corporatism (Schmitter, 1974; Streeck and Kenworthy, 2005; Williamson, 1989). *State-corporatist* systems are more prevalent in authoritarian countries or those with incipient democratic practices (Schmitter, 1974; Williamson, 1989). In such systems, a small number of peak associations, usually from business, are deliberately authorized by the government (via official decree and/or repression of other competing groups) to develop and implement economic and social policies. The policies developed and advocated by these peak associations generally reflect narrow industry interests and exclude the concerns of environmental and social protection groups (Schmitter, 1974; Scruggs, 1999; Streeck and Kenworthy, 2005). On the other hand, in *neo-corporatist* forms of interest intermediation, typical of some northern European democracies (e.g., Austria, Norway, and
Sweden), traditional business associations share cooperative policymaking and implementation with labor and a wider variety of other socially licensed ‘peak’ groups such as nongovernmental organizations focused on advancing environmental and social protection causes (Scruggs, 1999; Streeck and Kenworthy, 2005). A high degree of cooperation between a relatively strong-centralized state and the various peak associations in the country is strongly emphasized in neo-corporatist states (Schmitter, 1974; Williamson, 1989). Thus, in return for access to and participation in the policy process, the various peak groups enjoying influential access are expected to strive for collective benefits and social consensus in addition to advocating for their own narrow interests (Jepperson, 2002; Jepperson and Meyer, 1991; Schmitter, 1974).

**Pluralist systems.** On the other end of the continuum from corporatist countries are pluralist ones. Schmitter (1974) defines pluralism as:

> a system of interest representation in which the constituent units are organized into an unspecified number of multiple, voluntary, competitive, nonhierarchically ordered, and self-determined (as to type of scope of interest) categories which are not specially licensed, recognized, subsidized, created or otherwise controlled in leadership selection or interest articulation by the state and which do not exercise a monopoly of representational activity within their respective categories Schmitter, 1974: 96

In more pluralistic countries like the US and the UK, governments often receive input from a large number of competing interest groups and policymaking reflects these clashing interests (Scruggs, 1999; Streeck and Kenworthy, 2005; Williamson, 1989). Countries with pluralistic systems are often characterized by rivalry among multiple and fragmented interest groups that compete to provide their input in the policy process (Jepperson, 2002; Schmitter, 1974; Spencer et al., 2005). Advocacy groups may be constantly changing and emerging in pluralistic societies and their roles, rights, and obligations are not reified (Jepperson, 2002; Streeck and Kenworthy, 2005). Public policies are not as consensual as in neocorporatist countries and are more likely the outcome of domination by changing coalitions that prevail over the political battles of the moment (Jepperson, 2002; Schmitter, 1974). The state in pluralistic nations is weaker and less
centralized than in neocorporatist countries (Schmitter, 1974; Streeck and Kenworthy, 2005).

Neo-institutional scholars studying businesses have used the neocorporatist–pluralistic variations across countries to predict firm responses to economic and industrial policies but have given scant consideration to state corporatist systems more typical of developing countries (Jepperson and Meyer, 1991; Streeck and Kenworthy, 2005). These researchers have also given less consideration to how countries’ systems of interest representation affect business responses to environmental and social protection policies that could potentially generate a more confrontational business–government–society dynamic (Crepaz, 1995; Griffiths and Zammuto, 2005; Scruggs, 1999; Whitley, 1999; Windolf, 2002). Additionally, this extant literature has mostly focused on explaining business responses to the implementation of already established regulations, paying little attention to other stages of the policymaking process (Hillman et al., 2004; Vasudeva, 2005).

Cashore and Vertinsky’s (2000) case study examining the environmental protection practices adopted by forestry companies in the US and Canada is a notable exception to the literature’s lack of attention to protective policies. They theorize that forestry firms’ responses to environmental protection demands are affected by the level of business domination prevalent in different types of sectoral-level policy network styles (Cashore and Vertinsky, 2000).

Building upon this seminal work, I posit that the level of resistance that firms offer during the different stages of the protective policy process is likely to be higher in pluralistic countries than in neocorporatist ones. Conversely, compared to state-corporatist nations, firms’ resistance is likely to be lower in pluralistic countries. This moderating effect on the policy process–business response relationship arises first from the variation in the levels of business participation and second from the distinct emphasis on policymaking consensus inherent to the different systems of interest representation. Compared to pluralistic countries, in a state-corporatist country businesses’ likely monopolistic access to policymaking and implementation increases their capacity for using higher levels of resistance in the form of manipulation tactics, often allowing them to capture the policy process. In contrast, business resistance is likely to be lower in neocorporatist countries compared to pluralistic countries because of shared participation with labor and other environmental/social
protection peak associations capable of effectively excluding issues from the public policy agenda.

