stealth and wealth: the politics of business power

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Book Reviewed:
Quiet Politics and Business Power: Corporate Control in Europe and Japan
Pepper D. Culpepper (Cambridge and New York, Cambridge University Press, 2011), 221pp., ISBN: 978 0 521 11859 0 (hardback); ISBN: 978 0 521 13413 2 (paperback)

Pepper Culpepper has written a remarkable book. Entitled *Quiet Politics*, it should nonetheless make quite some noise among political scientists. Despite a large amount of literature on business in politics and political economy, the study of business *power* has been neglected in recent years in favour of a focus on interests, preferences, and cross-class coalitions. As Culpepper puts it, 'most of the analytical attention is on *why* business wants what it wants … but not on *how* business organizations go about getting what they want from politics'. His aim, by contrast, is to explore the mechanisms – or 'arsenal of weapons' as he puts it – that business uses to wield influence in the formal and informal worlds of politics and policymaking. In doing so, he provides an intellectual feast with three main courses: a study of national contests for corporate control, a trenchant critique of existing theories of why national corporate governance systems differ, and a new approach to understanding business power.

CORPORATE CONTROL

Culpepper's core topic is the politics of corporate control. His central question is 'Why did some markets for corporate control become more active in the face of financial globalization, while others remained passive?' Culpepper's main empirical interest is in corporate governance reforms since the 1980s – the extent to which the corporate control of firms has been opened up to outside interests, changing the scope for takeovers, hostile or otherwise, and to access to company influence by minority shareholders. His main point is that in each case he studies (France, Japan, Germany, and the Netherlands) managers got the regime of corporate control they wanted – the liberalization of tight corporate control and incumbent protections in the first two countries, and their preservation in the latter. His explanation is that 'Baldly stated, organized managers typically prevail in political conflicts over corporate control because those issues are of little immediate interest to most voters'.

From this primary observation stems Culpepper's reformulation of the politics of business power and influence. Admitting that it is an extreme case, Culpepper uses the politics of corporate control to establish a much wider thesis. Managers get what they want in corporate governance because this is a low salience issue, in which voters (and therefore politicians) have little interest; and because business works to shift deliberation and decisions to informal institutions (private interest committees and working groups dominated by managers) outside the formal domains of policymaking. Spending money on political campaigns and lobbying may help, but for Culpepper managerial *expertise* is the most powerful weapon in the business armory. When it is exercised over low salience issues, and via informal institutions, he argues, it is almost certain to prevail. But he doesn't stop there. If Culpepper uses four case studies to illustrate the ubiquity of quiet politics in quite different national contexts, he employs a fifth study – 'The Noisy Politics of Executive Pay' – to show what happens when an issue becomes more salient for publics and political parties.

Culpepper argues that business became much less influential in opposing the regulation of executive pay in the US after the Enron scandal, and had to rely more directly on partisan political protection to prevent a legislative onslaught. In France, the salience of executive pay only heightened in 2007–2008, but there too, business was forced to accept closer regulation when public issue attention changed the incentives for political involvement. The critical difference between low salience and high salience for the political power of business is that in high salience areas business organizations must work through the democratic process, 'which means acquiring allies and persuading voters'; and because that cannot always be achieved in noisy politics, business actually suffers many defeats. From this second observation Culpepper begins to build a more general theory of business power. If expertise is business's most powerful weapon, he argues, its efficacy will vary in line with the domain in which it is used.

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Using his two intersecting scope conditions of political salience and institutional formality, Culpepper proposes the existence of four types of governance space: (i) high salience/formal, (ii) high salience/informal, (iii) low salience/formal and (iv) low salience/informal. Business influence will generally increase following the spectrum from (i) through (iv): 'other things being equal, the higher the salience of an issue, the weaker the hand of business'. If the politics of corporate control are usually confined to governance space (iv), Culpepper allows that other issues will fit less categorically into his boxes. Less clearly of high or low salience, their salience will also vary over time, and their governance will shift between formal and informal settings. Business will engage in a process of forum shifting so as to maximize its influence, while also deploying alternative weapons (lobbying, financing political campaigns, etc.) when its favoured forum of quiet politics cannot readily be secured.

This is first-class qualitative social science, using an alternating process of deductive and inductive reasoning to tease out hypotheses and test them against case study evidence. Lucidly written, and persuasively argued, Culpepper convincingly challenges a host of existing approaches to the study of corporate governance and business power, while making his core topic of corporate control of great interest to specialists and accessible to those more interested in his theory. The careful research underlying the national case studies makes the book worth reading alone. The range of in-depth country analyses attests to the authors own expertise. Combining documentary research, interviews, and an analysis of newspaper (as a proxy for public) issue attention in each case, Culpepper convincingly demonstrates the extent to which low salience politics and informal institutions consistently combine – in quite different national contexts – to facilitate the exercise of managerial power.

