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**THREE STUDIES OF STAKEHOLDER INFLUENCE IN THE FORMATION AND
MANAGEMENT OF TAX POLICIES**

by

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A dissertation submitted in partial fulfillment of the requirements
for the degree of Doctor of Philosophy
in the College of Business Administration
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ABSTRACT

This dissertation consists of three separate but interrelated studies examining the formation and management of tax policies. The first study uses stakeholder theory (ST) to investigate the strategic management practices of the Transport for London (TfL) during discrete stages in the adoption, implementation, and amendments of the tax policy reform known as the London Congestion Charge (LCC). Results indicate that TfL has utilized power, legitimacy, and urgency as its main policy management tactics with a significant emphasis on legitimizing the LCC and its subsequent policy amendments.

The second study draws on social exchange theory (SET) to reexamine the relationship between corporations and legislators during tax policy processes. Data for the study come from publicly available political action committee (PAC) contribution activities surrounding the Energy Independence and Security Act of 2007 (EISA07). By examining the endogeneity between legislators' voting patterns and PAC contributions by corporations, this study aims to refine empirical work on corporate political strategy, especially as it relates to crucial tax provisions embedded within an intensely debated policy proposal. Using simultaneous equations modeling (SEM), results are consistent with SET showing that an implicit and reciprocal relationship exists between corporations and legislators. This relationship affects the interdependence of how legislators vote for public policies and the amount of corporations' financial contributions to legislators.

The third study investigates and aims to validate the empirical applicability of Dahan's (2005) typology of political resources in explicating the political interactions between stakeholder groups and legislators in the development of EISA07. I discuss how and why the mode of operations and various political resources employed by stakeholder groups affected the

final EISA07 language concerning domestic production deduction tax credits for the oil and gas industry. Publicly available data show that both supporting and opposing stakeholder groups employ tactics consistent with Dahan's (2005) typology. However, both stakeholder groups tend to use an interactive or positive political approach to gain access and favor of legislators instead of an adversarial approach. Ultimately, the tax credits were preserved. Taken as a whole, the three studies advance the tax and public policy research literature in accounting by studying how and why relevant stakeholders affect the formation and ongoing management of public and tax policies.

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I dedicate this dissertation to my children (Anuheia, Nalani, Hokulani, and Leiohu) and specifically to my wife, Carmel. Without their patience, support, and understanding for my absence during course work, conference trips, and in all dissertation stages, the completion of this dissertation would be impossible. I also owe Carmel for her exceptional proofreading skills and, most of all, her unconditional love when times are challenging.

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LIST OF ACRONYMS

2SLS	Two Stage Least Squares
3SLS	Three Stage Least Squares
AAA	.....	American Automotive Association
ANPR	.....	Automatic Number Plate Recognition
API	.....	American Petroleum Institute
BBC	.....	British Broadcasting Company
CBI	.....	Confederation of British Industry
DD	.....	Double Dividend
EISA07	.....	Energy Independence and Security Act of 2007
FW	.....	FreedomWorks
GLA	.....	Greater London Authority
GLAA	.....	Greater London Authority Act
HH	.....	Hillman and Hitt (1999)
IRC	.....	Internal Revenue Code
LCC	.....	London Congestion Charge
OECD	.....	Organisations for Economic Cooperation and Development
OLS	.....	Ordinary Least Squares
PAC	.....	Political Action Committee
PCN	.....	Penalty Charge Notice
QPAI	.....	Qualified Production Activities Income
SEM	.....	Simultaneous Equations Modeling
SET	.....	Social Exchange Theory
ST	.....	Stakeholder Theory
TfL	.....	Transport for London
UAW	.....	United Autoworkers Union
USCC	.....	United States Chamber of Commerce
WEZ	.....	Western Extension Zone

GENERAL INTRODUCTION

While research into public policy issues has traditionally been centered in the political science discipline, recognition of their impact on a broad array of stakeholders (Freeman 1984, Harrison and Freeman 1999, Bosse et al. 2009, and Freeman et al. 2010) has led to increases in research attention from other disciplines. Empirical research on political interactions between legislators and stakeholders in both management (Hillman et al. 1999, Bonardi and Keim 2005, Keim and Hillman 2008, and Hillman et al. 2009) and accounting/taxation (Roberts et al. 2003, Dwyer and Roberts 2004, Roberts and Bobek 2004, Cho et al. 2006, and Thornburg and Roberts 2008) reflects the growing understanding the impact of public policies has on stakeholder groups including corporations, interest groups, and the general public. However, both streams of literature focus primarily on the means stakeholder groups used to actively participate in influencing public policy setting processes and outcomes. Further, a significant number of studies draw on Hillman and Hitt's (1999) typology of corporate political tactics as their primary theoretical framework. The underlying assumption of this typology is that the relationships between stakeholder groups (corporations are often the proxy) and legislators are unidirectional where corporations attempt to influence legislators and policy outcomes. Almost no studies examine the interactions from the perspective that these political activities may be mutually determined. Moreover, Hillman and Hitt's (1999) typology of political tactics concentrates on a positive approach from corporations towards legislators and overlooks the negative political tactics corporations may employ. Finally, studies in both management and accounting/taxation have largely ignored the crucial aspects of policy management after public policies are enacted.

Given the shortcomings noted above, it appears that extensions of political strategy research into stakeholder impacts are warranted. More specifically, the relationships between

stakeholder groups and legislators need to be reconsidered through a typology using a more comprehensive model than those based on Hillman and Hitt (1999). It is necessary to assume that stakeholder groups strategically plan their activities through both positive and negative interactions. Further, beyond just focusing on the passage of legislation, understanding how and why policy setters and administrators strategically manage enacted policies to increase the act's viability would also be of value. Overall, this dissertation expands and validates theoretical conceptualization and application relative to issues of stakeholders influence over how and why public policies are set and managed. Using three separate but interconnected studies, this dissertation provides empirical evidence that advances the political strategy literature in accounting and taxation. Each of the three studies is discussed below.

Study One: The Dominant Stakeholder's Strategic Management of the London Congestion Charge through Power, Legitimacy, and Urgency

My first study investigates the strategic management of a public/tax policy reform commonly known as the London Congestion Charge (LCC). This charge, administered by the Transport for London (TfL), is examined during LCC's inception, enactment, and subsequent amendment. Prior studies (Shepherd and Sumalee 2004, Sumalee 2004, and Leape 2006) of the LCC focus on either the economic impact and/or policy feasibility of the legislation *prior to* its actual implementation. Results of these studies are critical of the LCC due to its innovative policy reform nature. However, no research has addressed how TfL strategically manages the LCC and why these strategic tactics affect the LCC throughout its legislative and administrative history. This study provides insights into the often overlooked area by detailing TfL's strategic management.

Analyzing publicly available data related to the LCC from 1997 to 2011 and using Mitchell et al.'s (1997) stakeholder typology under a qualitative case study format, this study finds that TfL actively manages the LCC by employing tactics (legality, justification, and consent) that enhance the policy's legitimation in the view of relevant policy stakeholders. Furthermore, TfL uses its legislative, administrative, and judicial powers to silence stakeholders who oppose the LCC. Finally, evidence also indicates that TfL has consistently exercised a fear tactic to try to convince stakeholders of the adverse consequences if the LCC is not implemented and continued. These results shed light on the importance of post-policy management. They show how policy administrators can strategically manage the policy by identifying relevant stakeholders and promoting tactics that are crucial to them.

Overall, the first study contributes to the public/taxation policy literature in a number of important ways. First, the study is one of the few that examines the ongoing management of a policy reform *after* its implementation. Second, this study employs a less utilized methodological approach to investigate the "how" and "why" aspects of the LCC. Results of the case study approach in this study reveals factors that may have remained hidden under the traditional quantitative, simulated methods of analysis. Third, the study expands and further validates the applicability of Mitchell et al.'s (1997) stakeholder typology by testing qualitative data with Gilley's (2006) legitimacy measurement indices. This provides researchers with a framework and a measurement tool to test qualitative data that may be difficult to measure. Finally, this study offers practical insights to policy makers and administrators on the importance of ongoing policy maintenance in existing policies and future policy reforms. By identifying relevant stakeholders and actively managing these stakeholders through deployment of effective tactics, policy makers and administrators may improve policy viability.

Study Two: The Interdependence of Corporations and Legislators: A Simultaneous Equations Analysis

The second study examines the relationship between corporations and legislators from a more comprehensive perspective than undertaken in prior studies. It assumes that the relationship may be interdependent instead of unidirectional. The study adopts the theoretical lens of social exchange theory (SET) that suggests influences are mutually determined. Using a simultaneous equations analysis, I investigate interdependence relating legislators' voting outcomes to the amount of corporate political action committees' (PAC) contributions they received during the legislative process of the Energy Independence and Security Act of 2007 (EISA07).

SET argues that individuals and groups give gifts to each other to establish an implicit, long-lasting, and reciprocal relationship. The strength of a relationship is argued to be mutually determined: the value of the first gift impacts the value of the subsequent, returned gift and the value of returned gift affects the value of the second gift from the original party. Based on arguments grounded in SET, I hypothesize that the corporations and legislators build relationships through exchanges of political resources such as voting outcomes and PAC contributions. Specifically, I posit that legislators' prior voting records will affect the amount of corporate PAC contributions and then the amount of corporate PAC contributions will affect legislators' voting outcomes during the formation and passage of EISA07.

In order to examine for a relational interdependence between legislators and PACs, I analyze publicly available data concerning EISA07 using a simultaneous equations analysis. Results indicate that political affiliation is the most consistent factor influencing the voting outcomes in both chambers of the 110th Congress. Also, the amount of predicted PAC

contributions appears to have significantly affected the voting outcomes concerning EISA07 particularly in the House of Representatives, but not in the Senate. These results are still consistent with SET. Overall, the model results are consistent with SET arguments and indicate an interdependence relationship appears to exist between corporations and legislators relative to PAC contributions and voting outcomes. This study extends the contemporary literature on corporate political strategy through its use of both a more appropriate theory and an innovative statistical analysis reflecting the theoretical underpinnings. This study should be of interest to other political strategy researchers in that it validates an alternative theoretical lens for studying interactions between corporations and legislators in the political arena. Results may also be of interest to public interest groups in that interdependence between corporations and legislators may not always serve the best interest of society. Finally, corporations could potentially use the results of this study to improve their overall corporate strategic planning.

Study Three: The Legislative Divide on Tax Provisions for Big Oil: Evidence from the Energy Independence and Security Act of 2007

The third and final study responds to Dahan's (2005) call for validation of his theoretical typology of political resources through empirical testing. Additionally, this study aims to expand Hillman and Hitt's (1999) corporate political strategy typology by considering additional political approaches incorporated by stakeholder groups during the discrete stages of EISA07. Dahan's (2005) political resource typology, similar to Hillman and Hitt's (1999) corporate political strategy typology, includes three levels of political resources: primary, supporting, and complementary. Differing from the Hillman and Hitt (1999) typology, however, Dahan (2005)

argues that different political resources will be employed to influence policy directions depending on the primary approach taken (interactive/positive vs. adversarial/negative).

Using Dahan's (2005) typology to analyze EISA07, this study shows (1) the existence of supporting and opposing stakeholder groups regarding the tax provisions embedded within this legislative act, (2) that both supporting and opposing groups used all three levels of political resources in their attempts to influence the tax provision outcomes, (3) that relational approaches affect how different levels of political resources are employed, and (4) there is an exception to Dahan's (2005) typology in that both stakeholder groups prefer the positive relational approach and forgo the negative approach in their EISA07 political activities.

Empirical results in this study validate Dahan's (2005) political resource typology and have both academic and practical implications. The findings suggest the application of Dahan's (2005) typology to other types of research such as large-scale surveys and unscripted in-depth interviews in other controversial public policy settings would be warranted. In addition, results also suggest that policy makers may benefit by knowing that stakeholder groups use different resources, relational approaches, and combinations of the two in their political participation during the legislative processes related to public policies. This knowledge offers legislators the opportunity to improve their political interactions with various stakeholder groups.

Overall Contribution

Taken together, the three empirical studies in this dissertation make a significant contribution to the literature on corporate political strategy in accounting and taxation. First, this dissertation provides empirical evidence for a relational framework between corporations and legislators. In contrast to the conventional framework of a unidirectional relationship between

corporations and legislators, the simultaneous equation modeling shows that interdependence between the amounts of financial resources contributed to legislators by corporations and the voting outcomes of public policies that are important to these contributing corporations. Second, this dissertation empirically examines and validates a recent political resource typology that considers how stakeholders use different political resources depending upon their overall political relational approach. Finally, this dissertation advances knowledge on the less explored topic of why a public/taxation policy must be managed after its passage and how the management tactics affect the policy's viability. In all, this dissertation advances the political strategy literature in accounting and taxation by providing empirical evidence to validate, expand, and enhance theories and theoretical typologies by taking relevant stakeholders into consideration during the discreet stages of public policy enactment. The remainder of this dissertation presents each of the three studies in detail.

