

Business responses to environmental and social protection policies: toward a framework for analysis

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Abstract This conceptual paper seeks to advance neo-institutional work that has traditionally portrayed environmental and social protection policies as constraints followed by businesses. Drawing from the policy sciences literature, we propose that in the United States, businesses tend to show increasing resistance as the protective policy process moves from initiation to selection and growing cooperation thereafter. Most importantly, we also contribute to the neo-institutional theory literature by positing that this inverted U-shaped policy process–business response relationship proposed for the U.S. context may be moderated by variations in the level of democracy, system of interest representation, regulatory approach, and national income.

Keywords Institutional theory · Corporate social and environmental responsibility · Public policy process · Developing countries

Public policies and regulations that demand increased environmental and social protection by business have been growing in number, complexity, and stringency over the last few decades not only in industrialized countries but also in developing nations (Baron 2005; O'Rourke 2004; Vig and Kraft 2006). Neo-institutional scholars interested in organizations

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have contributed significantly to our understanding of the logic that shapes business' responses to government laws and other socially enacted values, beliefs, norms, and routines. Although some scholars have begun to stress a wide array of legitimate organizational responses to multiple and sometimes conflicting institutional pressures (Hoffman 1999; Oliver 1991), most organizational sociology neo-institutional research continues to highlight compliance as the most legitimate and expected response to coercive regulatory pressures (Dacin et al. 2002; Hirsch 1997).

Thus, a relatively limited view has emerged that portrays public policies and regulations as effectively enforced and therefore followed by business (Friedland and Alford 1991; Hirsch 1997; Hoffman 1999; Suchman and Edelman 1997). To be sure, compliance with environmental and social protection public policies (hereafter called protective policies) and their regulations is certainly the prevalent response of firms in the United States. Yet, it is important to highlight that it has taken decades to enact and implement these protective policies and for them to reach the point of being internalized by business managers and other influential social groups. This long public policy process is affected by intense advocacy and/or opposition by multiple social, government, and business actors. Additionally, it requires massive public expenditures to create and institutionalize new government agencies with strong monitoring-enforcement capacity and political clout. Hence, in this conceptual paper, we seek to contribute to the neo-institutional literature by focusing on understanding business responses to the process of enactment and implementation of protective policies, such as environmental protection, consumer protection, workers' health and safety, and civil rights policies and their regulations. Specifically, our first goal is to discuss the underlying logic explaining the protective public policy process dynamic in the context of the U.S. to elucidate how its stages are associated with business political strategies involving different degrees of resistance and/or cooperation. To do this, we integrate neo-institutional scholarship with ideas from the policy sciences literature that has long ago emphasized the importance of taking a process perspective to understand policymaking (Lasswell 1971; Clark 2002).

Another important gap in sociology's neo-institutional literature on organizational analysis is its focus on studying business behaviors in industrialized countries such as the U.S., and other developed nations. Except for studying how business behavior is affected by variations in different styles of democracy and state control, organizational neo-institutional scholars have paid little attention to significant contrasts in other key country contextual characteristics, such as, level of democracy, system of interest representation, regulatory approach, and national economic income. Thus, our second and most important goal is to contribute to begin filling this gap by developing a conceptual logic clarifying how these additional country contextual variables may intervene to moderate the protective policy process–business response relationship described for the context of the U.S. in the first part of the paper.

In delineating the boundaries of our work here, it is important to stress first that this is a concept development paper. We do not provide, at this point, empirical evidence testing the logic and proposition developed. The few examples included here are illustrative and are not offered as proof of our ideas. Also, while in our theorizing we recognize the importance that country regional conditions and firm level characteristics may have on determining firms' responses to government demands, we explicitly do not include the effects of these variables on the policy process–business response relationship proposed. Although holding these factors constant in our analysis precludes us from developing a more general framework of the policy process–business response relationship, it allows us to take a first step toward exploring a central component of this framework; explaining how

country contextual characteristics moderate the policy process–business response relationship above and beyond the effect of firm characteristics. This parsimonious approach is, of course, the traditional science-based method for the initial analysis of specific relationships of interest while acknowledging that other variables may have an effect on such relationships (Kuhn 1962; Popper 2002; Rowley 1997). We also do not consider economic policies and regulations that, in contrast to protective policies usually opposed by firms, tend to be traditionally supported by existing businesses (Hawkins and Thomas 1984; Kagan 1984; Stigler 1971; Winston 1993).¹

Following this introduction, we first review the literature on neo-institutional theory and government policies and regulations and then examine how business responses to government demands can be classified according to different levels of opposition and cooperation. Next, we introduce the policy process perspective and discuss how different stages of this process are associated with variations in business responses in the U.S. context. In the second part of the paper, we conceptually explore how variations in a country's level of democratization, system of interest representation, type of regulation, and economic income moderate firms' responses to the protective policy process in other countries.

Neo-institutional theory and public policies

Sharing an open systems perspective with other social science theories, sociology's neo-institutional theory gives the external context a central role in determining organizations' strategies (Katz and Kahn 1966; Scott 2001). Accordingly, managers' behavior is seen as restricted and shaped by the social and cultural environment in which they are embedded (Granovetter 1985; Meyer and Rowan 1977). The most important elements of this external context include institutions—understood here as shared schemas, routines, norms, government regulations, symbols, and ceremonial traditions that facilitate and constrain the behavior of social actors (DiMaggio and Powell 1983; Meyer and Rowan 1977; Powell and DiMaggio 1991).

Neo-institutional scholars also challenge the notion that businesses are exclusively profit-seeking and emphasize the importance of achieving social legitimacy for long term business survival and competitiveness (Meyer and Rowan 1977; Powell and DiMaggio 1991; Scott 2001). Legitimate businesses are those whose actions are seen as, or presumed to be, “desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman 1995, p. 574). Institutions that determine social legitimacy exert coercive, normative, and cognitive pressures that have an isomorphic effect, through diffusion and imitation, leading businesses that operate in the same organizational field to adopt similar structures and strategies (Powell and DiMaggio 1991).