In more general terms, the previous arguments posit that business resistance is likely to follow a nonmonotonic relationship with competition for participation in policymaking. The more business has to compete for participation, as in pluralistic countries, the more likely it is to show higher resistance to the point of defiance (in cases of high levels of exclusion). Conversely, when business enjoys monopolistic access to the state, as in state-corporatist countries, it is more likely to use manipulation strategies (the highest form of resistance) to capture policymaking. It is important, however, to emphasize that business manipulation that results in policy process capture is not a one-time event. Highest business resistance in the form of manipulation needs to be sustained over a long period of time for policy capture to endure and thus make other less aggressive resistance strategies (that are usually more visible) unnecessary. In between these two extreme scenarios of business participation, business cooperation is more likely when business shares participation in the policy process with other groups as in the case in neo-corporatist countries.

The lower levels of business resistance observed in neo-corporatist countries are also the result of sedimented traditions, routines, and structures that emphasize consensus and collective rights in policymaking over pluralism’s priority on political competition and individual rights, and over state-corporatism’s emphasis on the exclusion of social protection groups from policymaking (Crepaz, 1995; Scruggs, 1999). In neo-corporatist countries, firms are more likely than in pluralistic and state corporatist nations to internalize a socially shared emphasis on political harmony and community cooperation and thus consider the use of aggressive resistance strategies as illegitimate when confronting demands for social and environmental protection (Crepaz, 1995; Scruggs, 1999). Additionally, given their more frequent interaction with licensed organized social and environmental groups in the search for policy consensus, firms in neo-corporatist countries are also more likely to cooperate with licensed social activist groups during the different stages of the protective policy process (Crepaz, 1995; Hillman and Hitt, 1999; Scruggs, 1999).

Proposition 3: Other things being equal, a country’s system of interest representation moderates the inverted U-shaped relationship between the
protective policy process and firms’ responses in such a way that firms operating in pluralistic countries are more likely to offer: (1) higher political resistance during the different stages of the policy process than firms operating in neo-corporatist countries; and (2) lower political resistance during the different stages of the policy process than firms operating in state-corporatist countries.

Regulatory approach: command-and-control versus incentive-based

Other key factors that moderate the public policy process–business response relationship are the stringency and type of regulatory instruments and mechanisms considered, enacted, and implemented to promote social and environmental protection by business. The type of regulatory instruments varies along a spectrum from command-and-control to incentive-based (Howlett and Ramesh, 1995; Salomon, 1981). Obviously, these two polar extremes of the continuum represent ideal types and countries use a combination of both command-and-control and incentive-based instruments. Yet, in most cases, a predominant preference for a particular type of policy instrument can be identified (Jennings and Zandbergen, 1995).

Because our initial focus was on the US context, I assumed in the first half of the book that a command-and-control regulation approach is the predominant type considered and prescribed by the protective policy process. Command-and-control regulations set detailed compliance standards, remediation technologies and equipment, administrative systems, reporting mechanisms, and non-compliance penalties for companies in concert with specific government monitoring and enforcement responsibilities (Porter and van der Linde, 1995; Vig and Kraft, 2006).

Incentive-based regulations, on the other hand, seek to more efficiently and cooperatively promote social and environmental protection by avoiding prescription of specific compliance techniques and instead using economic incentives – such as taxes and/or tradable permits for undesired business practices – that give firms flexibility to continuously test and develop technology and management systems to comply with established standards (Jennings and Zandbergen, 1995; Porter and van der Linde, 1995; Vig and Kraft, 2006). Additionally, under the incentive-based regulatory approach, governments shift
focus from enforcement to preventive compliance that relies on providing technical assistance to business and creating consumer or supply-chain demand for socially and environmentally responsible firms through public rating databases and awards (Gunningham et al., 2003).

Compared to incentive-based regulations, command-and-control regulations designed to address social and environmental protection demands have traditionally been perceived as more inefficient and inflexible policy instruments that stifle innovation by impinging on business compliance choices (Gunningham et al., 2003; Henriques and Sadorsky, 1996; Winter and May, 2001). The institutionalization of command-and-control regulations depends primarily on government coercive monitoring and enforcement whereas in the case of an incentive-based approach, business’ social and environmental protective practices acquire predefined collective meaning, understanding, and acceptability, not only through government coercion but also with the help of instrumental economic pressures (Andrews, 1998; Porter and van der Linde, 1995; Scott, 2001). Thus, I posit that firms operating in countries that rely on incentive-based regulations to promote social and environmental protection are more likely to offer higher cooperation during the different stages of the policy process than firms operating in countries relying on command-and-control regulations.