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STUDY ONE: THE DOMINANT STAKEHOLDER'S STRATEGIC MANAGEMENT OF THE LONDON CONGESTION CHARGE THROUGH POWER, LEGITIMACY, AND URGENCY

Abstract

This study drew on Mitchell et al.'s (1997) stakeholder typology to examine a governmental agency's strategic management of a public policy reform, known as the London Congestion Charge (LCC). Specifically, this study investigated how and why Transport for London (TfL) strategically managed the LCC via stakeholders' attributes of power, legitimacy, and urgency. Extant assessments of the LCC are inconclusive. The difficulties in identifying relevant stakeholders, their attributes, and methodological approaches may have contributed to the conflicting results. Additionally, there lacked a theoretically grounded case study to examine factors beyond the common financial and quantitative analyses addressed in articles over the LCC. Relying on Yin's (2009) methodological approach in conducting case studies, I chronologically analyzed publicly available data to examine why TfL strategically managed the LCC and how TfL achieved its strategic management of the LCC over stakeholders.

Results indicated that due to the exploratory nature of the LCC, TfL must constantly manage such innovative policy to ensure its success and viability. Among the means of TfL's strategic management, TfL primarily used tactics to maintain the legitimacy of the LCC and supplemented these tactics with authoritative power and fears of unproven urgency to influence stakeholders throughout the discreet stages of the congestion charging scheme. These results have practical implications to policy makers contemplating new policy reforms and potentially help expand both empirical and theoretical understanding to researchers who are interested in the

latent factors in policy management and maintenance. Summary and discussions with propositions for future research on policy reforms conclude this study.

Key words: London Congestion Charge; Power, legitimacy, and urgency; Public administration; Public policy reform; and Stakeholder typology

I. Introduction

Analyzing 2007 data on traffic congestion, Schrank and Lomax (2009) estimated that traffic congestion in 439 large U.S. cities potentially cost travelers an annual aggregate of about \$87.2 billion in time and fuel losses. Besides economic costs, externalities, such as traffic congestion and pollution, also have adverse social and environmental impacts (European Environmental Agency 2005). Thus, externalities are potentially costly (Cook 2009) to a broad spectrum of stakeholders within a society. A growing number of governments have attempted to attenuate these costs through tax policy reforms (i.e., taxes on CFC¹ production, vehicles, and carbon emissions). London was the first government to pass and implement an innovative tax policy reform on an unprecedented scale, specifically to address its chronic traffic congestion problems by taxing drivers for driving into the inner London congestion charge zone. In 2003, the London Congestion Charge (LCC) became effective.

The Greater London Authority (GLA) had asked researchers to conduct studies on the potential effects of the proposed LCC in order to understand whether it posed unforeseen negative impacts to stakeholders in London. The assessment of the LCC before its implementations (Shepherd and Sumalee 2004, Sumalee 2004, and Leape 2006) was critical. Results of these studies aided policy makers to potentially reduce (1) the negative impact the LCC might have over the broad scope of society and (2) the costs associated with fixing the LCC if it failed to reach its objectives after implementation. However, such studies focused mainly on the economic impacts of the LCC and ignored latent factors beyond economic considerations associated with the ongoing maintenance of the LCC. Also, these studies generated results

¹ Chlorofluorocarbons, also known as CFCs, production and import were heavily taxed in the U.S. to minimize its use from the late 80s through 90s. CFCs are known as one of the Ozone Depleting Chemicals, which accelerates the depletion of the ozone layer.

primarily through artificial data simulations due to the unavailability of empirical data prior to the LCC implementation. Therefore, the reliability of these results may be inconclusive.

Due to the inconclusive nature of these simulation studies on the LCC, there appeared to be a need to look beyond the economic considerations and investigate the latent factors behind the LCC's ongoing policy management. Also, analyzing actual data *after* the LCC's implementation through an established theoretical framework will provide useful insights to complement the aforementioned simulation studies. Thus, I drew on Mitchell et al.'s (1997) stakeholder typology to examine the commonly overlooked "how" and "why" areas of a policy administrator's ongoing strategic management of the LCC's relevant stakeholders. Specifically, I investigated how Transport for London (TfL), a core and dominant stakeholder, exercised tactics and claims of power, legitimacy, and urgency to strategically manage the LCC throughout the discreet stages of the LCC. Aided by Yin's (2009) methodological approach in conducting case studies, I analyzed publicly available data concerning the LCC to discover how and why TfL actively used these tactics to influence and manage non-core stakeholders. Understanding both how and why the public administration strategically manages stakeholders during a public policy reform is crucial to policy makers and academic researchers and may help prevent avoidable pitfalls during the formulation, implementation, and amendments of current and future tax policies.

Prior studies in public policy and political science literature have mainly evaluated particular policies based on their economic impacts and effects. For example, examining tax policy mechanism differences on waste management, Kinnaman (2010) found that under different economic models, the optimal waste management policy was achieved when the policy scheme taxed at the landfill instead of through either centralized recycling technologies or

curbside tax collection. Nonetheless, due to the pure economic modeling assumptions, namely that public agencies on waste management only aimed to minimize costs, Kinnaman (2010, p. 250) admitted that the efficacy of his models might be questionable if the main policy objective was not “cost minimization.” Kinnaman’s (2010) self-assessment of his study demonstrates that relying solely on the assessments of economic outcomes may not adequately aid policy makers and administration in maintaining the indispensable ongoing strategic management of policy reforms as complex as the LCC.

The congestion charging is a complex scheme. The original congestion charge zone (February 17, 2003 to February 18, 2007) was eight square miles in size, representing approximately 1.3 percent of Greater London. When the LCC first became effective in 2003, drivers of non-exempt² status pay a daily charge of £5³ for driving in the charging zone between 7:00 a.m. and 6:30 p.m. on weekdays, excluding public holidays. A network of Automatic Number Plate Recognition (ANPR) cameras serve as the charging zone enforcement tools. To discourage late and non-payment of charges, heavy fines⁴ and penalties are attached to ensure prompt vehicle registration and payment. This scheme was applied to the western extension zone when it became effective on February 19, 2007. See Figure 1 for the boundary of the original and western extension charging zones.

² 136,000 charging zone residents (out of a total of about 7,000,000 in Greater London) receive a 90% discount for driving within the charging zone if they pay the charge for one or more weeks each time. However, these residents still pay for a one-time administration charge of £10 in order to claim such exemption. Also, alternative fuel cars, ambulances, bicycles, buses, fire trucks, minibuses of a certain size, police cars, taxis, and certain three-wheeled vehicles receive 100% discount if they are registered with TfL via Capita (later with IBM). Registered business fleet vehicles pay £7 instead of the regular £5.

³ This amount was raised to £8 on July 4, 2005. The £8 charge was applied to the Western Extension Zone on February 19, 2007. Finally, the daily charge was raised to £10 on January 4, 2011.

⁴ A fine of £10 is imposed for all non-registered vehicles entering the zone in addition to a penalty of £120. The additional penalty is reduced to £60 if paid in 14 days; otherwise, it increases to £180 for non-payment up to 28 days. Drivers are allowed to appeal the fine judgment. Both drivers and TfL may present their evidence in front of an arbitrator or a judge for deliberation of each case. These fines and penalties accumulate indefinitely until the balance is paid. TfL has the rights to disable (via a clamp or a boot) or sell the vehicles of persistent non-payment.

[Insert Figure 1 about here]

For the highlights in the history of the LCC, see Table 1. The main objective of the LCC is to reduce traffic congestion in London by charging motorists a fee to drive into the chronically congested central London streets. Championed by former London Mayor, Ken Livingstone, and enacted in 2003, the LCC underwent constant challenges and a number of amendments during the tenure of Livingstone and his successor, Boris Johnson. Prior research on the LCC (Santos and Shaffer 2004, Santos and Bhakar 2006, and Quddus et al. 2007b) produced inconclusive results of whether a charging scheme is economically beneficial in several assessment approaches. Furthermore, other studies (Blow et al. 2003, Prud'homme and Bocarejo 2005, Leape 2006, Quddus et al. 2007a) tended to focus on the economic outcomes and relied on artificial data simulations to examine the LCC.

[Insert Table 1 about here]

Additionally, no prior studies have approached the LCC with a case study methodology. According to Yin (2009), case studies can complement other research methodologies and provide insights to the “how” and “why” questions of social phenomena. Thus, to extend prior research, I relied on Mitchell et al.'s (1997) typology to examine how and why, TfL, the dominant stakeholder relied on the typology's three stakeholder attributes to strategically manage other relevant, non-dominant stakeholders⁵ for the LCC.

⁵ As will be discussed in more detail, the British Parliament, the London Assembly, the London boroughs, the businesses in London, various transportation users and environmental groups, and the residents of London, etc., are some of the relevant stakeholders

This study offered potential contributions to the tax⁶ policy reform literature by providing empirical insights to policy makers on policy reforms and the accompanying strategic policy management tactics. First, by examining the impact of tactics used by TfL, the dominant stakeholder, to manage other relevant stakeholders over the LCC, this study addressed the importance of ongoing policy management in a tax policy reform. Additionally, understanding policy issues through analyzing contextual data of policy reforms can offer alternative solutions that complement insights overlooked by other research methodologies. Third, the results have broad policy implications, which allow policy makers to apply the same principles and mechanisms to deal with issues in a wide array of policy reforms. Finally, results and discussions of this study potentially benefit academic researchers in gaining a better understanding of why an optimal public policy reform requires constant and ongoing policy maintenance by a dominant stakeholder through incorporating strategic tactics to ensure careful formulation, instrument choices, and inclusions of relevant stakeholders as well as how they are integral parts of successful policy reforms.

Overall results from the analysis of the publicly available data indicated that due to the LCC's innovative nature, TfL spent substantial resources to ensure the LCC's success and viability via strategic management tactics. Specifically, TfL relied primarily on creating and maintaining legitimacy for itself and the LCC in its strategic management of stakeholders. Additionally, TfL drew on administrative, legislative, and judicial powers to strengthen its policy legitimacy claims and silence opposing views. Finally, TfL promoted a mostly exaggerated sense of urgency if the LCC's implementation and amendments failed to pass. Considering the

⁶ There are ongoing debates over the nature of the LCC whether it is a toll or a tax. The London Mayors and TfL have insisted that the LCC is not a tax while others, such as the U.K. Constitution's definition on taxation, scholars, and London businesses and residents, have consistently viewed the LCC as a form of social and environmental tax.

politically innovative nature of the LCC, I argue that in the broad scope of policy reform, TfL has been successful, albeit inconsistent, in maintaining its stakeholder management strategies. Furthermore, without TfL's active management of relevant stakeholders, the LCC would not have been implemented, let alone considered successful by some. The LCC's viability would have been in jeopardy when facing multiple challenges in its brief history.

The remainder of the paper is organized as follows. The next section reviews Mitchell et al.'s (1997) theoretical typology and develops research questions pertinent to the LCC. After that, the methodological approach is detailed and the contents of publicly available data on the LCC are analyzed. Following the analysis, results reflecting upon the constructs of power, legitimacy, and urgency of relevant stakeholders and the impact they have on the strategic management of the LCC and TfL are reported. Finally, the last section summarizes and concludes with future academic research directions.

II. Stakeholder Typology and Research Questions

Stakeholder Typology

Stakeholder theory (ST) is well established within management literature (Freeman 1984, Harrison and Freeman 1999, Bosse et al. 2009, and Freeman et al. 2010). Many ST studies focused on the role of firms' management in attracting and retaining stakeholders (Jones 1995 and Turban and Greening 1996), reducing regulatory exposures (Patten 2002), or achieving acceptable corporate social performance (Graves and Waddock 1994 and Godfrey 2005). Researchers (Riccucci 1995, Mintzberg et al. 1998, Friedman 2000, and Bryson et al. 2002) argue that "public policies, organizations, communities, or even countries will fail" unless relevant stakeholders are "at least minimally" satisfied (Bryson et al. 2002, p. 571). In order to

avoid confusion and inconsistency in defining and identifying stakeholders, I applied Freeman et al.'s (2010, p. 60) definition of stakeholders "as groups and individuals who can affect, or are affected by the strategic outcomes of" an organization or institution.

Some studies position public policy administrators, like the management of firms, at the center of a wheel with non-core stakeholders at its spokes (Rowley 1997, Barringer and Harrison 2000, and Brugha and Varvasovsky 2000). Simply put, public policy administrators are dominant stakeholders among all relevant stakeholders in the management of a public policy. Both Bryson (2004) and Freeman et al. (2010) noted the lack of in-depth and comprehensive studies to expand and push the boundaries of Freeman's (1984) original ST. Responding to what he calls a "deficit" in addressing "how to systematically identify and analyze stakeholders" in the public policy literature, Bryson (2004, p. 22) reviewed prior studies of failed public policies and attempted to clarify some of the relevant stakeholders for public policy administration. Bryson (2004, p. 47) concluded that, "linking stakeholder analyses to developments in political theory, management theory and ethics . . . deserves serious research attention." Furthermore, Freeman et al. (2010) indicates that public policy legislators and administrators must understand how and why certain stakeholders influence the outcome of policies due to the unavoidable interconnectedness between policies, public administrators, and for profit corporations. Freeman et al. (2010) devote an entire chapter of their book to emphasizing the need for additional research on stakeholder theory in public policy and administration.

Freeman et al. (2010, p. 60) predict firms that actively manage "stakeholders can enjoy sustainable competitive benefits." This statement suggests an inseparable link between the practice of managing stakeholders and firms' sustainable competitiveness. Applying this linkage to the public policy setting, I argue that ST holds the key to understanding how and why "public

managers” (Gerber and Gibson 2009) as dominant stakeholders may impact the sustainability of a public policy reform via strategic management of non-dominant, yet relevant stakeholders. Thus, policy administrators must actively employ tactics to ensure they pay sufficient attention to stakeholders in order to successfully manage relevant stakeholders and policies.