Although early neo-institutional scholars have highlighted compliance as the typical isomorphic response to institutional pressures arising from government policies and regulations, more recent work has begun to stress a wider array of legitimate organizational responses to these pressures (Hirsch and Lounsbury 1997; Hoffman 1997; Oliver 1991). Borrowing from this more recent scholarship, and drawing on insights from the public

¹ Economic policies are regulations that establish prices, subsidies, trade tariffs, accounting practices, etc., and tend to be demanded by existing businesses which are their main beneficiaries (Hawkins and Thomas 1984; Kagan 1984; Stigler 1971; Winston 1993). Tax increasing policies are exceptions to this generalization about the tendency for businesses to support economic policies and regulations (Stigler 1971).

policy literature, we posit that businesses are less passive in their resistance to government demands than originally proposed by neo-institutionalists (Meyer and Rowan 1977; Oliver 1991). We see businesses as both influenced by government policies and actively involved in the socio-political process of contesting, remaking, and redefining them (Hoffman 1997; Oliver 1991; Seo and Creed 2002; Tolbert and Zucker 1996).

This politically contested public policy dynamic is particularly evident in the creation and implementation of government protective policies and regulations that are intended to coerce firms to adopt measures that safeguard, among others, the environment, consumers, workers' health and safety, and civil rights (Kagan 1984; Vig and Kraft 2006). Yet, following the neo-institutional tradition, scholars continue predominantly using a more limited perspective that deemphasizes the socio-political process through which protective policies are enacted, contested, diffused, and reproduced; they depict them as exogenous constraints that are effectively enforced and are able to coerce firms' compliance (Barley and Tolbert 1997; Hirsch 1997; Seo and Creed 2002; Tolbert and Zucker 1996). Businesses facing government demands can, in fact, adopt multiple political strategies.² Hoffman's (1997, 1999) seminal study of the evolution of corporate environmentalism in the U.S. Chemical and Oil industries between 1960 and 1993 illustrates this institutional dynamic in which most firms initially showed high levels of resistance that over a couple of decades turned into cooperation and even proactive beyond compliance. We draw inspiration and build upon Hoffman's work to detail the specific nature of the protective public policy process–business response relationship for different types of social and environmental protection policies in the U.S.

Classification of business responses to policy process demands

The wide variety of political strategies adopted by businesses is associated with different and often conflicting claims of power from the various actors involved in the stages of the policy process.³ Beginning with Dahl's seminal work in conceptualizing political opposition, the patterns of resistance through cooperation to the exercise of power during the policy process have been classified using multiple criteria such as their levels of collective organization or their reliance on formal political channels (Blondel 1997; Boddewyn and Brewer 1994, p. 122; Dahl 1971, 1973). In this paper, we follow management scholars by characterizing business responses according to the levels of active agency employed to resist policy process pressures and demands (Fischer 1983; Oliver 1991; Pfeffer and Salancik 1978; Rowley 1997). We conceptualize *resistance* here as the range of opposition acts and behaviors to claims of power or initiatives by others (Fleming and Spicer 2007, p. 30; Jermier et al. 1994, p. 9). *Cooperation*, at the other end of the spectrum of firm

² We follow other scholars in defining business political strategies as the concerted pattern of actions taken by firms to favorably shape public policies and demands arising from the commands, appeals, influence, and/or opposition of government agencies, social and environmental activists, and other stakeholders (Baron 2005; Baysinger 1984; Mahon 1993).

³ The exercise of power during the policy process may take different forms that have been classified in four basic "faces" or dimensions. First, power can consist of direct coercion, relying on the use of physical force and/or the control of critical-scarce resources (Clegg et al. 2006). The second face of power involves the ability to manipulate dominant political procedures and institutions to limit the issues included on the policy agenda. (Bacharach and Baratz 1962; Fleming and Spicer 2007). Third, power can involve domination of others through imposing an ideology that shapes the values, preferences, and understandings that determine legitimate behaviors. Finally, the fourth face of power shapes the process of subjectification determining how internal and external reality as a whole is perceived (Fleming and Spicer 2007).

responses, is understood as conscious or unconscious assistance to the claims of power or initiatives by others (Fleming and Spicer 2007; Oliver 1991).

In developing these categories of business responses, we rely on Christine Oliver's (1991) proposed typology of strategic responses to institutional processes. She includes the following generic strategy categories listed in decreasing order of active resistance toward demands for conformity: manipulation, defiance, avoidance, compromise, and acquiescence (Oliver 1991). Each of these generic strategy categories involves specific associated tactics described here in order of decreasing active resistance (see Table 1).

Manipulation, the most active form of resistance, is conceptualized as the deliberate and opportunistic effort to "actively change or exert power over the content of the [external] expectations or the sources that seek to express or enforce them" (Oliver 1991, p. 157). It includes control, influence, and co-opt tactics (Oliver 1991; Pfeffer and Salancik 1978). *Defiance*, a less active form of resistance than manipulation that nevertheless is intentionally contemptuous of external demands, involves attack, challenge, and dismiss tactics (Oliver 1991). *Avoidance* is defined as "seeking to preclude the necessity of conformity" through escape, buffer, and conceal tactics (Meyer and Rowan 1977; Oliver 1991, p. 154). *Compromise* involves relatively milder levels of active resistance that seek to reduce the need for unqualified compliance with external demands and entails bargain, pacify, and balance tactics (Oliver 1991; Pfeffer and Salancik 1978). *Acquiescence* is understood here as conscious or unconscious cooperation with external demands and it involves compliance, imitation, and habit tactics (DiMaggio and Powell 1983; Oliver 1991). Following corporate environmental and social responsibility scholars (Cashore and Vertinsky 2000; Hart 1995; Roome 1992), we build upon Oliver's initial set of categories by adding "beyond compliance" to reflect the strategy adopted by a small number of companies seeking to gain competitive advantage by consciously surpassing environmental and social protection regulatory requirements.