QUIET POLITICS

Part of the book's appeal lies in the process of discovery itself. The notion of quiet politics seems to have emerged while the author was probing existing explanations for why countries have different systems of corporate governance, varying between the ideal types of passive and active markets for corporate control. Those theories fall into two categories – partisan and coalitional approaches – the first arguing that political parties in general, and especially reformist politicians of the left, drive corporate governance reform, the second asserting that coalitions (between managers and institutional investors or workers) are critical for sustaining or dislodging existing systems of corporate control. Culpepper accuses both of treating 'corporate control like any other high-profile battle in democracies, where public opinion and legislative votes are the most valuable currencies'. They miss the critical point, he argues, that contests for corporate governance reform are typically settled quietly off stage, and that the principal actors are not public representatives – politicians or unions – but managers and their lawyers, making maximum use of their special expertise.

The main appeal of the book for this reader comes from Culpepper's challenge to political scientists to start doing their jobs and pay attention to power. He may be exaggerating when he states that 'the study of business power is currently more neglected than it has been for the last half century' (p. 185), but he has a point when he argues that in a period when business power has been waxing, the attention paid by political scientists has been waning. Recalling Robert Dahl's (1959) appeal to political scientists a half century ago to get to work on the study of business and politics, which led to a profusion of such work from the 1950s to the 1980s (notably by the pluralists – Dahl himself and Nelson Polsby, for example – as well as by their critics C. Wright Mills, Theodore Lowi, Peter Bachrach and Morton Baratz and Charles Lindblom, among others), Culpepper is clearly making a similar call to arms. Indeed, despite his concerns with governance and forum shifting (themes characteristic of contemporary policy studies), and his critique of both Lowi's over-attention to formal political interaction and Lindblom's (1977) structural power argument, Culpepper is resurrecting some of the most important insights of that earlier generation of political scientists.

It is the spirit of Elmer Eric Schattschneider's *The Semisovereign People* (1960) that most clearly infuses Culpepper's *Quiet Politics*. Culpepper goes well beyond Schattschneider in his attention to issue salience and informal institutions,

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as well as to the power resources available to business as opposed to other organized interests. But his core insight – that business prefers to conduct its affairs in private forums, away from the public's gaze and political interference – is clearly inspired by Schattschneider (an influence acknowledged on page one), as is his conviction that democracy can only be invigorated by what Schattschneider called the 'socialization of conflict' – the full engagement of the public in politics. What Culpepper calls quiet politics is precisely what Schattschneider meant when, criticizing pluralist group theories of politics, he pointed to the scope and bias of the pressure system, and argued that '*the most powerful special interests want private settlements* because they are able to dictate the outcome as long as the conflict remains private' (1960: 40). When Culpepper refers to forum shifting, he invokes Schattschneider's displacement of conflicts. When he claims that a critical dimension of business power is its capacity to choose its battles (as well as the battlefields), one is reminded of Schattschneider's argument that '*organization is the mobilization of bias.* Some issues are organized into politics while others are organized out' (1960: 71).

Noting the importance of Schattschneider for this book is by no means a criticism. On the contrary, Culpepper benefits from, uses, expands and extends the perspicacity of *The Semisovereign People* to excellent effect. For this reader, the most important contribution of *Quiet Politics* is its author's re-articulation of this understanding of power for the early twenty-first century. But all praise and no critique makes for a dull review. How well do Culpepper's arguments about the politics of corporate control stand up, and how effective is his reformulation of the politics of business power? I focus first on Culpepper's critique of partisan and coalitional theories of markets for corporate control, second on his contention that business power has been neglected by contemporary political science, especially by institutionalists, and third on whether his model of business–politics interaction (and his theory of power) is complete and truly persuasive.

The critique of partisan and coalitional theories is effective, but Culpepper may not entirely convince everyone of their inadequacy – even if he is careful to distinguish when they work and when they do not. His main point is that while partisan theories – for example, the work of Mark Roe (2003) – over-emphasize the role of social democratic parties and stakeholders (unions in codetermination systems) in preserving block holding systems of corporate control, coalitional theories (the main target is Gourevitch and Shinn 2005) focus on the interests and capacities for coalition formation of specific social groups but assume away their differential power resources. Although both offer convincing accounts of the origins of regimes of corporate control, Culpepper argues, both fail in their emphasis on winning national elections and formal rules. Neither, for example, makes it clear how a transparency coalition or a party of the left can translate its support in the legislature into real institutional change – especially when institutional incumbents favour the *status quo*.

But if Culpepper is mainly interested in the 'who gets what, when and (especially) how' of politics (Lasswell, 1936), it may be more difficult than he ventures to divorce the 'how' from the 'why'. In other words, why business wants what it wants (which for Culpepper is over-emphasized in current research) may also help explain how it gets it. Nor is the removal from the scene of parties and unions as critical actors because they rarely figure in the quiet politics of corporate reform exactly straightforward. The 'why' of corporate governance reform is stated briefly and simply right at the start of the book (p. 3): 'The preferences of managers differed across these four countries depending on the strength of labor organization in their firms'. Thus, managers could push for active markets for corporate control where unions were weak at firm level (France and Japan), but retained existing takeover protections where they were stronger (Germany and the Netherlands). Having stated the 'why' so baldly, Culpepper quickly moves on to the 'how' and does not return to it. But as argued by others who also criticize the partisan and coalitional approaches (see Schnyder 2011), the history and present of labour–employer collaboration does play into business and political party preferences, and fundamentally alters the outcomes of corporate governance reform. The structural power of labour seems to contribute to how as well as why business gets, or fails to get, what it wants. Part of the debate that *Quiet Politics* will stimulate will likely resolve precisely around this issue.