Brugha and Varvasovszky (2000, p. 239), studying ST in public policy settings, concluded that, “Policy development is a complex process which frequently takes place in an unstable and rapidly changing context, subject to unpredictable internal and external factors.” Based on prior ST research, Mitchell et al. (1997) proposed a typology of three stakeholder attributes to describe stakeholders and their salience. Mitchell et al. (1997) believe that these attributes would allow the management or the administration to improve the effectiveness of overall strategic management and its accompanying tactics. According to Mitchell et al. (1997, pp. 865-868), the three stakeholder attributes are power, legitimacy, and urgency.

Following Mitchell et al.’s (1997) three typological attributes allowed me to conduct in-depth contextual analyses of the publicly available data to assess the LCC. However, considering that ST is specifically developed for the management literature, a reconciliation of construct differences and operationalization of power, legitimacy, and urgency between organizational and policy/political science literature is critical to facilitate the proper examination of the LCC. The succeeding paragraphs attempt to reconcile the differences between both disciplines regarding power, legitimacy, and urgency.

Power

Power dominated political science literature dating back to the 1950s. Lasswell and Kaplan (1950, p. 75) claim that, “the concept of power is perhaps the most fundamental in the

whole of political science: the political process is the shaping, distribution, and exercise of power.” However, debates over the definition of power rage on despite such recognition (see Arts and van Tatenhove 2004 for a summary on the definition and operationalization of power). To avoid detracting from the aim of this paper, I rely on Mitchell et al.’s (1997) definition of power. Quoting Salancik and Pfeffer (1974), Mitchell et al. (1997, p. 865) described power as “the ability . . . to bring about the outcomes they [(the organizations)] desire” (Salancik and Pfeffer 1974, p. 3). Their definition is parallel to how other sociologists define power (Presthus 1964, and Gerth and Mills 1991). Mitchell et al. (1997, pp. 865-866) identify three types of power: coercive, utilitarian, and normative. Coercive power is obtained and exercised through physical means such as violence. Utilitarian power is exercised and maintained via material or financial resources such as monetary rewards or fines. Normative power involves the symbolic control of individuals, organizations, and groups with notions of love and acceptance by the society.

Bryson et al. (2002) purport that stakeholders’ power comes from either “access to or control over” both support and sanction mechanisms where money and votes fall under support for regulatory authority and no confidence votes (Bachrach and Baratz 1975 and Eden and Ackerman 1998) are sanctions. In order to pass and amend a policy, policy makers must tend to and balance the needs of relevant stakeholders to secure their support. Thus, in order for the proposed LCC to pass, TfL most likely would have relied on all available powers to earn stakeholders’ endorsement on the LCC.

Assuming TfL understood how and why this exercise of power by voters affected the viability of the LCC, TfL would likely have employed certain tactics to increase favorable votes for the LCC’s passage and amendments. On the contrary, voters could have also exercised their

power of sanctions by voting against amendments to the LCC. With this assumption, the TfL would likely have deployed certain tactics to convince voters of the benefits of those proposed changes in order to secure votes. The following research questions examine the strategies TfL employed to increase support for the LCC:

RQ1.1: What sources of power did TfL draw on to convince stakeholders to support the enactment, implementation, and amendments of the LCC?

RQ1.2: How did TfL use these sources of power to strategically manage stakeholders throughout discreet stages of the LCC?

Legitimacy

Political science researchers (e.g., Easton 1975, Przeworski 1986, and O’Kane 1993) have placed legitimacy in the center of the entire political science discourses. Albeit important, legitimacy is “a tricky concept to measure and apply” (Gilley 2009, p. xiii). Levi (2006, p. 13) avoids using the term “legitimacy” and claims, “Legitimacy is a complex concept that includes many elements, but no one—including Weber himself—has successfully sorted out which of the various elements are necessary or how to measure indicators or their interactions.” Similar to political science researchers, ST researchers also experience such challenges in defining and framing legitimacy. Not only does the ST literature struggle to find the precise definition of legitimacy, but extant attempts at such explanations also remain “inconsistent with other literatures” (Phillips 2003, p. 25). Legitimacy has been such an abstract notion that even Freeman (1984, p. 45), the pioneer of ST, avoided defining legitimacy in his original paper on ST. Coicaud (2002, p. 10) defined legitimacy as “the right to govern” after politicians receive

and uphold “consent, law, and norms” in a political system. Nevertheless, Coicaud (2002) did not operationalize these three legitimacy constructs.

Observing the difficulties of conceptualizing and measuring “legitimacy,” Gilley (2009) attempted to articulate and provide operational measurements to his conceptualization on legitimacy. He believed, “Legitimacy . . . is rightful rule, where rightfulness entails meeting the shared moral standards of a political community.” Corresponding to Coicaud’s (2002) unoperationalized concepts of “consent, law, and norms” Gilley (2009) conceptualized legitimacy as a construct that contains three distinct yet interconnected dimensions of subconstructs: legality, justification, and consent.

Legality

By legality, Gilley (2009, p. 6) “means that the state has acquired and exercised political power in a way that accords with a political community’s laws, rules, and customs.” Echoing Weber (1947), Gilley (2009, p. 6) posited that a public policy earned its legality when actions related to such policy “are deemed consistent with these rules” (Gilley 2009, p. 6). From this perspective, TfL would likely have promoted the LCC’s legality to relevant stakeholders. I argue that TfL used tactics to create and promote the LCC’s legality when challenged to silence opposing views. Understanding the TfL’s tactics in promoting the LCC’s legality can provide answers on the importance of policy legitimation overlooked by other studies.

Due to its latent nature, measuring legality has been difficult. Fortunately, Gilley (2006) has provided the measurement indicators of legality based on prior studies. Building on the approaches purported by Bollen and Lennox (1991) to measure latent constructs, Gilley (2006, p. 505) operationalized the three subconstructs of legitimacy. For a complete list of indicators, see

Table 2. Gilley (2006) measured political legality by observing whether demonstrations or social movements had been initiated or promoted concerning political legitimacy. In order to increase the LCC's legality, the TfL would likely have promoted positive social movements toward the LCC. This leads to the following research question:

RQ2: What social movements did the TfL promote to strengthen the LCC's legality for its passage, enactment, and subsequent amendments?

[Insert Table 2 about here]

Justification

The second subconstruct is justification. Habermas (1975, pp. 100 – 101) described justification as an “independent” check to assess the legitimacy of states and policies. Barker (1990, p. 62) believed that a policy's legality alone was “inadequate or irrelevant” unless it was also justified. In parallel, Gilley (2009) esteemed justification in legitimacy since the legality of public policies guaranteed no automatic legitimacy. Thus, TfL likely strived to convince stakeholders of the LCC's justification with all available means. Gilley (2006) measured political justification by an indicator of the voters' attitudes on authoritarian leaders' popularity.

The popularity of the then Mayor of London, Ken Livingstone, who championed the LCC as his focal political campaign objective was evident by the Mayoral election outcomes and the comments from both politicians and news media. I argue that Livingstone's popularity might have enhanced the justification of the LCC's passage, enactment, and subsequent amendments. On the opposite side of that same token, the explicit attitude of Livingstone's successor, Boris Johnson, who publicly opposed the LCC might explain the western extension zone (WEZ, see Figure 1) abolishment as he was equally popular when he received the unprecedented popular

voting of more than one million first choice votes during the 2008 Mayoral election. This leads to the next research question:

RQ3.1: How and why did the popularity of the Mayor of London influence the justification of the passage, enactment, and amendments to the LCC?

In addition to a political leader's popularity, Gilley (2006) included the effectiveness of a public institution as another measurable indicator to determine a policy's justification. Most likely TfL would have highlighted its effectiveness in administrating the LCC to promote its legality. Understanding the tactics TfL used to enhance the LCC administration's effectiveness could benefit policy makers with knowledge of how to increase a policy's justification. Thus, the next research question asks:

RQ3.2: How and through what means did TfL promote its administrative effectiveness in order to justify the passage, enactment, and amendments to the LCC?

Gilley's (2006) third indicator is the public survey of support or alienation of a policy. This indicator intends to measure the attitude in judging a policy's legitimacy. Considering how messages portrayed in the media and official publications significantly influence surveys and polls, TfL likely had taken advantage of available venues to increase stakeholders' support and minimize dissent or alienation. This leads to the next research question:

RQ3.3: How and through what means did TfL increase stakeholders' support for the LCC and minimize dissent during its passage, enactment, and amendments?

Gilley's (2006) last applicable indicator is the anti-system movement. Generally speaking, opposing views exist among citizens/voters regarding public policy. In order to maintain a policy's legitimacy, proactive and ongoing management tactics must be employed. Opposing views and anti-LCC movements existed throughout various stages of the LCC.

Without interventions by TfL to diffuse these opposing views, the LCC and TfL might have risked losing its legitimacy claims. Therefore, the final research question under the legitimacy construct is as follows:

RQ3.4: How and why did the tactics employed by TfL reduce the negative impacts of anti-LCC movements and legitimize the policy during its passage, enactment, and amendments?

Consent

Gilley (2009, p. 7) defines consent as “positive actions that express a citizen’s recognition of the state’s right to rule and an agreement, at least in general, to be bounded by the decisions that result.” This final subconstruct is important as citizens often lack an opportunity to properly examine the legality of and accept the justification of their state and public policies. By consenting, citizens implicitly grant legality and justification of the policies imposed on them. Voluntarily paying taxes levied by authorities is one of the actions that exemplify an implicit “consent” among citizens. By paying taxes, citizens might not completely understand the legality of tax policies or be convinced of their justification; nevertheless, “they are acting in ways that display an acceptance of the state’s right to rule” (Gilley 2009, p. 7). Without receiving “consent,” it would have been impossible for TfL to pass the LCC and ensuing amendments. Understanding the means TfL deployed to receive consent for the LCC from relevant stakeholders thus provides answers to the LCC’s present enforcement mechanism. One of Gilley’s (2006) measurement indicators is the compliance of tax payments due to its voluntary nature. The assumption behind this indicator is that stakeholders implicitly grant policy consent when they pay taxes. In order to receive stakeholders’ consent in charging fee increases, TfL

must have strategically incorporated tactics to increase compliance of the LCC payment, which is a form of taxation as this paper has argued. Thus, the research question on consent to the LCC is as follows:

RQ4: Why did the compliance of the LCC payments influence its subsequent fee increases?

Urgency

Mitchell et al. (1997) complete the typology with the concept of urgency in addition to power and legitimacy. Urgency, according to Mitchell et al. (1997, p. 867), is “the dynamics of stakeholder-manager interactions.” Mitchell et al. (1997, p. 867) argued that urgency “exists only when two conditions are met: (1) when a relationship or claim is of time-sensitive nature and (2) when that relationship or claim is important or critical to the stakeholder.” Applying this relational understanding between organizations and stakeholders to public policy administration, policy administrators or “public management” must create a sense of urgency in policy reforms. Without this sense of urgency, policy makers and administrators will potentially fail to maintain their power and legitimacy in policy reforms. However, creating a sense of urgency alone is insufficient. Other elements are also critical to attract the attention of relevant stakeholders to view issues surrounding policies as compelling, imperative, or time sensitive. In order to prevent losing both power and legitimacy of the LCC, TfL would likely have created a sense of urgency on why the LCC was an indispensable policy for Londoners and those who enter London for various reasons in order to pass and maintain the LCC. Thus, the final research question is as follows:

RQ5: What strategic means did the TfL employ to convey a sense of urgency to stakeholders on the passage, enactment, and amendments to the LCC?

III. Method, Data, and Evidence

Method

According to Yin (2009, p. 2), “case studies are the preferred method when (a) “how” or “why” questions are being posed, (b) the investigator has little control over events, and (c) the focus is on a contemporary phenomenon within a real-life context.” Questions posed by the current study and the setting of the LCC fit all three of the aforementioned conditions. Further, a case study approach also has the potential to complement knowledge gained in other research methodologies. Yin (2009, p. 18) pointed out “the case study inquiry relies on multiple sources of evidence, with data needing to converge in a triangulating fashion.” This data convergence requires clear constructs and research questions with the availability of all public data resources. Once the core questions are posed, a focused data collection process would follow to allow a triangulation of observations via an applicable framework to the current study.

Data

Due to the case study’s unique feature of using “multiple sources of evidence” (Yin 2009, p. 98), I relied on LCC-related primary and secondary data to investigate why TfL, a dominant stakeholder’s attributes of power, legitimacy, and urgency shaped the LCC. Secondly, understanding the “why” aspects allowed further examining of TfL’s management tactics or the “how” aspects in its strategic management of stakeholders. I followed Yin (2009, pp. 118 to 122) and used archived data sources to compile a database for this study. The time frame for this analysis begins when the U.K. Parliament passed the 1999 Greater London Authority Act

(GLAA) on November 7, 1999 allowing the enactment of transportation-related charging schemes and ended with most recent data in 2011. Selecting a specific time frame for this study attenuates the common research risk of “death by data asphyxiation” (Pettigrew 1990, p. 281).