Measuring resistance

Researchers have identified and measured a variety of strategies and tactics that firms employ to resist the public policy process (Birnbaum 1985; Hillman et al. 2004; Meznar and Nigh 1995). Some of the commonly used tactics perceived to be effective at proactively reducing government regulation of business include making campaign contributions, lobbying policy makers, preparing technical reports, engaging in letter writing and media campaigns, and providing expert testimony, among others (Aplin and Hegarty 1980; Baron 2005; Birnbaum 1985; Kraft and Kamieniecki 2007). More recently, establishing environmental and social protection self-regulation initiatives has become a common tactic that may be used by business seeking to preempt the adoption of new more stringent protective policies and regulations (Darnall and Sides 2008; Gibson 1999). Business argues that compared to mandatory protective regulations, voluntary programs such as the Chemical Industry's Responsible Care and Forestry Industry's Sustainable Forestry Initiative are more cost-efficient and allow the development of innovation that result in the adoption of beyond compliance environmental and social protection practices. Yet, most empirical work in this area has found that voluntary programs that lack performance-based standards and third party certification—strictly voluntary programs—have not been able to effectively promote higher corporate social and environmental performance (Darnall and Sides 2008; King and Lenox 2000). This suggests that strictly voluntary programs may be part of an avoidance strategy (see Table 1) seeking to resist the new protective regulations.

Table 1 Example of business political strategies and environmental policy process demands

Political strategy	Tactics (examples)
1. Manipulation (Highest resistance)	<i>(a) Control</i>
	Seek dominance over environmental activists, policymakers, and government inspectors by:
	Initiating bogus lawsuits against them.
	Covertly threatening violence and other illegal retaliation.
	Aggressively funding friendly politicians, “environmental” groups, and scientists involved in the environmental policy process.
	<i>(b) Influence</i>
	Actively lobby policy-makers to diminish the importance and/or need of environmental protection by:
	Exaggerating high cost and technological challenges imposed by the adoption or enforcement of possible environmental regulations.
	Reject scientific evidence and environmentalists’ claims about the causes and severity of environmental problems.
	Seeking to change the evaluation criteria used to assess environmental regulations and business environmental performance.
2. Defiance	<i>(c) Co-opt</i>
	Seek to neutralize different government officials and interest groups by using “legal incentives” such as donations, consulting jobs board of director positions.
	Bribe politicians, government officials, and/or environmental activists.
	<i>(a) Attack</i>
	Characterize environmentalists and government officials as radical left-wing irrational alarmists.
	Aggressively condemn environmental regulations as communist type laws that are anti-economic growth.
	Covertly assault environmental activists and government inspectors.
	<i>(b) Challenge</i>
	Actively refuse responsibility over environmental problems.
	Dispute the legitimacy of regulators’ enforcement activities with top government officials.
Question the authority of environmental inspectors during on-site visits.	
3. Avoidance	<i>(c) Dismiss</i>
	Ignore environmental problems created by business activities.
	Disregard as illegitimate the environmental protection requests and demands from government agencies, environmentalists, and other stakeholders.
	<i>(a) Escape</i>
	Moving polluting activities to locations with less stringent regulations and/or monitoring.
	Phasing out products or processes perceived as too environmentally controversial.
	<i>(b) Buffer</i>
	Outsourcing highly polluting activities to independent sub-contractors.
	<i>(c) Conceal</i>
	Symbolic adoption of end-of-pipe technology.
Stopping or reducing highly polluting production processes at visible times and during inspections.	
Opportunistic participation in non third-party voluntary environmental schemes.	
Disposing of wasted and pollution in isolated and distant locations.	

Table 1 continued

Political strategy	Tactics (examples)
4. Compromise	<p>(a) <i>Bargain</i> Actively negotiate the stringency of environmental regulations with government and other stakeholders.</p> <p>(b) <i>Pacify</i> Limited adoption of visible and minimal environmental protection efforts to avoid conflict with influential stakeholders and preempt regulations.</p> <p>(b) <i>Balance</i> Seek less stringent environmental standards by directly involving economic growth interest groups in the environmental policy process.</p>
5. Acquiescence	<p>(a) <i>Comply</i> Deliberately conform to environmental regulations Intentionally adhere to key community and industry environmental protection expectations</p> <p>(b) <i>Imitate</i> Emulate environmental compliance practices adopted by industry leaders.</p> <p>(c) <i>Habit</i> Unconsciously follow given environmental regulations.</p>
6. Beyond compliance (Highest cooperation)	<p>(a) <i>Self-regulation</i> Participate in independent performance-based environmental certification programs. Follow uniform beyond compliance standards globally.</p> <p>(b) <i>Leadership</i> Promote more stringent regulations and voluntary environmental protection standards through lobbying and public campaigns. Supply chain greening: Requires global suppliers to obtain credible third-party environmental certification. Green-partnering with government and other environmental stakeholders to develop and share with other industry competitors new environmental technologies and management systems.</p>

In the corporate political activity literature, scholars have measured resistance to the public policy process in terms of the frequency and level of intensity of opposition actions and tactics offered by business. For example, indicators of business resistance may include: (1) annual expenses on lobbying directed at opposing protective policy adoption and implementation; (2) the level of campaign donations given to politicians opposing protective policies; (3) the number of lawsuits challenging existing protective policy laws; and (4) the number and type of opposition statements provided during the public comment periods for regulatory and standard proposals, (Cavazos 2005; Hillman et al. 2004; Meznar and Nigh 1995).