Command-and-control regulations perceived as inefficient and inflexible are more likely to generate higher business resistance during the different stages of the policy process because they heighten the customary conflict between the provision of social-environmental protection by business and the already institutionalized business’ profit-seeking expectations, routines, roles, and traditions (Andrews, 1998; Oliver, 1992; Zucker, 1987). Conversely, incentive-based regulations take advantage of traditional business sector strengths at finding innovative and cost-effective methods (Delmas and Marcus, 2004; Porter and van der Linde, 1995; Wheeler, 1999). Incentive-based regulations also reduce the likelihood of expensive litigation typical of a command-and-control regulatory approach, freeing firm resources to more quickly meet protective demands (Cashore and Vertinsky, 2000; Porter and van der Linde, 1995; Vig and Kraft, 2006). They may also create new markets for innovative firms that develop new technologies and management systems (Porter and van der Linde, 1995).
These innovative firms may also improve their reputations thanks to increased social and environmental legitimacy derived from their proactive practices (Porter and van der Linde, 1995; Vig and Kraft, 2006).

Besides identifying the type of regulatory instruments preferred in different countries, scholars in multiple social sciences have also long highlighted the importance of considering the stringency of the specific protective regulations proposed and adopted by a country (Gunningham et al., 2003; Levison, 1996; Vig and Kraft, 2006). More stringent protective regulations involve more rigorous standards and enforcement imposing higher costs on business, even if they rely on incentive-based regulatory instruments (Levison, 1996; Vig and Kraft, 2006). Also, the more stringent regulations are, the more restricted the technology and management choices available to businesses attempting to meet the given environmental or social regulatory performance standards. This combination of higher costs and restricted compliance choices associated with more stringent regulations again enhances the conflict between institutionalized profit-seeking business traditions and protective policy demands. Accordingly, it can be expected that firms are more likely to offer higher resistance during the different stages of the protective policy process when confronting more stringent regulatory requirements.

Proposition 4: Other things being equal, a country’s regulatory approach moderates the inverted U-shaped relationship between the protective policy process and firms’ responses in such a way that firms operating in countries relying on command-and-control regulations are more likely to offer higher political resistance during the different stages of the policy process than firms operating in countries relying on incentive-based regulations.

Proposition 5: Other things being equal, regulatory stringency moderates the inverted U-shaped relationship between the protective policy process and firms’ responses in such a way that firms operating in countries relying on stricter regulations are more likely to offer higher political resistance during the different stages of the policy process than firms operating in countries relying on less stringent regulations.

Economic context

Finally, I also believe that it is important to highlight the intervening role played by a country’s economic affluence, indicated by its gross
national income (GNI) per capita, in moderating the protective policy process–business response relationship. For this I draw on arguments from neo-institutional economics and resource dependence theory (North, 1990; Pfieffer and Salancik, 1978). Gross national income (GNI) is a measure of national economic activity representing the total value of all goods and services produced annually including income from abroad – called gross national product (GNP) in the old terminology of the 1968 United Nations System of National Accounts (World Bank, 2006).

The connection between national socio-political institutions and national economic income has long been recognized by multiple social science disciplines; with most scholars focusing on understanding how socio-political institutions shape the economy (March and Olsen, 1989; North, 1990; Scott, 2001). Of course, economic income reciprocally affects the process of socio-political institutional formation and change (Jepperson and Meyer, 1991; North, 1990). For example, a large body of the economics literature suggests that social and environmental protection norms and regulations may be easier to institutionalize in wealthier countries (Dasgupta et al., 2002; Porter and van der Linde, 1995; Stern, 2004). These extant works have studied the relationship between country GNI per capita and social or environmental protection to test the application of the Kuznets curve hypothesis to these issues (Dasgupta et al., 2002; Higgins and Williamson, 1999; Milanovic, 2005; Solimano et al., 2000; Stern, 2004). The Kuznets curve hypothesis posits an inverted U association between social-environmental decline and per capita income, meaning that, in wealthier countries, economic growth is associated with social-environmental improvement (Grossman and Krueger, 1991). Social-environmental quality in poor countries, on the other hand, is expected to quickly decline with economic growth (Dasgupta et al., 2002; Grossman and Krueger, 1991; Stern, 2004).