Similar to prior case studies (Chenhall et al. 2010, Rahaman et al. 2010, and O’Dwyer 2011), I collected and analyzed the LCC-related data from several archived sources including both primary⁷ and secondary⁸ documents of all publicly available venues. I also relied on internet search engines such as Google and Yahoo! to conduct key word⁹ searches for relevant data. For a summary of database sources for this case, see Table 3.

[Insert Table 3 here]

First, I chronologically organized evidence of data sources to match the historical events of the LCC. Second, I matched TfL’s tactics to the attributes of power, legitimacy, and urgency as stated in the research questions. Finally, I interpreted the results of selected LCC events as they reflected how and why the attributes of TfL, a dominant stakeholder exercised its strategic management tactics in behalf of the LCC. The data collection is an iterative process until it reaches a saturation condition where additional documentation yielded no further insights.

Evidence

First, I chronologically gathered all data related to the LCC from the sources identified in Table 3. Second, I highlighted and coded statements that aligned with the constructs of power, legitimacy, and urgency by Mitchell et al. (1997). Third, I built a spreadsheet based on those

⁷ Publications and documents from TfL, the London Assembly, the Greater London Authority, and the British Parliament are considered primary sources.

⁸ News articles, broadcasting commentaries such as interviews on British Broadcasting Company (BBC), publications of interest groups, and online blog entries are secondary data sources.

⁹ Key words and their combinations such as *The London Congestion Charge*, *The London Congestion Tax*, *London Charging*, *The congestion charging in London*, *The Transport for London*, *The Greater London Assembly*, *The Greater London Authority Act of 1999 and 2007*, etc.

constructs and transcribed relevant statements in chronological order. Finally, after determining the matching between statements and their respective constructs, a tally of each construct's frequency is displayed in Table 4. Table 4 details the annual and grand frequency of TfL's strategic tactics in its stakeholder management over the LCC. Below each of the research questions is addressed.

[Insert Table 4 about here]

Power

RQs 1.1 and 1.2 asked what power sources TfL drew on and how these power sources were used to manage the LCC. Overall, TfL primarily relied on the legislative, administrative, and judicial authorities to bolster its administration power over the LCC. In 1998, prior to the official election of an executive London Mayor, former Prime Minister, Tony Blair, "promised that the mayor [of London] will be 'a post with teeth'" who "will be directly in charge of transport for London" (U.K. Parliament records 1998). The legislative power under the 1999 GLAA allowed Livingstone to initiate legislative processes toward a congestion-charging scheme in London.

First, the 1999 GLAA established the Greater London Authority, the London Assembly, and TfL under the Mayor of London¹⁰ to administer the proposed LCC. This Act strengthened the Mayor's administrative powers for the proposed LCC. Additionally, the 1999 GLAA allowed Livingstone to borrow money from the U.K. Treasury to study the proposed LCC. Without the initial infusion of monetary capital, the overall London Mayor's strategic planning

¹⁰ There was no directly elected executive Mayor of London prior to the 1999 GLAA. The 1998 Greater London Authority Referendum established a Greater London Authority, composed of a directly elected Mayor of London, and a London Assembly to oversee the Mayor's office. This executive London Mayor has actual administrative power different from the purely ceremonial role of the Lord Mayor of the City of London.

could have been severely limited. Finally, both former Prime Ministers Tony Blair and Gordon Brown proclaimed that the 1999 GLAA granted the Mayor power in all LCC matters.

In addition, triumphs of TfL over legal challenges brought forth by some London boroughs solidified TfL's judicial powers over the LCC. For instance, the Kennington Association and Westminster Council in 2002 attempted to postpone the implementation of the LCC through a court injunction. Justice Kay of the high court ruled in favor of TfL. With this judicial triumph, Mayor Livingstone commented, "We [TfL] now look forward to being free to proceed with addressing the problems of congestion in London without the distraction of legal proceedings" (Tempest 2002).

In addition to legislative and judicial powers, polling survey results prior to elections also indicate how voters grant or strip politicians' powers to enact or abolish a public policy and "bring about the outcomes they desire" (Salancik and Pfeffer 1974, p. 3). Milne (2000) reported on January 8, 2000, prior to the official London mayoral election that "the first trade union ballot result, announced on Wednesday, [showed that] Transport and General Workers' Union members gave Mr. Livingstone 86% [of support]." This high support rate represented a confidence vote for the Mayor and his proposed congestion-charging scheme. Also, according to Preston (2001), "19 unspecified organisations supported it [the LCC] and only three came out against." In addition to these 19 organizations, he continued, "147 organisations listed as "supporting, with caveats." It appeared that many of the organizational stakeholders along with their members had granted the London Mayor and TfL additional power to enact and manage the proposed LCC. Livingstone's powers and popularity carried him over to a second term until the current Mayor, Boris Johnson, defeated him in 2008. His favorable attitude towards the charging scheme facilitated the passage of the LCC and a number of subsequent policy amendments.

Interestingly, these powers are a double-edged sword to the LCC. The power transferred from Livingstone to Johnson signaled an adversarial force to the LCC. According to Johnson's campaign manifesto, he believed that the LCC should be completely abolished. Two years after Johnson was elected, the WEZ was abolished in January 2011. In this instance, the Mayor's legislative, administrative, and judicial powers were detrimental to the LCC. Instead of managing stakeholders in behalf of the LCC and TfL, Mayor Johnson used those powers to significantly reduce the scope of the LCC. Regardless of the adversarial power exercised by Mayor Johnson on the WEZ abolishment, these powers remain critical to TfL's overall strategic management of stakeholders over the LCC. Taken as a whole, the initial success of the LCC in traffic decongestion, the judicial triumph over legal challenges, the compliance to the legislative act in managing the LCC by mayors (Livingstone and Johnson) and TfL had increased the LCC's political viability.

Legitimacy

There are three subconstructs in Gilley's (2006) description of legitimacy: legality, justification, and consent (as detailed in Table 2). In the three following subheadings, I address and answer the research questions discussed and raised in the section addressing the three constructs of legality, justification, and consent.

Legality

A pattern emerged in analyzing data through the lens of legality: There were opposing views regarding the LCC enforcement and both supporting and adversarial social movements toward the LCC. RQ2 asks what social movement TfL promoted to strengthen the LCC's legality. Overall, TfL significantly depended on creating favorable opinions of the LCC's

enforcement among stakeholders to maintain its legality. Additionally, TfL's publication reported supporting social movements towards the LCC and used unsuccessful anti-LCC movements as evidence to convey the LCC's legality. These two major approaches in TfL's strategic stakeholder management can be consistently observed throughout the history of the LCC.

TfL publicly assured stakeholders that the LCC would carry out the Mayor's transport objectives to meet or exceed the LCC users' expectations and improve the life of those who enter the charging zone for various reasons. For example, the U.K. Parliament supported the proposed LCC by highlighting many benefits of the LCC. When some argued in 2001 that the existing fuel and vehicle excise duties would be sufficient to reduce congestion, Gordon Brown, former Prime Minister declared, "Congestion charging will have a much greater impact on congestion level than either fuel duty or vehicle excise duty" (Begg 2001). In the same article, Brown affirmed that these two duties alone would not reduce congestion and "a more integrated transport system will have to kick in." Brown's statement effectively legitimized the LCC as the crucial component to reduce congestion in addition to the existing fuel and vehicle excise taxes.

In addition to portraying the LCC as indispensable to the overall traffic decongestion policy, White (2001) concurred with TfL that the LCC would be effective because it would be aided by a "better than expected" video-based monitoring system. Echoing White's (2001) comments, Stuart Miller, technology correspondent for *The Guardian*, believed that the 200-plus installed cameras for LCC enforcement purposes should stand "the chances of success" in monitoring and enforcing the LCC. These aforementioned endorsements from both the U.K. Parliament and news media appeared to have influenced stakeholders' views on the LCC and its benefits. Results from a survey of 500 drivers conducted by *Motoring Towards 2050* showed

people's attitude towards the LCC was favorable, "with more than 70% of drivers accepting them [enforcements] as part of a package of a transport improvement" (Hall 2002).

Although the general public had a positive attitude towards the LCC's legality, other opposition remained. For instance, some questioned the legality of the LCC and argued that the LCC was a form of stealth, regressive tax that would significantly hurt the disadvantaged sector of London society. The tax argument was raised by foreign embassies as well who argued that they should be exempt from the LCC since it was a local tax. Going on the defense, Mayor Livingstone in his interview with BBC's *Breakfast with Frost*, explained that, "this [the LCC] isn't a tax, and that's quite clear, it is road pricing" (Livingstone 2002). Throughout the LCC's history, the Mayor of London (both Livingstone and Johnson) insisted that the LCC had legal ground. This consistent stand on the nature of the LCC enabled both the Mayor(s) and TfL to create and maintain the LCC's legality.

Besides these legality-maintaining tactics over the LCC, TfL actively addressed negative views of the LCC's enforcement with (1) explanations to keep those opposing views neutral/beneficial or (2) taking action to fix existing issues. Soon after the LCC was implemented in 2003, TfL supported its contracted enforcement companion, Capita. According to TfL's first annual LCC Impacts Monitoring Report in 2003, TfL praised Capita's enforcement noting it met all of the LCC policy objectives. In the same report, TfL emphasized Capita's ongoing efforts in improving its enforcement regime and stressed its determination in addressing charging evasion issues. Furthermore, based on statistical data, TfL announced that the number of appeals against the LCC payments and fines were declining due to improved enforcement processes. By painting an effective and improving outlook to stakeholders, TfL increased the

LCC's claims of policy legality. Subsequent annual LCC impact monitoring reports have repeated similar claims.

Upon learning stakeholders' dissatisfaction with Capita's enforcement practices, TfL publicly addressed those concerns swiftly. In 2003, when reports of delays in answering calls at Capita's call center and complaints of incorrect citations arose, TfL and the Mayor were quick to point out that such delays and errors would not be tolerated. Mayor Livingstone promptly ordered a full audit of Capita (Clark 2003c). The Mayor's action aimed to calm threats of legal actions against TfL from drivers who received duplicate fines after they had paid the initial fines. The Mayor's action resulted in Capita's public admission of check processing failure and refunds to approximately 450 drivers who had paid the same fine twice. By acting promptly to address issues derived from Capita's enforcement errors, TfL was able to maintain the LCC's legality and reduce potential future legal challenges by dissatisfied stakeholders.

Besides strategically managing stakeholders' views on the LCC's enforcement, TfL actively cited positive social movements to maintain the LCC's legality. Although both supporting and adversarial social movements towards the Mayor, TfL, and the LCC existed throughout the recent history of the LCC, TfL generally reported and published positive movements and downplayed the negative ones. As early as 1999, results of an independent study by the Government Office for London hinted a social movement among Londoners. Study results showed that 53 percent of Londoners favored the charging scheme and that support went up to 67 percent when net revenues generated by the proposed policy were earmarked to improve London's overall transportation. The same study indicated a wide support for the charging even among business communities (Grayling 1999).

Moreover, the LCC also received broadly supportive social endorsements from political parties, transport experts, and the general public. In 2000, when the Conservative Party moved “to rule out congestion charging,” the newly formed political alliance among the Labour, Liberal Democrat and Green Parties voted down the motion. This effectively constituted a social movement that supported the Mayor’s proposed LCC (guardian.co.uk 2000). Just like the political support given by politicians, transport experts in 2001 favorably endorsed the LCC and advocated its likelihood of success in reducing traffic congestion in London (Miller 2001). Phil Goodwin, professor of transport policy at University College London viewed favorably the efficacy of the LCC in reducing traffic congestion stating “To say ‘it cannot work’ would be a bit like saying ‘charging for parking cannot work’ or ‘charging for phone calls cannot work.’ Think how many different ways we pay for phone calls. If there’s a motive to collect money, there is always a way” (Miller 2001). Finally, the general public launched a social movement to encourage bicycle riding as an alternative form of transportation in London. An interesting news article published by *The Guardian* (2003a) even reported ten alternatives to beat or avoid the congestion charging scheme. Although the initial intent was to mock the LCC, such article actually demonstrated supporting social movements welcomed by TfL. The second Mayor of London, Boris Johnson, went as far as encouraging Londoners to ride a bicycle to work instead of driving after he was elected in 2008. Drawing on these supporting movements, TfL was able to successfully maintain the LCC’s administrative legality.

Contrary to reporting positive and supporting social movements toward the LCC, TfL also downplayed the severity of opposing social movements. Depending on the nature and strength of anti-LCC social movements, TfL occasionally used them as evidence to signal the wide support of the LCC. For instance, actress Samantha Bond hired a public relation firm to

promote the regressive tax nature of the LCC. She argued that the LCC would hurt the poorest sector of the Londoners. TfL quickly pointed out that the poorest Londoners generally do not own cars and relied heavily on public transportation for their activities in London. TfL further argued that the LCC would, contrary to Ms. Bond's belief, actually benefit the disadvantaged sector of London since the revenues from the LCC had been legally earmarked for the improvement of London's public transportation systems.

TfL followed the same approach to defuse anti-LCC social movements and used them as evidence to strengthen the LCC's legality. Two similar examples occurred on the first day of both the original charging zone and WEZ implementation. First, many predicted massive protesting where thousands would march on February 17, 2003, the first day of the original LCC to demonstrate their civil disobedience. On the "C-Day" as nicknamed by the anti-LCC groups, only approximately 200 people gathered for an on-site protest of the newly enforced charging zone. Williams (2003) called such a turnout "amusingly small" and believed many protesters were not London residents. Similar poor turnout was observed when the WEZ became effective on February 19, 2007: Only about 175 protesters showed up to publicly protest WEZ.