The protective public policy process in the U.S.

In the U.S., environmental and social protection policies and regulations are enacted and implemented in a context characterized by strong pluralistic democratic traditions, a predominant reliance on command-and-control regulatory instruments, relatively strong

government enforcement capacity, and a high per capita income. Accordingly, protective policies are the result of a process that is highly contested by multiple organized interest groups and often yields complex, ambiguous, fragmented, and conflicting regulations (Brewer and deLeon 1983; Lindblom and Woodhouse 1993; March and Olsen 1989). It is also important to highlight that the pluralistic democratic traditions predominant in the U.S. make it very difficult for business or any other group or coalition to sustainably capture protective policymaking (Kraft and Kaminiecki 2007; Marcus 1984).⁴

The policy process perspective has long dominated the study of public policymaking in the U.S. First proposed by Harold D. Lasswell in the late 1940s (Lasswell 1951, 1956, 1971), this process perspective has provided a framework for scholars investigating the stages in which policy is substantively assessed, enacted, and executed. There is an extensive literature that examines in detail the different policymaking stages and its analysis falls outside the scope of this paper (see, for example, Brewer and deLeon 1983; Sabatier 2007). In this paper, we disaggregate protective policymaking into three basic stages—initiation, formulation–selection, and implementation—that together may last for periods of at least ten years and typically may entail two decades or more (Baumgartner and Jones 1993; Brewer and deLeon 1983; Sabatier 1999). We now turn our attention to firms' likely responses at different stages of the public policy process.

Business responses to the protective policy process in the U.S.: a curvilinear relationship

In order to make explicit the underlying institutional logic of business responses to the policy process, we follow other neo-institutional scholars in drawing from Berger and Luckmann's (1967) phenomenological approach to understanding institutions and institutional processes (DiMaggio and Powell 1983; Scott 1991, 2001; Tolbert and Zucker 1996). Specifically, we posit that—holding firm characteristics and in country regional conditions constant—the protective policy process–business response relationship in the U.S. is likely to be curvilinear with firms tending to show increasing political resistance as the public policy process moves from initiation to selection and thereafter declining resistance that turns into growing cooperation in mid-implementation (see Fig. 1 for a rudimentary illustration of the proposed relationship).

Policy initiation

The initiation stage of the protective policy process in the U.S. involves the identification of emerging social and environmental problems that are defined in disparate ways by competing interest groups. Awareness of the emerging problems tends to be salient among a few specialists and passionate activists but almost nonexistent among the general public and top officials in government and industry (Kingdon 1995). Indeed, it is important to

⁴ According to capture theory, the enactment and implementation of economic policies (e.g., those directed at regulating prices, monopolies, trade, and business investment) tend to primarily promote the narrow private interests of powerful businesses that dominate policymakers and regulators (Peltzman 1976; Posner 1974; Stigler 1971). Capture theory also suggests that, compared to business interests, other interest groups involved in the policy process lack the expertise and resources to sustain the long term advocacy required to guarantee the advancement of the public interest by government policies and regulations (Sabatier 1975). Findings from multiple empirical studies [for reviews of this literature see Teske (2003) and Gerber and Teske (2000)] provide little support for the argument that special interest groups are able to capture the policy process in the U.S.

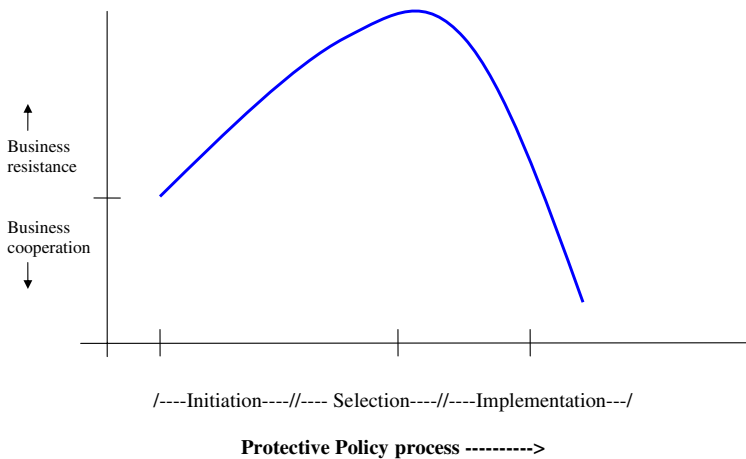


Fig. 1 Protective policy process–business response relationship: U.S. context (rudimentary illustration)

highlight that usually the large majority of environmental and social protection issues do not gain high enough levels of attention and political support to become part of the policy agenda (Kingdon 1995).⁵

During initiation, firms in the U.S. are more likely to show lower levels of resistance than in the formulation–selection and early implementation stages because most are unaware or choose to ignore the existence of emerging conditions that highlight contradictions with the sociopolitical environment and thus may erode the legitimacy of institutionalized governmental policies and regulations (Hoffman 1997; Jepperson 1991; Seo and Creed 2002). From a neo-institutional perspective, firms’ nescience toward these emerging conditions arises from pluralistic and market-oriented structures, norms, routines, and traditions that historically have become taken-for-granted ingredients of the existing protective public policy and regulatory order in the U.S. (Hoffman 1997; Scott 2001; Tolbert and Zucker 1996). Thus, businesses tend to instinctively fail to register emerging problems that might or might not lead to government policies and regulations imposing new social and environmental protection responsibilities in the distant future (Hoffman 1997; Tolbert and Zucker 1983). Also at this point, demands from activist groups and other stakeholders are more likely to be seen by firm managers as fringe and/or inscrutable claims that illegitimately challenge the institutionalized protective regulatory order (Hart and Sharma 2004; Hoffman 1997; Tolbert and Zucker 1996).