This inverted U relationship is explained by arguing that as national income per capita rises beyond lower-middle income country levels, resources and new technology available for social and environmental protection enforcement and adoption respectively become more abundant for governments and firms (Stern, 2004). Also, once citizens in upper-middle income countries and beyond have satisfied their basic needs (e.g., health, education, and safety), they shift their demands to increased social-environmental protection prompting the adoption and effective implementation – institutionalization – of stricter
protective regulations (Panayotou, 1997). Empirical studies offer mixed evidence about the precise GNI per capita levels at which turning (or “saddle”) points are observed, but most point to improvements in social and environmental quality beginning in countries with upper-middle income levels – currently between $3,466–$10,725 GNI per capita (Stern, 2004; World Bank, 2006).

At a micro-level of analysis, organizational theory scholars have similarly pointed out how the array of available strategies and attainable goals increases for businesses operating in more munificent environments (Castrogiovanni, 1991; Pfeffer and Salancik, 1978; Staw and Szwajkowski, 1975). Munificence is understood here as the level of “abundance of critical resources needed by firms operating within an environment” (Castrogiovanni, 1991: 542). In contexts with scarce resources, competition and conflict increases, reducing firms’ profitability and survival, making it more difficult for business to pursue other goals that produce collective benefits such as social and environmental protection (Pfeffer and Salancik, 1978; Staw and Szwajkowski, 1975). Moreover, the pressure to gather limited resources in scarce environments pushes firms to engage in illegal acts such as the corruption of government officials (Husted, 1999; Staw and Szwajkowski, 1975).

Hence, I argue that firms operating in poor countries (below upper-middle GNI per capita) are more likely to offer higher resistance during the different stages of the protective policy process than those operating in wealthier countries. In these poor countries demands for social and environmental protection are more likely to be considered incompatible with legitimate subsistence practices of large numbers of barely surviving businesses (Blackman and Bannister, 1998; O’Rourke, 2004; Rivera, 2004). Moreover, it is not only that social and environmental protection demands may be perceived as trivial and illegitimate when faced with the struggle for survival; but also these issues are usually dismissed because it is taken for granted that poor developing country governments lack the capacity and/or the will to enforce “on-paper” protective regulations (Ames and Keck, 1997; O’Rourke, 2004; Rivera, 2004; Stuligross, 1999). In addition, many business owner-managers rarely have the basic education required to understand complex social and environmental protection requirements (Rivera and deLeon, 2005).
Proposition 6: Other things being equal, a country’s economic income moderates the inverted U-shaped relationship between the protective policy process and firms’ responses in such a way that firms operating in poor countries with gross national income per capita below upper-middle income levels are more likely to offer higher political resistance during the different stages of the policy process than firms operating in wealthier countries.

Finally, it is important to re-emphasize a condition established at the beginning of this chapter: in developing the arguments and propositions, I assumed firm and in-country regional characteristics to be constant. The following chapter considers the effect of firm-level characteristics on the protective policy process–business response relationship. Regional variations inside countries are also important. Significant changes in the level of political freedoms, democratic rights, level of income per capita, and enforcement/monitoring of protective regulations are common inside countries and they tend to be particularly stark in developing nations even across small distances. For example, despite the pervasive weak enforcement capacity of environmental/social protection agencies in developing countries, the ability of these agencies to influence business behavior can be expected to be higher for firms located in urban areas (O’Rourke, 2004; Stern, 2004; Wheeler, 1999). In these areas, local community stakeholders can be expected to be more politically influential as they have higher economic and legal capacity, stronger leadership, and more connections with high-level government officials, the media, and environmentalists (O’Rourke, 2004; Stern, 2004; Wheeler, 1999). I do not develop an additional chapter to deal with these regional differences because the logic and propositions discussed here for country contextual variations can easily be adapted by scholars and policymakers to explore the effect of these in-country regional changes.

Notes
1. This chapter is an expanded and modified version of portions of: Rivera et al., 2009, reproduced with kind permission of Springer Science and Business Media.
2. Some rational choice scholars would even make the argument that political and other kinds of behavior are explained by self-interest with institutional effects being negligible (Steinmo et al., 1992).
3. Similarly, during the 1950s and 1960s there was another period of international prosperity and national policy convergence in western countries that ended with an economic crisis triggered by sharp oil price increases (Steinmo et al. 1992).

4. Veto points are “points in the policy process where the mobilization of opposition can thwart policy innovations.” (Steinmo, et al., 1992: 7).


9. It is important to emphasize, however, that state corporatism and dictatorship are not synonymous.

10. The World Bank classifies countries according to their gross national income (GNI) per capita as follows: low income, $875 or less; lower middle income, $876–$3,465; upper middle income, $3,466–$10,725; and high income, $10,726 or more (World Bank, 2006).