To discourage future anti-LCC movements, TfL used such dismal displays of protesters as evidence that bolstered the LCC's legality and indicated support for social movements that favored the LCC. All in all, TfL proactively addressed issues relating to the LCC's enforcement by publicly admitting faults and passing the faults onto Capita. Also, by promoting supportive social movements towards the LCC and using failed attempts of anti-LCC movements as evidence in support of the LCC, TfL was able to create and maintain the LCC's legality.

Justification

RQs 3.1 to 3.4 asked what resources and tactics TfL drew on to strategically manage the LCC. The data showed that TfL relied significantly on claims of the LCC's and TfL's effectiveness to maintain the LCC's policy justification. In addition to publicly promoting TfL's administrative effectiveness and the LCC's efficacy in reducing traffic congestion, TfL justified the LCC with stakeholder support in surveys and the Mayor's popularity.

The predicted effectiveness of the LCC to reduce traffic congestion in London was promoted prior to the London mayoral election. For instance in 1999, David Begg, a transport supremo affiliated with the U.K. Parliament, studied the effects of a charging scheme in reducing London's traffic congestion. Begg's results emphasized the LCC as a vital part of an "integrated" transport system to reduce traffic congestion. Using an analytical model, Begg found that, "Road congestion in London could fall by 42% by 2010 if motorists were charged £5 per journey in and out of the capital" (Harper 1999).

TfL reported similar results claiming the proposed LCC's effectiveness in congestion reduction in 2000. Besides the decongestion efficacy, the second study also indicated financial benefits: "congestion charging in London . . . would cut traffic by about 10% and raise about £250 m[illion] a year" (Graying 2000). The claims of effective traffic decongestion (by about 15%) and substantial amount of revenues (approximately £120 million, £200 million total revenues, and £80 million for operation and management) exceeding operating costs were reported in all subsequent years. Mayor Livingstone confidently rallied behind the effectiveness of the LCC by promising that, "Congestion charges in the capital will be scrapped if they fail to make an impact after a two-month trial period" (*Guardian.co.uk* 2002). It appeared that TfL had promoted the LCC's traffic decongestion effectiveness to justify the LCC.

Such promotion of the LCC's decongestion effectiveness also continued in official publications and news media after the LCC's 2003 implementation. According to the first (2003) annual LCC impacts monitoring report, TfL expected "immediate and obvious impacts . . . producing lower levels of delay and improved journey time reliability" (p. 10). Evidence in the same report indicated that the LCC improved public transportation on bus patronage and reduced delivery delays for businesses in the charging zone. These results, as purported by TfL, seemed to support their efficacy claims that the LCC had produced an array of benefits in addition to the primary traffic congestion reduction objective.

The following are some of the quantitative evidence TfL gave to justify the LCC. For instance, soon after the LCC's implementation, TfL claimed that traffic volume "was 25% lower than usual" as observed by the Royal Automobile Club (RAC, similar to the American Automotive Association, or AAA) that there could have been "a 60% fall [of traffic entering London]" (The Guardian 2003b). The LCC's effectiveness in traffic decongestion even won praises from critics of the LCC. For example, one critic admitted, "there was overwhelming evidence yesterday morning that the congestion charge would be an astonishing success" (Williams 2003). Even *The Telegraph*, a conservative news media, praised Livingstone as a true policy pioneer who championed the LCC for its apparent success (MacInness 2003). TfL continued reporting traffic decongestion figures to reaffirm the LCC's effectiveness claims (30% in 2004, 18% in 2005, 18% in 2006, and 8% in 2007). TfL maintained such claims even after the new Mayor, Boris Johnson, took office in 2008. By claiming policy effectiveness in traffic congestion reduction, TfL and both Mayors were able to manage stakeholders and alter the direction of the LCC.

Besides using the LCC's effectiveness in traffic decongestion to manage stakeholders, TfL also justified the LCC with supporting survey results. The VoteMonkey survey concluded, "65% [surveyed] want congestion charges introduced for driving into central London" (Jeffery 2000). Building on this support, TfL played down the negative impacts of the LCC on businesses by stating that the impact was minimal. Additionally, TfL provided factors such as overall economic downturn and the influence of the September 11th terrorist attacks in the US as alternative explanations for London's economic downturns. Additional TfL survey results called the LCC's impact "not expected to alter significantly the overall economy or competitive position of London" (TfL 2004, p. 17). TfL's active management of business stakeholders subsequently produced favorable survey outcomes "with just over 50 percent of small firms expecting the scheme to be successful in reducing congestion as opposed to nearly 70 percent of large firms" (p. 19). Support for the LCC appeared in all of TfL's annual reports indicating consistent support for the LCC (60% in 2004, 82% in 2005, 85% in 2006, 79% in 2007) from stakeholders until Boris Johnson took office.

As soon as Johnson was elected the Mayor of London, he widely surveyed stakeholders about the LCC's original zone and the WEZ. According to the attitudinal survey of London businesses in 2008, half of all London businesses favored removing the WEZ. The removal support went as high as 89% among businesses within the WEZ. In addition to businesses, TfL's surveys found that over 69% of the general public surveyed favored the removal. Backed by the overwhelming support for removal, the WEZ was then justifiably abolished.

Furthermore, TfL had strategically relied on the popularity of both Mayors Livingstone and Johnson to gain stakeholders' support and justify the LCC. Despite his opponents' negative campaigns against Livingstone and his congestion-charging proposal, he won the 2000 election

by a wide margin. The official election results of the first Mayoral election revealed that Ken Livingstone received 776,427 popular votes or 57.9% of all votes counted. Livingstone's popularity helped justify the LCC, which was the focal policy agenda in his election campaign manifesto. Livingstone's popularity was recognized among business communities regarding the LCC saying that, "if congestion charging is all he [Livingstone] manages in his first term, that will be a significant achievement" (Rayner 2000).

Livingstone's popularity even won praises among critics of him and the LCC. Ashley (2003), who had "never been wholly convinced by Ken Livingstone" conceded, "he [Livingstone] has more political guts than all the present members of the cabinet put together. As mayor of London, Livingstone is conducting an exercise in bold political leadership of a kind that has become very rare." A spokesman for Transport 2000, a pro-environment transport group affirmed that, "Nothing in this [the LCC] scale has been tried before in Europe . . . Livingstone's got a lot of courage" (Beckett 2003). After the LCC was implemented with convincingly positive traffic decongestion results, Mayor Livingstone's popularity reached a new high: the Political Studies Association of the U.K. named him "Politician of the Year" in 2003, specifically for his involvement in introducing the LCC. This award *de facto* sealed Livingstone's political popularity and provided the justification the Mayor and TfL needed to convince Londoners of the LCC.

Livingstone's popularity continued to climb and carried him through the second mayoral election in 2004 beating his opponents by more than 11% of the total tallied votes (55.4% to 44.6%). This voting outcome prominently demonstrated stakeholders' support for the LCC. Riding on the Mayor's popularity, TfL increased administrative support for the LCC to further persuade the general public that a daily charging fee increase from £5 to £8 in 2005 was justified.

Surpassing Livingstone's popularity, Johnson broke an unprecedented electoral record by receiving more than one million votes (1,043,761) in 2008. Examining the three election outcomes in Table 5, it appeared that Livingstone had been losing popularity as Mayor of London. In fact, Table 5 revealed that there was more than an 11 percent drop between the 2000 and 2008 election in overall votes for Livingstone, albeit the lowest percentage of votes was still close to 50 percent. Furthermore, the record-breaking votes Johnson received (more than 11 percent and nearly 10 percent more than that for Norris in 2000 and 2004 respectively) also signaled that voters were more likely to endorse Johnson's proposals on future changes to the LCC as justified.

[Insert Table 5 about here]

After Johnson became the second London Mayor, he widely consulted the public concerning the effectiveness of the WEZ and the original charging zone in reducing traffic congestion. Backed by his political popularity, Johnson's intent to abolish the LCC conveyed his determination in fulfilling his campaign manifesto, which questioned the effectiveness and justification of the LCC. Johnson successfully convinced Londoners that it was in their best interest to end the WEZ. On the same day the WEZ was abolished, TfL relied primarily on the consultation data that deemed the charging scheme ineffective in reducing traffic congestion to warn Londoners that if the daily fees did not increase from £8 to £10 in the original charging zone, the traffic congestion would revert back to the prior-LCC condition. This warning successfully justified the proposed fee increase and it became effective the day the WEZ was abolished. Both amendments to the LCC successfully passed and became effective on January 4, 2011. The tactics used to claim the LCC's effectiveness, influence survey support, and rely on leaders' popularity worked well for both Mayors (Livingstone and Johnson) and TfL in

justifying the LCC and its various amendments. Policy makers and researchers should bear in mind that TfL employed these tactics simultaneously in its overall management of the LCC.

Consent

Out of the five measurement indicators on consent by Gilley (2006, see Table 2) tax payments¹¹ appeared to match the justification attribute in Mitchell et al. (1997). RQ4 asked why and how the compliance of LCC payments influenced the passage of subsequent fee increase amendments. Data in the aggregate revealed that TfL strategically managed stakeholders over the LCC and gained their consent through both incentives and penalties related to the LCC payments. No data on charging fees and fines were available prior to the implementation of the LCC. Before February 17, 2003, people had mixed attitudes towards the LCC. For example, some objected to the LCC for they were “taken aback at the idea of paying for something they have previously enjoyed for nothing” (Parker 2001). It appeared that some stakeholders had yet to grant consent to the LCC and TfL. A survey result showed that some 30 percent of people who usually drove in central London “said they would not buy a license [for registering and paying the LCC fees]” (Miller 2001).

Contrary to this non-consenting attitude, news articles meanwhile reported that stakeholders gave their consent shortly before the LCC became effective. Supporters of the LCC believed that the LCC was inevitable and necessary voicing statements such as, “Even though this [LCC] will hit me directly in the pocket, I don’t have a fundamental problem with paying something [that is supposedly beneficial]” (*The Guardian* 2003a). In addition to support from the general public, six weeks before February 17, 2003, some academicians rallied behind an

¹¹ As mentioned earlier in this paper, the debate of whether the LCC is a form of road toll or road tax is still ongoing. However, I have argued that charging payments function similarly to tax payments as one of the measurement indicators in Gilley (2006).

actual road charge to battle London's chronic traffic congestion. For instance, Glenn Lyons, a professor of transport at the University of the West of England, applauded the LCC saying that, "In transport, we're very good at . . . developing complex models . . . Without . . . Livingstone . . . we could have pontificated for years whether charging would work" (Clark 2003a). In addition to researchers, the YouGov poll also showed nearly half (48 percent) of Londoners supported the idea of paying for road usage while only 39 percent were still against.

One crucial indicator of whether the LCC and TfL had received consent from stakeholders was vehicle owners' pre-registration with TfL to pay the LCC fees. Some politicians predicted that a large number of late registrants would not only indicate that (1) the stakeholders did not consent to the LCC, but also would cause either (2) a massive clog in TfL's call center system or (3) drivers' deliberate non-compliance to the LCC payments. As an incentive to encourage pre-registration for the LCC license, TfL decided to waive the one-time £10 registration fee for vehicles with complete registration by January 26, 2003. Fortunately, TfL recorded more than 6,000 registrations and pre-payments for the LCC one week before the implementation. Additionally, *The Guardian* (2003) reported that approximately 21,000 vehicle owners registered via text messaging right before the initial implementation. TfL predicted that, "of the 100,000 eligible motorists expected to drive into town today [February 17, 2003], 26,000 had paid the charge and 50,000 had registered to pay on the day by text message" (Clark 2003b). The final number showed that 80,000 (later revised to 87,000) had paid £5 and there was no apparent "sign of a last-minute rush to pay the congestion charge" (Vasagar 2003).

TfL further utilized additional incentives to manage stakeholders in succeeding years after 2003. For example, to retain stakeholders' consent over the increase from £5 to £8 for regular vehicles and from £5.50 to £7 for fleet cars in 2005, TfL offered several incentives, such

as a 100% discount for registered Blue Badge holders and free charging days between Christmas Day and New Year's Day. Also, TfL offered 15% discounts for monthly and annual installment charge payers if they registered before the fee increase and a 90% discount was available for residents within the charging zone. The majority of charging zone residents found the increase affordable after discount.

TfL also relied on the LCC's revenues to increase stakeholders' consent. TfL and Mayor Livingstone promised stakeholders that the net charging revenues would be earmarked to improve London's public transport such as bus and rail systems. Based on the annual TfL reports, the LCC generated positive net revenues¹² to improve transport in London, which coincided with the Mayor's overall transportation strategies. Instead of direct financial payments, stakeholders enjoyed improved public transportation as the Mayor and TfL had promised. Although fee increases, the expansion of the WEZ, and inflation might be behind the rising charging revenues, the steady increase in annual revenues still signaled a positive correlation between stakeholders' consent to the LCC and its accompanying charge payments.

Alongside the financial incentives of discounts and revenues, TfL simultaneously managed stakeholders by imposing penalties for noncompliance ranging from an additional £5 to a hefty £80 penalty. As an added measure against those who refused to pay, the £80 penalty could be accrued for all outstanding fine balances. For car owners who repeatedly refused to pay and fell under the "three strikes rule (holding more than three unpaid fines and penalty notices)," the court bailiffs would seek out the offenders. The bailiffs would, upon locating the vehicles, clamp, tow, impound, and in extreme cases, crush for scrap value to pay for the outstanding fines and charges (Gregoriadis 2002).