Usually, only a very small number of firms such as those confronted with more stringent protective public policies, or those with more slack resources for experimentation and innovation, or those with top managers holding enhanced social and environmental protection beliefs, e.g., large firms or multinational corporations (MNCs), may be purposely cognizant of the emerging social problems and involved in early lobbying efforts aimed at trying to shape their definition (Bonardi et al. 2005; Christmann and Taylor 2001; Dowell

⁵ Depending on the combination of political pressures exerted by interest groups, firms and their stakeholders, the generation of less conflicting evidence, the occurrence of a significant contextual change (e.g., a political or economic crisis, natural disaster, new government leadership, etc.), and/or the consistency of the problem definition with the ideology of top decision makers, emerging problems may gain the attention of the media and wider audiences, and become part of the public policy agenda (Barley and Tolbert 1997; Baumgartner and Jones 1993; Kingdon 1995).

et al. 2000). For example, since 1987, the Montreal Protocol has successfully phased out the global production and use of chlorofluorocarbon compounds (CFCs) known to be the major cause of the destruction of the atmosphere's ozone layer (Brack 1996; Vig and Kraft 2006). Yet, in the early 1970s, most chemical firms manufacturing CFCs showed no concern for their environmental effects and were dismissive or unaware of the initial emerging scientific model and laboratory evidence linking these chemicals to the destruction of the atmosphere's ozone layer (Brack 1996; Hoffman 2000; Reinhardt and Vietor 1989, 1996; Vig and Kraft 2006).

Policy formulation and selection

The formulation–selection stage of the public policy process involves at first the development/identification and assessment of a few preferred alternative prescriptions to deal with a problem that has become increasingly germane to the public policy agenda (Brewer and deLeon 1983; Kingdon 1995). It is important to note that despite objectivity claims by policymakers, interest groups, and businesses in the U.S., these activities seldom follow a “scientific” approach (Kingdon 1995; Lindblom and Woodhouse 1993).⁶ Stalemate is often likely in the form of more studies and appointment of symbolic commissions (Brewer and deLeon 1983; Kingdon 1995; Moldan et al. 2006). For the few issues salient enough to require legislative action, the selection of a preferred public policy alternative typically involves a few top government officials from the Congress and the White House (Brewer and deLeon 1983; Kingdon 1995). Here, political and ideological concerns take precedence over scientific data and assessments (Lindblom and Woodhouse 1993).⁷

During formulation–selection, most firms tend to display the highest levels of resistance compared to other stages of the policy process. The probability of new governmental demands is the greatest in this stage of the policy process because of the persistent, high profile challenges made by multiple interest groups to existing protective policies and regulations. Most firms, given their managers' extensive socialization and internalization of the pre-existing protective public policy order, are spurred to actively defend their shared logic, values, and symbols, as well as their prescribed structures, routines, regulations, and standards (Barley and Tolbert 1997; Pettigrew 1987; Scott 2001).

Business resistance may involve multiple strategies including manipulation, defiance, avoidance, and/or compromise as firms try to actively influence policymakers and interest groups, and seek to shape the criteria involved in the assessment of social–environmental problems (Bonardi and Keim 2005; Oliver 1991). Their goal is usually to preempt the adoption of new protective policies and regulations or, if this is unavoidable, bargain for their limited scope and lower stringency of enforcement (Bonardi and Keim 2005). One of the more publicized examples of companies aggressively fighting against protective regulations is the case of the U.S. tobacco industry. In the early 1990s, the Food and Drug Administration (FDA) sought to regulate the sale of cigarettes as drug-delivery devices under the authority of the Federal Food, Drug, and Cosmetic Act (Baron 2005; Kessler et al. 1996; Steiner and Steiner 2006). As the FDA's efforts intensified, the tobacco

⁶ Most actors, including firms, focus on developing alternatives, gathering information, and producing political, technical, and economic assessments that would help them prevail in the intense political struggle and bargaining involved in narrowing down the feasible alternatives and the final adoption of a particular option by policymakers (Kingdon 1995).

⁷ In the end, instead of selecting the “optimal” policy, it becomes more important for policymakers to find, through negotiation, a satisfactory option that can gain consensual approval of the most influential actors (Janis 1982; Lindblom and Woodhouse 1993).

companies used multiple strategies, including lobbying, political donations, marketing campaigns, and lawsuits, to successfully forestall FDA regulation. Their efforts included the now famously controversial sworn testimony before Congress of the CEOs of all the major U.S. tobacco firms. These CEOs testified in 1994 that nicotine is not manipulated in cigarettes and that it is not addictive (Kessler et al. 1996; Steiner and Steiner 2006).

Policy implementation

During the implementation stage of the protective policy process, government agencies are in charge of developing regulations and deploying monitoring and enforcement efforts to execute protective policies. Yet, as public policy scholars have long recognized and documented, implementation in the U.S. remains highly contested by business and other interest groups and seldom resembles the precise intentions of the public policies adopted by elected officials (Bardach 1977; deLeon and deLeon 2002; Pressman and Wildavsky 1984). This political struggle is particularly intense during early implementation when specific regulations and standards are initially developed, and budget and administrative resources begin to be allocated for monitoring and enforcement (Bardach 1977; deLeon and deLeon 2002; Pressman and Wildavsky 1984). Besides significant changes and delays, lawsuits and, in some cases, complete obstruction, are often common during the early implementation stage (deLeon and deLeon 2002; Pressman and Wildavsky 1984; Tolbert and Zucker 1983). It may also be the case that institutionalized “implementation” practices involve the de facto disregard of the public policy prescriptions and regulations due to lack of enforcement.