As for Culpepper's critique of contemporary political science, he is surely correct in pointing to its neglect of the *exercise* of power. Others have made a similar argument while reaching somewhat different conclusions: while Culpepper is largely concerned with instrumental power, Hacker and Pierson (2002) argue that instrumental and structural conceptions of power must be merged if we are to understanding the true extent of business influence (a point I return to below). Culpepper lays the blame for this neglect of power rather squarely with institutionalists (Kathleen Thelen comes in for a lot of criticism, a little unfairly I thought) and their focus on formal institutions. Thelen's (2005) book *Beyond Continuity* with Wolfgang Streeck, he argues, suffers from a 'conflation of regulatory and behavioral practice through a formalist definition of institutions'. And yet, much of the analysis it contains spans both formal and informal institutions, even if they are not systematically categorized as such. Culpepper might have criticized their failure conceptually to explore this dimension of politics, rather than their neglect of it as such.

I would argue that the neglect of power has more to do with what Block and Fox Piven (2010: 207) refer to as the 'deep tension between analyzing Steven Lukes's three faces of power and current criteria of methodological rigor' in political science, to which I would add the apolitical 'power-is-everywhere' orientation of post-structuralism and much ideational analysis. Moreover, the extensive governance literature conjures up a largely pluralist world in which regulatory and other policy networks are viewed in terms of horizontal rather than hierarchical relationships. And normative (and even utopian) elements in governance theory have led to a *faux-naïf* emphasis on consensus, cooperation, and deliberation (Rhodes and Visser 2011). Compared with the flaws of these literatures, institutionalists are on the right track, even if as Culpepper argues, they need to build a more explicit theory of power into their concern with interests, preferences and coalitions, and shift their preoccupation away from the *forms* of institutional change to the *forums* in which power is exercised.

CONVINCING?

Finally, is Culpepper's model of business–politics interaction (and his theory of power) complete and convincing? The strength of stressing the importance of political salience and the capacity of business to dominate decision-making in informal institutional settings is its simplicity: it provides a model of how business power is exercised, and reveals a lack of attention to the mobilization of bias in contemporary political analysis. The rise of regulatory networks, the delegation of policymaking to private interest committees, and the vogue for self-regulation and voluntary codes of conduct are often depicted in power-innocent terms by political scientists and policy analysts. But they all reveal the capacity of business, and willingness of politicians and bureaucrats, to displace and depoliticize conflict in precisely the way Culpepper describes. The consequences can be dramatic for the balance of power – between business and the state and its citizens – and for political legitimacy. In drawing our attention to the power of business to shape the scope of politics in this way, Culpepper does indeed provide a wakeup call to many political scientists. We need to pay particular attention to quiet politics in analyzing the regulatory reaction to the financial crisis. Ever since the collapse of Lehman Brothers in 2008, financial elites have been busy applying pressure to 'organize the regulation of finance out of politics' (as Schattschneider might have put it) and diminish the salience of regulatory reform.

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But they have also engaged in extensive lobbying of Congress, curried favour with politicians and public officials, and contributed to political campaigns on both sides of the political divide. The extent and diversity of business pressure, and its success even over *high* salience issues (in opposing limits on bonuses and broader size and leverage caps on banks, for example) point to a number of factors that may complicate Culpepper's account. Some time ago, Cathie Jo Martin (1989) drew attention in her study of business influence over corporate tax policy to how the state-society divide was crisscrossed and broken down (and, indeed, rendered fictional) by multiple links between political and business factions with convergent interests. Those ties and coalitions help set the policy agenda, including the relegation of a whole range of issues to the sphere of non-decision making. A critical challenge to tighter financial regulation today is precisely the strength of such linkages, notably the revolving door through which top public regulators move in and out of the private financial sector.

Culpepper accepts that on issues more politically salient than corporate governance reform, business will pay attention to both formal and informal arenas of interaction and deploy a panoply of weapons to secure their aims. But giving serious theoretical consideration to the implications of cross-arena action of this kind may mean accepting that the formal/informal institutional divide is also heavily blurred. As it is, Culpepper's definition of informal institutions requires some attention: cross-shareholdings among investors, domains of political interaction that are or are not sanctioned by government and law, as well as courts, are all considered informal institutions, even if the outcomes 'are interpreted and enforced by public authorities' (p. 180, fn 2). This may be stretching the definition too far. Too tight a definition may also be inappropriate, especially if the informal/formal divide is routinely cut across, just like that between state and society, by coalitions of private and public factional interests.

Those coalitions and their increasing extent and strength over time are part of the growth of business influence and of its *institutionalized* power resources referred to by Hacker and Pierson (2010) in their notion of 'winner-take-all' politics. Providing a complete account of business influence in politics today may also mean reconciling Lindblom with Schattschneider and adding a structural dimension to Culpepper's instrumental conception of power.

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