¹² £50 million in 2003/2004, £90 million in 2004/2005, £122 million in 2005/2006, £123 million in 2006/2007, and the final impacts monitoring report issued by TfL logged a staggering £137 million in 2007/2008.

TfL's tactic in allowing incentives and imposing penalties appeared to work well in garnering stakeholders' consent toward the LCC as the charging payment pattern quickly stabilized for the remainder of its first year implementation. For example, the second day of implementation showed drastic improvement that out of the 92,000 who paid the charges, 75,000 of those payments were made before four p.m. A steady charging payment pattern was soon established: 34,000 paid the daily charge by eight a.m. starting on week two and such pattern persisted throughout the year with about 80,000 to 90,000 daily payments received by TfL on any working day. TfL reported that it received approximately 550,000 congestion payments weekly with around 400,000 by non-residents of London, 90,000 by Londoners, and 60,000 by business and others.

The Penalty Charge Notices (PCNs) payments were another source of the overall congestion fees that met Gilley's (2006) consent measurement indicator. The PCNs payment rate demonstrated additional consent from stakeholders who challenged the LCC and TfL. According to TfL data, an increasing percent of PCNs has been recovered "from a 'low' of around 35% payment of PCNs issued in February and March 2003 to a current 'high' around 70% payment in September 2003" (TfL 2004, p. 115). This pattern of PCNs payment increase conveyed a subtle attitudinal shift from non-compliance to consenting. According to TfL's 2007 annual report regarding the PCNs payments, "Representations and appeals against Penalty Charge Notices continue to reduce, with 14 percent of the Penalty Charge Notices now being subject to a representation and 1 percent subject to appeal" (p. 97). Additionally, rates of penalty payments held steady at about 72 percent with some discounted amount granted by the enforcement office of TfL. These steady payment rates and low appealing/representing rate suggested that the stakeholders had given their consent to the LCC's legitimacy.

Urgency

RQ5 questioned how TfL conveyed a sense of urgency to stakeholders in order to strategically manage the passage, enactment, and amendments of the LCC. Results indicated that TfL significantly relied on stakeholders' sense of fear to convey dire urgency if the LCC failed to pass and be implemented. TfL used the same scare tactic in the LCC's subsequent amendments. For instance, TfL consistently emphasized how traffic congestion would significantly and negatively impact commerce without the charging scheme in place. Prior to the LCC, some "concerned" Londoners were disgusted that "the average speed of vehicles in our cities is now about 10 to 12 mph (the same as that of the horse-drawn cab a century ago)" (Harper 1999). Adding another layer of urgency and quoting the government's official studies on the trend of traffic growth, the same newspaper predicted, "If no action were taken, then congestion [in London] would increase by 35%" (Harper 1999). The government heavily promoted the argument that the LCC would reduce traffic congestion significantly, decrease delay costs in deliveries for commerce, and the quality of living for London residents would improve notably.

However, some opposing Londoners doubted whether the LCC was needed. They argued that charges for road users and workplace parking would be sufficient to deter traffic and thus reduce congestion concerns. To silence this argument, a former Deputy Prime Minister insisted that without the LCC, "traffic will increase by 35% between 1996 and 2010" (Wintour and McSmith 1999). Nevertheless, whether traffic would indeed have increased at such a high percentage, as the government claimed is debatable due to the lack of concrete evidence.

Prior to the LCC, the government employed another tactic by tying traffic congestion with fear of monetary losses for London businesses. For example, the Confederation of British

Industry (CBI) estimated that traffic congestion would cost approximately £15 to £20 million annually for the U.K. economy. Their estimate relied on the assumption that traffic volume would double between 2000 and 2005 (Addley 2000). Again, in 2001, the same organization reiterated its figure of traffic congestion-related financial cost to £18 [million] without providing additional explanations as to how such a figure was calculated.

In 2002, echoing CBI's estimate of financial loss in commerce, Dirk Peterson of the London Chamber of Commerce proclaimed that the annual costs to the economy due to traffic congestion would be around £4 million. Six weeks before the LCC became effective, Mayor Livingstone suggested that the time lost in traffic cost "the capital's economy £2 m[illion] to £4 m[illion] a week" (Clark 2003a). Interestingly, the Mayor did not provide any scientific evidence for his bold projection. Not only did various loss predictions differ significantly, there lacked follow-up reports to verify the accuracy of these predictions. Soon after the LCC's 2003 implementation, both Mayor Livingstone and TfL ceased making public projections of negative economic impacts as if the LCC was the panacea for all negative congestion induced monetary impacts to businesses. Contrary to the "all is well" attitude regarding the LCC's effectiveness, Johnson ordered consultation and surveys to study the effectiveness of the WEZ soon after he took office. According to the 2008 and final TfL annual report on the LCC, TfL conceded, "the western extension is currently experiencing no material congestion relief." Although the same report showed that there were no material impacts from this stagnant level of traffic congestion; nonetheless, the survey results were sufficient for Mayor Johnson to successfully remove the WEZ. From the aforementioned reports, TfL was able to create an exaggerated sense of urgency via all available media and publications to strategically manage stakeholders.

Besides the threat of negative economic impacts, TfL also warned Londoners of the potentially negative impact traffic congestion would have on their overall living quality. Out of all potential areas of impact, air quality remained the focal concern. For instance, Brown and Harper (2000) reported, “Air quality in the UK during 1999 showed the worst deterioration since modern records began.” They further quoted Friend of the Earth, an environmental advocate group, which reported that, “the number of days last year [1999] on which air pollution exceeded official health standards rose by 20% in urban areas” in 1998. By naming traffic congestion as the primary cause of air quality deterioration and subsequent damages to health and quality of living, the government was able to scare Londoners into considering the need for a congestion charging policy such as the LCC. Once the government succeeded in creating fear of the possibly devastating effects traffic congestion would have on the economy, health, and living quality, TfL was able to manage stakeholders in behalf of the LCC. On the same token, Mayor Johnson and TfL also relied on similar scare tactics to abolish the WEZ and later raise the daily charge by scaring stakeholders that the traffic congestion in the original zone would suffer the same fate of worsening traffic congestion as WEZ if the daily fee remained unchanged.

IV. Summary and Discussions

This case study intended to develop and refine both the empirical and theoretical understanding of policy reform and how and why active and long-term strategic management is indispensable in discreet stages of an innovative policy. Study results supplemented the gap yet to be examined and investigated by extant research work on the LCC, an innovative public/tax policy of unprecedented scale in implementation and management. Researchers conducted and published a number of simulations and modeling studies prior to the LCC’s implementation.

These research results, albeit simulated, were extremely important as they offered a first look at the potential outcomes of the proposed charging scheme.

In addition to these simulation studies, another set of research focused primarily on the financial impacts of the LCC within and around the charging zone. These studies, like the simulation projects, offered direct assessments on the LCC's financial ramifications after its implementation and once economic data became available. These papers provided policy makers with important data to better evaluate the financial impacts of the LCC. The general approaches and assumptions of these studies were that causal relationships existed between the LCC and the economic outcomes. As appealing as these studies were in attempting to explain and predict how the LCC might have contributed to financial conditions at their time of examination, often it was difficult to reach a definitive conclusion linking the LCC to those economic impacts.

Although these two sets of studies have contributed to additional knowledge as to the “what” aspects of the LCC before and after its implementation, there lacked studies examining the ongoing strategic management, or the “how” and “why” aspects of the LCC. In order to shed more light on the tactics exercised by policy administration and to understand the rationales the administration employed in its overall strategic management of stakeholders, this case study strived to explain the two most often overlooked areas in regards to the LCC.

I applied Yin's (2009) research methodological approach to conduct this case study on TfL's strategic management of stakeholders over the LCC. I relied on Mitchell et al.'s (1997) typology of stakeholder attributes of power, legitimacy, and urgency to pose theoretically based research questions on how and why TfL used various tactics in its overall strategic management of stakeholders. Mitchell et al.'s (1997) stakeholder typology enabled me to identify the salient

stakeholders who had significant influence over the LCC. After identifying the LCC's relevant stakeholders, I was able to match Gilley's (2006) construct measurement indicators to the theoretical constructs of Mitchell et al.'s (1997) typology. The matching subsequently allowed me to analyze data and provide answers to the research questions posed according to Mitchell et al.'s (1997) typology as operationalized through data related to the LCC. I iteratively collected and analyzed data until the results reached the stage of saturation. That is, when additional data revealed no new knowledge, the data collection ceased. Also, the entire data collection and analyses took an iterative cycle until no new pattern was observed from the extra analysis.

TfL primarily managed relevant stakeholders through the creation and maintenance of the LCC's legitimacy. First, TfL spent a significant amount of resources to promote the LCC's effectiveness in reducing traffic congestion. TfL's second tactic was to actively influence stakeholders' views in an attempt to create positive perception of TfL and the LCC. Also, the political popularity of Mayor Ken Livingstone, who championed the LCC, allowed TfL to claim the LCC's legitimation in its traffic decongestion objective. TfL's final tactic was aggressively intervening with anti-LCC movements to slow their momentum and trivialize the magnitude of the opposition to claim the stakeholders' support of the LCC.

In addition to the tactics, TfL effectively used powers bestowed by administrative mandates, legislative acts, and judicial triumphs to convince stakeholders of the LCC's legitimation during the discreet stages of the LCC. With these powers, TfL was able to enhance the LCC's legitimacy. Furthermore, TfL's powers also effectively silenced stakeholders who opposed the LCC and made future attempts to challenge TfL and the LCC extremely difficult, if not infeasible. Finally, TfL skillfully invented and promoted a sense of dire urgency regarding economic, social, and environmental impacts if the LCC failed to materialize and succeeding

amendments were not enacted. A pattern from data analyses also emerged concerning the tactics employed by TfL, which indicated that limited scientific evidence supported the claims of urgency. Scaring stakeholders without evidentiary support into favoring the LCC and TfL's administration seemed to be successful and likewise played an integral part in gaining relevant stakeholders' support. Without creating such a sense of urgency, the stakeholders might have indefinitely delayed their support even after TfL had secured power and legitimation through the aforementioned tactics.

Findings of this case study provided beneficial insights of practical strategic management application to policy makers. Additionally, results enhanced academic researchers' theoretical understanding of stakeholder identification and typology through empirical study of the LCC. This advancement of both practical and theoretical understanding allows policy makers to effectively evaluate policy reforms that have been implemented and incorporate successful strategic management of new and future policy reforms. Furthermore, academic researchers could potentially apply this case study as an exemplar framework for future investigation of policies in a wide array of disciplines. Based on the current study, key or executive stakeholders, such as the Mayor of London, appeared to have impacted the overall administration of the LCC. One conceivable future project may involve the comparison of tactics used by key stakeholders, such as the Mayor of London, especially with those who align with different personal and political ideologies to influence the direction of controversial policy reform like the LCC.

Also, researchers may want to examine the direct influence on policy by powerful stakeholders such as corporations, unions, and other political coalitions when policy makers actively seek resources (financial, knowledge, or endorsement) owned by these influential stakeholders. Finally, these aforementioned influential stakeholders likely have their own

strategic tactics to affect policy makers, executive stakeholders of policies, and other stakeholders in innovative and often controversial policy reform. Results from these recommended future studies would most likely enhance the overall understanding of a policy reform, its management, and the impact of different stakeholders throughout policy stages.

Tables and Figures

Table 1 Historical Highlights of the LCC

Date/Year	Event
1999/2007	The U.K. Parliament passed the Greater London Authority (GLA) Act of 1999, which established the Greater London Authority, the London Assembly, and the Mayor of London. Under GLA, the Mayor of London has the legal authority overseeing the transportation of London. The Mayor exercises his/her authority and power over transportation through TfL. The Greater London Authority Act of 2007 upheld the 1999 Act.
May 4, 2000	Running as an independent candidate, Ken Livingstone became its first executive Mayor of London through voters' support in 2000 by defeating candidates of both the Labour and the Conservative Parties worked to uphold his campaign manifesto regarding traffic congestion in London.
2000	Mayor Ken Livingstone published his Transportation Strategy that enabled the implementation of the LCC.
2001	TfL published its first Draft Scheme Order to establish the procedures and mechanism for the implementation of the LCC.
February, 2002	Mayor Ken Livingstone finalized and published his revised Scheme Order to confirm the scheme of the LCC.
February 17, 2003	The first day for the LCC to become effective with a £5/vehicle per day charge within the charge zone between the hours of 7 a.m. and 6:30 p.m. This charge scheme is enforced Monday through Friday and excludes public holidays.
June 10, 2004	Ken Livingstone was reelected to a second-term as the Mayor of London. He ran as a nominee for the Labour Party against the Conservative Party's Steven Norris.
July 4, 2005	The LCC daily fee was increased from £5 to £8.
February 19, 2007	The Western Extension zone charges became effective and the revised charging hours ends at 6 p.m.
May 4, 2008	Running as the Conservative Party candidate, Boris Johnson defeated Ken Livingstone (Labour Party) and succeeded Livingstone as the second Mayor of London. Johnson received over one million votes (more than 42% of all votes counted) in this Mayoral election, which surpassed the voting records of all politicians in British history.
January 4, 2011	The Western Extension zone was deemed ineffective and abolished after broad consultations ordered by Mayor Boris Johnson. On the same day, the daily congestion charge was raised from £8 to £10.