During the implementation stage, the pressures faced by firms begin to change in character from being mostly political in nature to increasingly more institutional (Berger and Luckmann 1967; March and Olsen 1989; Tolbert and Zucker 1996). Thus, we posit that in *early implementation*, most companies in the U.S. are still likely to offer high levels of resistance, although not as high as during the formulation–adoption stage as they try to shape and/or challenge the regulations, enforcement styles, standards, and budgets allocated to implement new protective policies (Hoffman 1997). In *mid-implementation*, as government monitoring and coercion begins, business cooperation with the politically negotiated regulatory standards and enforcement practices is likely to increase because they become part of the accepted patterns and knowledge shared by business managers, policymakers, and stakeholders (Berger and Luckmann 1967; Tolbert and Zucker 1996).

The language and narratives used by firms’ managers also evolve gradually to adopt the terms and meanings of the protective regulations being institutionalized to provide “legitimated accounts” of the new environmental and social protection practices required. For instance, many businesses begin pouring resources into corporate social and environmental plans and reports whose goals, terminology, and ideas are frequently recited by managers even if they are not implemented and their financial value is not clear. This decoupling of managers’ narratives and actual implementation signals the practices that may be adopted later if the protective regulations attain high levels of institutionalization (Meyer and Rowan 1977; Hoffman 1997).

Slowly and gradually, through socialization, coercion, and persistent political pressures, habitualized corporate social protection standards are institutionalized; that is, they turn into taken-for-granted routines, organizational structures, and conventions that evolve to become an integral part of collective understandings internalized by business managers and their stakeholders (Berger and Luckmann 1967; March and Olsen 1989). If the process of institutionalization persists over a long period of time, in *late implementation*, the highest

levels of business cooperation are likely to be observed as the collective internalized understanding of appropriate social and environmental responsibility becomes part of the objective reality of businesses (Berger and Luckmann 1967; Tolbert and Zucker 1996).

For example, despite a trend toward reduced inspections by the Occupational Safety and Health Administration (OSHA), most manufacturing firms in the U.S. have demonstrated high levels of compliance with institutionalized occupational health and safety standards in the 1980s and 1990s (Bartel and Thomas 1985; Gray and Jones 1991; Weil 1996). However, when initially established in the early 1970s, these standards were seen as costly, highly controversial, and received strong opposition by business (Weidenbaum and DeFina 1978; Weil 1996). Resistance to sedimented taken-for-granted practices is seen as highly illegitimate not only by policymakers and stakeholders but also by other members of industry and peer managers (Hoffman 1997; Tolbert and Zucker 1996). During late implementation, aggressive coercion is seldom required and most businesses, independently of their characteristics, have adopted institutionalized social and environmental protection practices and structures prescribed by politically bargained protective public policies and regulations (Hawkins and Thomas 1984; Tolbert and Zucker 1996).

Proposition 1 *Other things being equal, firms' responses are likely to have an inverted U-shaped relationship with the protective policy process dynamic in the U.S., showing increasing resistance as the process moves from initiation to selection and declining resistance thereafter.*

Late implementation has been the focus of most neo-institutional scholarship analyzing organizational responses to governmental requirements (Edelman 1992; Suchman 1995). Hence, it is only natural after the tensions and dynamics of the formulation–selection stage that compliance is seen as the expected isomorphic response to governmental pressures (Hirsch 1997; Scott 2001; Suchman and Edelman 1997). Additionally, it is important to highlight that adopting institutionalized practices and structures during late implementation requires significantly reduced analytical efforts by business managers, freeing time and resources that may be used by a small number of them (usually at multinational corporations or other large businesses) to experiment with innovative beyond compliance social and environmental protection practices (Christensen et al. 2001; Hart 1995; Porter and van der Linde 1995). These beyond compliance innovations, combined with political pressures and external shocks, contribute to the policy change feedback or evaluation loop that further informs the implementation process and perhaps triggers a new initiation stage of the policy process (Brewer and deLeon 1983; Hart 1995; Porter and van der Linde 1995).

Moderating effect of country characteristics

In the previous section, our discussion was limited to the U.S. 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, businesses 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). Of course, firms' characteristics may also affect how different firms are socialized into distinct country political and economic traditions (George et al. 2006), thus affecting how they may respond to the pressures and demands exerted by policy process stages. Nevertheless, our focus in this

paper is limited to understanding how country characteristics may affect the protective policy process–business response relationship, above and beyond the effects of firm-level features.

We do not analyze firm level moderating effects for the following reasons: First, there is an extensive literature on corporate political strategy that has already identified how firms' characteristics are associated with differences in corporate political activity (Cavazos 2005). In general, this research suggests that firms that are larger (Boddeyn and Brewer 1994; Keim and Baysinger 1988; Schuler 1996), more diversified (Hillman and Hitt 1999), have more slack resources (Schuler 1996; Schuler et al. 2002), and are older (Hillman 2003), tend to show higher levels of political activity and a greater desire to exert influence on the public policy process. Second, although businesses may indeed show conflicting political action, seminal research by Mizruchi (1992, pp. 250–255) and his collaborators has consistently indicated that “instances of unified behavior [by businesses] greatly dwarf those in which firms politically opposed one another” (Clawson et al. 1986; Mizruchi and Bey 2005, p. 321). Third, empirical research has shown that the external context can have the same or greater effect than the actors' characteristics on the political interaction observed during the different stages of policy process (Issac and Griffin 1989; Makino et al. 2004; Sutton and Dobbin 1996; Tolbert and Zucker 1983). Fourth, the influence that firm characteristics have on business responses to the policy process declines, to the point of showing no significant effect, as regulations and standards become fully institutionalized (Baron et al. 1986; Friedland and Alford 1991; Tolbert and Zucker 1983). Five, little research has been dedicated to exploring how country context variation affects business responses to the various stages of the protective policy process.