Table 2 Measurement Indicators of Legitimacy based on Gilley (2006, p. 505)

	Legality	Justification	Consent
Attitudes	<ul style="list-style-type: none"> * Surveys about legality * Surveys about corruption * Acceptance of electoral outcomes * Views of law enforcement and civil servants 	<ul style="list-style-type: none"> * Surveys of political support or alienation * Effectiveness of political institutions * Popularity of authoritarian leaders or parties 	N/A
Actions	<ul style="list-style-type: none"> * Social movements over legal issues * Importance of laws in political life * Dissonance over election results 	<ul style="list-style-type: none"> * Political violence * Size of secret police * Political prisoners * Anti-system movements * Mass emigration * Crime level 	<ul style="list-style-type: none"> * Election turnout * Voter registration * Military recruitment * Tax payments * Popular mobilization in authoritarian states

Table 3 Summary of Database Sources

Type of Archived Data	Data Source
History	The British Parliament; The Greater London Authority; the London Assembly
Assessment reports	Transport for London; The Greater London Authority
Secondary sources, including popular press articles, newspaper columns, and news media coverage	BBC News; BBC Parliament; The Guardian; The Daily Telegraph; The Financial Times; The Observer; The Herald; The Scotsman; The Independent; blogs on the LCC

Table 4 Frequency of Stakeholder Management Tactics Exercised by TfL, 1998-2011

Year	Tactics					Total
	Power	Legitimacy			Urgency	
		Legality	Justification	Consent		
1998	0	1	2	0	0	3
1999	4	1	4	0	9	18
2000	19	16	19	0	6	60
2001	16	14	9	2	18	59
2002	29	31	4	0	11	75
2003	45	103	110	31	12	301
2004	5	68	56	15	1	145
2005	5	41	23	16	0	85
2006	17	34	45	24	0	120
2007	24	52	58	19	0	153
2008	13	36	49	10	2	110
2009	8	2	1	1	0	12
2010	4	0	1	1	0	6
2011	0	1	2	1	0	4
Total	189	400	383	120	59	1151

Table 5 Results of Three London Mayoral Elections in 2000, 2004, and 2008

	2000		2004		2008	
	Livingstone	Norris	Livingstone	Norris	Livingstone	Johnson
1st Choice Votes	667,877	464,434	685,541	542,423	893,877	1,043,761
% of Votes	39.00	27.10	35.70	28.20	36.38	42.48
2nd Choice Votes	178,809	188,041	250,517	222,559	303,198	257,792
% of Votes	12.60	13.20	13.00	11.60	12.34	10.49
Final Votes	776,427	564,137	828,380	667,178	1,028,966	1,168,738
% of Votes	57.90	42.10	55.40	44.60	46.73	53.17

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STUDY TWO: THE INTERDEPENDENCE OF CORPORATIONS AND LEGISLATORS: A SIMULTANEOUS EQUATIONS ANALYSIS

Abstract

I empirically test the applicability of social exchange theory (SET) in explicating the interdependent relations between corporations and legislators. Contrary to the unidirectional equations traditionally incorporated in prior corporate political strategy literature, this study extends prior research by explicitly considering the endogeneity of such relations with a simultaneous equations modeling (SEM) approach. Results indicate that PAC contributions and voting outcomes mutually affect each other between corporations and the House of Representatives as predicted by SET, but not in the Senate. Also, legislators' political party affiliation significantly influences the voting outcomes in both chambers of Congress, a finding that is consistent with prior studies' results. Furthermore, SEM increases the methodological precision of analysis relative to the traditional unidirectional multivariate equation approaches (ordinary least squares and multivariate linear regressions). This paper contributes corporate political strategy literature by examining political interactions through an often overlooked framework and through the use of an innovative statistical analysis. Theoretical application, methodological analysis, and results of this study can benefit future research into corporate political strategy in the tax accounting policy arena.

Key words: Corporate political strategy; Energy Independence and Security Act of 2007; Simultaneous Equations Approach; and Social exchange theory

I. Introduction

Based on arguments from social exchange theory (SET), I examine the relations between corporations and legislators using a simultaneous equations modeling (SEM) approach. As such, I both broaden SET's theoretical application and improve methodological precision in the tax-related corporate political strategy literature. The aim is not to disprove findings of prior corporate political strategy research in accounting and taxation, but rather to explicitly consider the complex relations with an extended methodological approach. Corporate political strategy literature over the past decade relies primarily on the Hillman and Hitt (1999) model (HH hereafter).¹³ This model assumes unidirectional relations between corporations and legislators where corporations utilize various means to gain access to legislators, influence legislators' voting patterns, and alter public policy outcomes that affect corporate interests. However, HH's assumptions of a unidirectional relation between corporations and legislators may only reflect partial relational structures in the overall political landscape.

Results of prior corporate political strategy studies (Chappel 1982, Wayman 1985, Wilhite and Theilmann 1987, Langbein and Lotwis 1990, Dow and Endersby 1994, Wawro 2001, and Yeung 2008) examining the influences of political financial contributions on legislators' voting behaviors are inconsistent. Gordon (2005, p. 21) argues that this inconsistency is due to "a misunderstanding of the true relationship between interest groups and legislators." Rather than viewing the exchange of contributions and votes as a market relationship, where one is traded for the other, Gordon (2005, p. 30), following Clawson et al. (1998), believes that the relation "between donors and recipients of campaign contributions resembles a gift relationship." The interactions and relations between corporations and legislators are implicitly formed,

¹³ See Roberts et al. (2003) for a one-page table summary of the Hillman and Hitt (1999) model.

maintained, understood, and reciprocated. Empirical accounting and taxation studies (Roberts et al. 2003, Dwyer and Roberts 2004, Roberts and Bobek 2004, and Thornburg and Roberts 2008) examining corporate political strategies often rely on simple linear regressions to test their hypotheses. However, this conventional statistical methodology may have contributed to potential biases in the empirical analysis and findings. For instance, some studies report that the amount of corporate campaign contributions delivered to politicians via political action committees (PACs) appears to influence legislators' voting patterns while others observe the influence going in the opposite direction. These results suggest that financial contributions and voting patterns are likely to affect each other in a circular manner.

Based on the paradoxical observations that appear to contradict HH's unidirectional assumptions, I argue that (1) a gift exchange scenario provides a more appropriate theoretical framework than the conventional market setting to study the relations, (2) the relations between political actors created by contributions and votes are symbiotically dependent where bilateral influences or interdependence exist simultaneously, and (3) simultaneous equation modeling may eliminate the biases in results derived from the multivariate regressions used in prior studies.

Given the potential problems of prior research in the corporate political strategy literature, I rely on SET arguments to empirically analyze publicly available data on the relations between PAC contributions and voting patterns during the formulation of the Energy Independence and Security Act of 2007 (EISA07). Further, I use two stage least squares (2SLS) estimation to control for the potential endogeneity (e.g., Fleisher 1993) between corporate PAC contributions and politicians' voting records.

Results indicate that, consistent with SET arguments, PAC contributions and voting outcomes mutually affect the relation between corporations and members of the House of

Representatives (House hereafter). However, the SET expectations do not hold relative to the Senate (Senate hereafter). Consistent with prior research, legislators' political party affiliation significantly influences voting outcomes in House during the formulation and passage of EISA07. However, it is not significant in the Senate. In contrast to expectations, House representatives from states with a high concentration of stakeholders having oil and gas industry ties were statistically more likely to vote for elimination of the tax provisions in EISA07. Such observation does not exist in the Senate. Finally, it appears that 2SLS analysis increases the methodological precision relative to OLS in that the statistical significance for the House models is stronger, while results for the Senate models are qualitatively similar.

The results of my analysis have both methodological and theoretical implications for research in the corporate political strategy literature. My findings may induce future corporate political strategy researchers to rely on a more appropriate statistical approach, such 2SLS, to enhance the explanatory precision in disentangling the complex, interdependent relations between corporate PAC contributions and legislators' voting outcomes. Additionally, my findings suggest SET may be a more appropriate lens to frame and study interactions and relations between corporations and legislators in the future, and as such, they provide additional insights to the ongoing debate with respect to the reliance on traditional market views of political contributions.

The remainder of this paper proceeds as follows: Section II reviews and discusses pertinent corporate political strategy literature, SET and develops the hypothesis. Section III presents EISA07, Section IV addresses the methodology matters on model building, and analytic procedures, and Section V reports the statistical results and interpretations of the EISA07 data. The final section VI summarizes and concludes with suggestions for future research.

II. Literature Review on Corporate Political Strategies

Political Economy Studies

Clawson et al. (1998) argue that market exchanges form the social underpinnings of modern capitalist society and this notion is “so pervasive that its language, forms, and modes of thought come to dominate many aspects of life” (Clawson 1998, p. 31). Indeed, they further claim that society believes “virtually all social phenomena can be purchased, even those, such as congressional votes” (Clawson et al. 1998, p. 31). This market view of purchase and exchange has led to a stream of research investigating whether corporations’ political financial contributions influence legislators’ votes. However, despite the general perception that businesses buy votes from policy makers with campaign contributions (see, e.g., Welch 1982), corporate political strategy studies examining the impact of campaign contributions on legislators’ votes have produced mixed empirical findings. Several studies report a statistically significant, positive correlation between campaign contributions and legislators’ voting. For instance, Wilhite and Theilmann (1987) examined the effects of labor PAC money in the form of campaign contributions on a series of labor-related legislation. Their results suggest that labor PACs influenced congressional voting patterns on labor specific legislation. Using state-level data, de Figueriredo and Edwards (2005) investigated the effects of campaign contributions from competing interest groups of the state telecommunications industry on public policy outcomes and report a significant positive correlation. Finally, based on his investigation of the influence of campaign financial contributions on the votes for four amendments related to the 1996 Farm Bill, Yeung (2008) concluded that the spending significantly affected the voting outcomes on each amendment.

In contrast to the positive relations between PAC spending and legislative voting noted above, other studies' results are less conclusive. Chappell (1982) analyzed the influence of campaign contributions made by interest groups on roll call voting by House members for the 1974 to 1977 Congresses. He was neither able to document that financial contributions impacted voting decisions nor was he able to "unambiguously conclude that contributions have no effects on voting" (Chappell 1982, p. 83). Similarly, Wayman's (1985) multiple regression results indicated that, after controlling for the effects of ideology, PAC contributions had a statistically insignificant impact on U.S. Senate support concerning the Strategic Arms Limitations Talks II during the Cold War. In a further study, Langbein and Lotwis (1990) investigated whether campaign contributions made by opposing groups on the gun control related McClure-Volkmer bill affected policy outcomes. Their results were only marginally significant. Dow and Endersby (1994) tested whether campaign contributions had any impacts on legislative voting outcomes in the California Assembly, where there was no limit on the amount of allowable PAC contributions. They found that neither spending by businesses nor by labor groups had any "major influence on legislative roll call voting" (Dow and Endersby 1994, p. 334). Finally, using panel data pertinent to PAC contributions on salient legislative issues as identified by interest groups, Wawro (2001) found that contributions were inconsistent in determining the voting patterns for the legislative bills examined.

Accounting and Taxation Studies

Similar to the mixed results reported in political economy studies of the relation between campaign contributions and voting outcomes, examination of corporate political spending in the accounting and taxation domain are not unequivocal. Roberts et al. (2003) examined how the

U.S. public accounting profession used political strategies to influence the outcomes of the Private Litigation Reform Act of 1995 (The Reform Act hereafter). Using regression analysis based on the HH model, Roberts et al. (2003) show that, in both the House and the Senate, a legislator's voting record is positively and significantly correlated with the amount of PAC contributions made by the accounting profession. Dwyer and Roberts (2004, p. 881) concluded that PAC contributions made by the accounting profession were intended to "influence Congress" during the 1997-1998 federal election cycle for the House. Roberts and Bobek (2004) also relied on the HH model to examine insurance and airline industry contribution activities during the development and passage of The Taxpayer Relief Act of 1997. Their results indicate a positive and significant relation between past voting record and insurance industry PAC contributions in both the House and the Senate. In contrast, the relation between prior voting and airline industry PAC amounts is only marginally significant for the House and is not statistically significant relative to Senate contributions. Finally, Thornburg and Roberts (2008) in their investigation of PAC contributions related to the Sarbanes-Oxley Act of 2002 report that differences in PAC contributions to members of the House and Senate were consistently related to past voting records. However, their examination of roll call votes on various provisions of the bill yielded mixed results with respect to whether PAC amounts explained voting behavior.

In sum, studies of the relation between corporate campaign spending and voting outcome, both in the political economy and accounting and taxation literatures, have failed to find consistent evidence that prior voting influences PAC contributions or that the spending influences subsequent votes. Roscoe and Jenkins (2005) suggest the mixed findings are due to problems with the underlying theoretical assumptions of the giving relation as well as methodological choices of the researchers. As such, I attempt to overcome these concerns by

introducing social exchange theory (SET) as a better theoretical basis for corporate political strategy investigations and by controlling for potential endogeneity in the giving/voting relation via the use of simultaneous equations analysis.