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 and economic institutional orders with particular norms, traditions, meanings, symbols, language, and scripts (Berger and Luckmann 1967). Of course, a nation's public policy context is also significantly affected by global trends, but these trends take different forms depending on the country's unique contextual characteristics (Evans 1995; Jepperson and Meyer 1991; Meyer 1980). The effect of the national context is especially prominent with particular local 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). Indeed, one of the most deep-rooted sociological principles posits that a country's socially constructed reality contributes to determine the behavior and preferences of individuals and organizations (Bartley and Schneiberg 2002; Berger and Luckmann 1967; Friedland and Alford 1991). We argue, accordingly, that variations in country contextual characteristics help shape business understanding and preferences for environmental and social protection policies, thus weakening or strengthening (moderating) business resistance (or cooperation) to pressures and demands exerted during the different stages involved in enacting and implementing these policies.

The moderation effect exerted by country context on the policy process–business response relationship arises for multiple reasons. First, the country context limits or amplifies the level of influence and participation that different groups can exert on government decisions by constraining the payoffs of political involvement, and defining legitimate collective action strategies (Amenta et al. 1994; Bartley and Schneiberg 2002; Friedland and Alford 1991). Second, besides its constraining effect, 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). Country context also determines the availability of resources and how they are exchanged in the market by the different actors involved or affected by the policy process (Friedland and Alford 1991).

In this paper, we focus on four basic characteristics of country 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 contextual characteristics that may have moderating effects on the protective policy process–business response relationship. Yet, we posit that it is more important to begin understanding the moderating effect of these four characteristics for the following reasons. 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 (Meyer and Rowan 1977; Meyer and Scott 1983; Jennings and Zandbergen 1995). 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 (Meyer and Rowan 1977; Jennings and Zandbergen 1995).

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 decision making (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 (or cooperation) 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, we start by relaxing our initial assumptions about the political context of public policymaking and then shift attention to countries’ economic affluence.

Political context: democracy, system of interest representation, and regulatory approach

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). We follow other

scholars in defining a nation’s political context as the set of institutional structures, norms, roles, and their related systems of interest representation that delineate how authority, rights, and obligations are obtained and divided among state, business, and other non-governmental actors (March and Olsen 1989, p. 741; Spencer et al. 2005, p. 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.

Level of democratization

Regarding the level of democracy, we argue that in countries with more institutionalized democratic traditions, businesses are more likely to display more cooperation, or less resistance, during the different stages of the public policy process than in authoritarian regimes (see Fig. 2 for a rudimentary illustration of this moderating effect). Before we elaborate further on this proposition, we 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 we cannot begin to do justice to this extensive scholarship in this paper. Hence, we 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

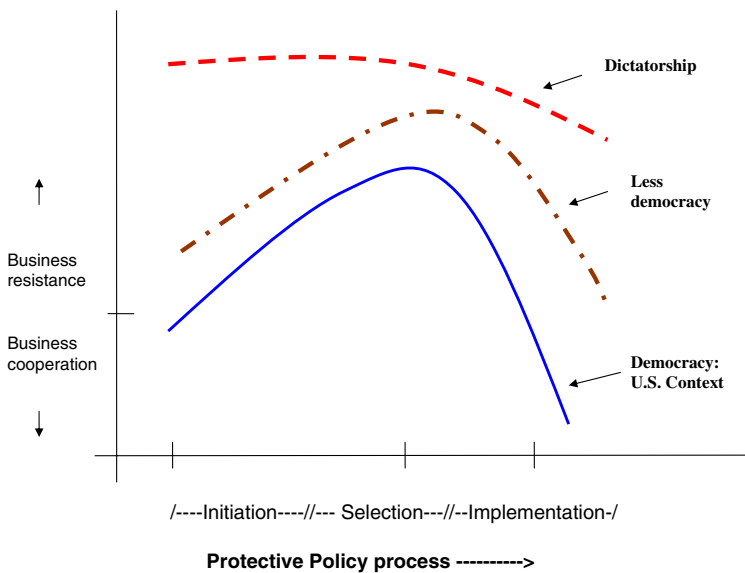


Fig. 2 Protective policy process–business response relationship: moderating effect of different levels of democracy (rudimentary illustration)

direct democracy where decisions are made by the people without intermediation between the voters and their government (Bollen 1993). Here, we 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).⁸

Building upon our discussion of democracy, we now examine how different levels of democratization in a country may moderate business responses to the protective policy process. Our focus in the following paragraphs 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, 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 that we propose, 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 press, speech, association, participation as well as 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.

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). Free speech traditions also make it easier to publicly and timely convey concerns and demands to the media, policymakers, and business managers about the detrimental consequences of established social and environmental protection routines pursued by business (deLeon 1997; Fischer and Hajer 1999; Payne 1995). Well-established freedom of association mechanisms inherent to democratic nations

⁸ 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. However, 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). It is important to highlight that comparisons of different democracy scales proposed by Bollen (1993), Coppedge and Reinicke (1990), Gastil (1978, 1990), Gurr (1990), and Przeworski et al. (1996) show very high levels of agreement (typically above 90%) in how countries are classified as democracies or dictatorships (Przeworski et al. 1996, p. 21).

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). More democratic governments are also less likely to arbitrarily and/or violently restrict the advocacy efforts of social and environmental activists (deLeon 1997; Payne 1995). 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).

This 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, we 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, 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 U.S. This is mainly because in democratic regimes multiple interest groups, not just business, have the rights, expertise, and resources to compete and influence decision makers at different stages of policy process (Teske 2003).

Conversely, in authoritarian regimes, business is more likely and able to rely on manipulation tactics because: (a) environmental and social protection groups are more likely to be excluded from policymaking; and (b) government is less autonomous from economic interests as its legitimacy is more dependent on economic growth (Dahl 1973; Lindblom and Woodhouse 1993). To be sure, it is important to stress that any manipulation strategy that enables 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 effective 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. 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.*

System of interest representation

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, p. 401). It is usually classified into three ideal-type categories: state-corporatist, neocorporatist (also called liberal corporatist), or 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 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).⁹ There are 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 non-governmental organizations focused on advancing environmental and social protection causes (Scruggs 1999; Streeck and Kenworthy 2005). 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).

⁹ 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, pp. 93–94).

Pluralist system

On the other end of the continuum from corporatist countries are the pluralist ones.¹⁰ In more pluralistic countries like the U.S. and the U.K., 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 protective 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 U.S. and Canada is a remarkable 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, we posit that:

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: a) higher political resistance during the different stages of the policy process than firms operating in neo-corporatist countries; and b) lower political resistance during the different stages of the policy process than firms operating in state-corporatist countries.*

This moderating effect on the protective policy process–business resistance 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'

¹⁰ 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, p. 96).

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. Conversely, compared to pluralistic countries, business resistance is likely to be lower in neo-corporatist countries because of shared participation in policymaking with labor and other environmental/social protection peak groups capable of effectively excluding issues from the public policy agenda.

The lower levels of business resistance observed in neocorporatist 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 neocorporatist 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 neocorporatist 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).

Regulatory approach

Another key element that moderates the public policy process–business response relationship is the type and stringency of regulatory instruments 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 U.S. context, we assumed in the first half of the paper 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-equipments, 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 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 protection 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). Command-and-control regulations 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.*

National economic income

Finally, we 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, we draw on arguments from neo-institutional economics and resource dependence theory (North 1990; Pfeffer and Salancik 1978).¹¹

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, economists have studied the relationship between country GNI per capita and environmental protection to test the application of the Kuznets curve hypothesis (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 environmental decline and per capita income, meaning that, in wealthier countries, economic growth is associated with environmental improvement (Grossman and Krueger 1991). 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 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 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 environmental quality beginning in countries with upper-middle income levels, currently between \$3,466 and \$10,725 GNI per capita¹² (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 Sz wajkowski 1975). Munificence is understood here as the level of “abundance of critical resources needed by firms operating within an environment” (Castrogiovanni 1991, p. 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 Sz wajkowski 1975). Moreover, the pressure to gather limited

¹¹ 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).

¹² 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).

resources in scarce environments pushes firms to engage in illegal acts such as the corruption of government officials (Husted 1999; Staw and Schwajkowski 1975).

Hence, we 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 owners–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.*

Conclusions

The argument that the external context plays a significant role in shaping the behavior and choices of individuals and organizations is the subject of very little controversy in the social sciences. Different streams of neo-institutional scholarship have indeed produced a vast literature emphasizing and explaining how external pressures, factors, and events affect decision making and taken-for-granted behavior. There is also little disagreement about the existence of stark differences between developing country contexts and those of industrialized nations. These country disparities are often evident not only to social scientists but also to ordinary travelers. In a few instances, the differences are so significant that they can be evident during a simple lay-over in a developing country airport.

Yet, most neo-institutional work has been focused on industrialized nations, particularly the U.S. The same is the case for corporate political activity and corporate social responsibility scholarship examining business responses to environmental and social protection public policy demands. In this conceptual paper, we seek to contribute to these literatures by highlighting how variations in political and economic contexts typical of developing countries affect the responses offered by business during the different stages of enactment and implementation of protective public policies. Our framework of analysis adds to the literature by proposing and explaining how specific country context characteristics moderate the protective policy process–business response relationship. In general terms, this framework posits that higher levels of business resistance to different stages of the protective policy process are more likely in countries with lower levels of democracy, state-corporatist interest representation systems (as opposed to pluralistic and neo-corporatist ones), command-and-control regulatory instruments (as opposed to incentive-based ones), more stringent regulations, or lower economic income per-capita.

In addition to considering country context variations, it is also important to point out our emphasis on taking a policy process perspective. In stressing a policy process view, we draw inspiration and ideas from the policy sciences literature and from recent work on institutional process (Hoffman 1997, 1999; Oliver 1991). Thus, instead of assuming compliance as the taken-for-granted business response to protective policies and regulations, our framework of analysis highlights the intense political dynamic involved in the institutionalization of these policies. In the first part of the paper, we add to the literature by discussing the underlying logic that explains the nature of business responses to the protective policy process in the U.S. In particular, we propose that the protective policy process–business response relationship in the U.S. is likely to follow an inverted U-shaped pattern in which business tends to show increasing political opposition as the public policy process moves from initiation to selection and thereafter declining resistance that turns into growing cooperation in mid-implementation.

Research implications

We anticipate that our framework of propositions can help guide and spur empirical research that focuses on studying variation in business responses to the protective public policy process in different country contexts. Initially, research may entail in-depth case studies that allow longitudinal examination of the protective policy process and the associated responses adopted by business. An alternative approach involves firm level cross-sectional research that collects information about the different levels of resistance/cooperation adopted by businesses during specific stages of the policy process. Other researchers may want to focus on three important topics not covered by our manuscript. First, theorizing about the business performance implications of adopting different levels of resistance-cooperation with protective policies process. Second, elucidating how firms' characteristics, such as larger size, ownership by MNCs, industry association membership, research and development expenditures, and focus on exporting to industrialized country markets, are associated with high levels of business cooperation (beyond compliance) with the protective policy process. Third, developing theoretical arguments explaining how variations in local country conditions moderate the policy process–business response relationship. And fourth, theorizing about the internal organizational political and psychological phenomena that drive firms' responses to the institutionalization dynamic unfolded during the policy process stages.

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