Social Exchange Theory

Social exchange theory (SET) has its roots in the anthropology literature and can be traced back to at least the 1920s (e.g. Mauss 1925 on gift-giving). Over the 1950s and the 1960s, SET became prominent in the disciplines of sociology and social psychology. Organizational behavior researchers regard SET as “one of the most influential conceptual paradigms” (Cropanzano and Mitchell 2005) in organizational theory. Cook and Rice (2003, p. 53) purport that SET enables researchers to understand “the micro-level processes of exchange and the macro-structure they create in society.” Homans (1958; 1961; 1974), Thibaut and Kelley (1959), and Blau (1964) are all major contributors to the development of SET and its application to organizational behaviors.

SET is “radically different” (Emerson 1987, p. 11) from the traditional neoclassical economic theory of exchange. The latter views all actors, whether they are individuals, groups, or corporate firms/organizations, as exchanging resources in order to survive. The actors are considered rational and it is the market that determines the price of exchange. As such, it is the construct of the market, not the actors within it, that sits in the center of economic exchange theory, and it is the market that dictates the behaviors and transactions of exchange. Under the market-based theory, resources of equal value are exchanged instantaneously and the relationship between actors ceases at the completion of the trade.

In contrast to traditional neoclassical economic exchange theory, the central construct of SET views actors in exchange situations as the determinants of all exchange activities. Although debates surrounding SET are ongoing, proponents of the theory “agree that social exchange involves a series of interactions that generate obligations” (Cropanzano and Mitchell 2005, p. 874). The social interactions of resource exchanges are viewed as “*interdependent* and contingent on the actions of another person” (Cropanzano and Mitchell 2005, p. 874, italics in original). Furthermore, these interactions create expectations of reciprocity where one actor or party is expected to repay “in kind” after receiving resources or gifts from the other. Because of these exchanges, the nature of the relationship between two individuals/parties evolves and alters the interactions and substance of exchange. Unlike market-based exchange where no long-term interactions take place between actors and relationships end as the act of resource exchange is completed, social exchange based on interaction fosters “rapport” between actors and creates enduring relationships. Although reciprocity or the return of a favor/gift is expected, this expectation is implicit and neither a definitive date nor identification of specific resources needs to be negotiated prior to the act of reciprocity. Finally, the exchange of resources or gifts is deemed equal through the reciprocate processes where both parties are subliminally aware of whether such equilibrium has been achieved.

Emerson (1976), in agreement with Curry and Wade (1968), purports that SET offers a suitable framework to explain political behavior. If corporate organizations and legislators engage in the social exchange of resources, according to SET, they will develop a lasting relationship. This is similar to HH’s (1999) argument on relational tactics employed by corporations in their political involvement to shape legislative outcomes. Instead of buying votes directly from the legislators, corporations make PAC contributions to establish their presence

and gain access to Congressional staffers and members of the Congress (Clawson et al. 1998, Suárze 2000, and Gordon 2005), and thus create potentially enduring relationships with legislators. These relationships, in turn, allow legislators to ask for additional resources such as PAC and campaign contributions from corporations. Welch (1982) illustrates this relation in his study of (1) the effects of dairy industry PAC contributions made in 1974 to the House members on the milk prices set by the 1975 congressional votes and (2) the impact of the 1975 votes on the amount of 1976 campaign financial contributions. Using an “exchange” conceptual framework, he found that House members who received the 1974 PAC contributions voted to favor higher milk prices in 1975 and those who voted favorably for the dairy industry in 1975 were more likely to receive financial support from the dairy PACs in 1976.

Although legislators are not obligated to cast votes benefiting their contributors in every legislative act, evidence (e.g., Roberts et al. 2003, Roberts and Bobek 2004, and Thornberg and Roberts 2008) suggests they strategically vote in favor of their contributors’ interests on acts that significantly and directly impact the contributors’ bottom line. More specifically, reciprocating favors are implicitly expected when votes are critical as both parties are assumed to be keenly aware of whether the act of reciprocity has been repaid in satisfaction of the obligation under the normative rules of social exchange (Befu 1977). However, voting in the contributor’s interests is expected to foster a renewed expectation of support from the corporation to the legislator. Thus, votes and PAC contributions should impact each other in a circular fashion, given that, as argued by SET, these relations are interdependent. I investigate this issue relative to the Energy Independence and Security Act of 2007.

III. Energy Independence and Security Act of 2007

The Energy Independence and Security Act of 2007 (EISA07) was intended “to move the United States toward greater energy independence and security, to increase the production of clean renewable fuels, to protect consumers, to increase the efficiency of products, buildings, and vehicles. . . and for other purposes.” However, the preliminary bill submitted to the House of Representatives by Representative Nick Rahall, a Democrat from Virginia, also contained a clause targeting the elimination of tax deductions allowed for oil and gas industry firms related to their domestic production. The legislation, labeled H.R. 6, passed the House (264 to 163 votes) on January 18, 2007, six days after its introduction. However, when H.R. 6 was sent to the Senate for ratification, a new Senate bill, S. 1419, was offered as an alternative. The Senate bill, introduced on May 17, 2007, did not eliminate the oil and gas industry tax breaks.

Supporters of H.R. 6 lauded the proposed tax deduction elimination as a means to increase renewable energy research and production and to end the windfall “oil subsidies” for big oil and gas companies. Opponents of H.R. 6, including Americans for Tax Reform, the American Petroleum Institute, and the U.S. Chamber of Commerce, argued that such unfair tax burdens on the oil and gas industry would “increase Americans’ reliance on foreign sources of energy by making new domestic exploration and production more costly” (Josten 2007). To counter this argument, H.R. 6 supporters questioned whether the oil and gas industry actually produced more oil and gas than the amount they imported from non-U.S. countries. Defending the tax benefits exceeding billions of dollars, opponents again raised the fairness issue that H.R. 6 singled out the oil and gas industry by enacting a reversed rifle shot tax provision. When these two proposed bills were sent to the Senate for a resolution vote, Senator Mary Landrieu of Louisiana ensured defeat of H.R. 6 by invoking Senate clot requiring a super majority of 60

votes for a bill to pass the Senate. After H.R. 6 was voted down, the joint conference committee deleted the House-passed tax provision that sought tax deduction elimination and sent the final bill to both chambers of Congress. The final bill with the tax deduction for the oil and gas industry intact was passed by the Senate on December 13, 2007 (86 to 8 votes) and then by the House on December 18, 2007 (314 to 100 votes) before it was signed into law by President George W. Bush on December 19, 2007 as Public Law 110-140.

I argue that oil and gas companies had an incentive to attempt to influence voting on EISA07 through the use of PAC contributions. However, as noted above, I also expect that prior voting behavior is expected to be associated with difference in the allocation of PAC dollars across members of Congress. That is, I anticipate that the relation between voting behavior and corporate PAC contributions are interrelated. I state my hypothesis as:

H₁: *Ceteris paribus*, legislators' voting outcomes and the amount of corporations' PAC contributions are mutually determined.

IV. Method and Modeling

In this study, I attempt to determine whether oil and gas industry PAC contributions to members of Congress in the period covering the passage of EISA07 were influenced by the past voting records of the legislators and whether voting behavior on EISA07 appears to have been influenced by oil and gas industry PAC contributions. Based on SET, I believe the relations between PAC spending and Congressional voting may be reciprocal in nature. Several studies in auditing (e.g., Copley et al. 1994, Copley et al. 1995, Deis and Hill 1998, Copley and Douthett 2002) and accounting disclosure (e.g., Al-Tuwaijri et al. 2004, Field et al. 2005, and Hossain et al. 2005) argue that factors they examine affect one another in a simultaneous fashion, and thus they rely on simultaneous equations regressions and modeling for their tests. For example,

Copley et al. (1994) noted that prior auditing research failed to recognize the endogeneity between audit fees and audit quality, and adopted a simultaneous equations approach for their study “of the audit procurement practices of entities receiving federal financial assistance” (Copley et al., 1994, p. 244). Their study documented that audit fees and audit quality were mutually dependent, and they argue their methodological application strengthened the statistical interpretations of their results. Also relying on a simultaneous equations approach, Copley et al. (1995) examined the relations between the supply of, and the demand for differentiated audits and found that audit demand affects audit fees and vice versa. Finally, Copley and Douthett (2002) used two stage least squares analysis to investigate the association among auditor choice, retained ownership, and earnings disclosure for firms undergoing initial public offerings. They concluded that all three variables affect one another, suggesting that auditor choice and favorable earnings disclosure can substitute for retained ownership as signals to investors.

In addition to the auditing papers, several recent financial accounting studies also embrace the simultaneous equations modeling methodology. For example, Al-Tuwaijri et al. (2004) analyzed the interrelations between environmental disclosure, environmental performance, and economic performance with estimations from modeling ordinary, two-stage, and three-stage least squares (OLS, 2SLS, and 3SLS) simultaneous equations and concluded that positive inter-correlations exist among the three factors. Field et al. (2005, p. 487) used simultaneous equations to test “the endogeneity between [earnings and financial] disclosure and litigation.” Their evidence indicated that voluntary disclosure of bad financial information actually attenuates the risk of litigation, especially for class-action lawsuits. Similarly, Hossain et al. (2005), using a simultaneous equations analysis, determined that firms’ investment opportunity sets and the voluntary disclosure of prospective information mutually affect each other. In sum,

studies from both the auditing and financial disclosure arenas have adopted simultaneous equations modeling to better capture what the authors argue are interdependent relations.

The prior political strategy studies in accounting and taxation relying on the HH model all employ one stage multiple regression analysis where several independent variables are assumed to be associated with differences in either voting outcomes or PAC contributions to legislators. Interestingly, in some cases (e.g., Dwyer and Roberts 2004, Roberts and Bobek 2004, and Thornberg and Roberts 2008) PAC amounts are the dependent variable and voting records are used as an explanatory variable, while in others (e.g., Roberts et al. 2003) it is the voting that is set up as the dependent variable with PAC amounts on the right-hand side of the equation. This would appear to indicate the relation between these factors may be mutually determined, and if so, consistent with the audit and financial disclosure studies noted above, simultaneous equation modeling would appear to be warranted.

Model

In this study, I assume that corporations employed other endogenous and exogenous financial tactics to influence EISA07 outcomes. If factors such as PAC contributions and legislators' voting records exist interdependently and inform each other, simultaneous equations modeling can aid and improve statistical significance and explanatory power over traditional regression models. Assuming factors affecting the amount of corporate PAC contributions in corporations' political strategy formulations are latent, it is feasible to represent the interdependent nature of potential factors identified in the proposed hypothesis by estimating the simultaneity among variables in theoretical equations. Based on prior political strategy research

in accounting and taxation, I propose the following theoretical equation for both the House and the Senate concerning EISA07:

$$\text{Voting outcomes} = f(\text{predicted PAC contribution amounts and other variables})$$

In order to empirically examine this construct, I develop two sets of separate structural equations where (1) the PAC contribution amounts are predicted by prior voting records and other predetermined variables separately for members of the House of Representatives and the Senate, and (2) predicted PAC contribution amounts (based on first stage estimation) and other explanatory variables determine the voting outcomes on EISA07. As such, my empirical equations are stated as:

House of Representatives

$$\text{PAC}_{\text{house}} = \delta_0 + \delta_1 \text{VOTREC} + \delta_2 \text{STAKE} + \delta_3 \text{LEADTEAM} + \delta_4 \text{INDCOMM} + \delta_5 \text{TAXCOMM} + \xi_1$$

$$\text{VOTE}_{\text{house}} = \gamma_0 + \gamma_1 \text{PREPAC}_{\text{house}} + \gamma_2 \text{PARTY} + \gamma_3 \text{STAKE} + \xi_2$$

Senate

$$\text{PAC}_{\text{senate}} = \delta_0 + \delta_1 \text{VOTREC} + \delta_2 \text{STAKE} + \delta_3 \text{LEADTEAM} + \delta_4 \text{INDCOMM} + \delta_5 \text{TAXCOMM} + \delta_6 \text{ELECT} + \xi_1$$

$$\text{VOTE}_{\text{senate}} = \gamma_0 + \gamma_1 \text{PREPAC}_{\text{senate}} + \gamma_2 \text{PARTY} + \gamma_3 \text{STAKE} + \xi_2$$

All variables are defined in Table 6.

[Insert Table 6 about here]

I include the explanatory variables LEADTEAM, INDCOMM, and TAXCOMM used in the first stage regressions (and also ELECT for the Senate) based on the results of prior studies (e.g., Roberts and Bobek 2004). Ideally, I would like to capture legislators' prior voting behavior relative to oil and gas industry interests. Unfortunately, no comprehensive measure of this voting exists. As such, and similar to Roberts and Bobek (2004), I proxy for pro-business

voting (in this case, pro-oil and gas industry voting) using the League of Conservation Voters ratings on environmental voting. The rating by the League of Conservation Voters evaluates legislators' pro-environmental voting records on environmentally related legislation. In that, the majority of legislative acts affecting the oil and gas industry tend to be environmentally related, the voting rating appears to be an appropriate proxy for legislators' voting propensity towards the oil and gas industry. However, it should be noted that the direction is opposite to industry interests. That is, higher voting scores signify lower support for the oil and gas industry. Finally, the purpose of the stakeholder (STAKE) variable is to consider and control for potential factors that might influence the amount of contributions made by the oil and gas industry to specific legislators due to the presence of the industry in their home states.

For the second stage of the regressions, the predicted amount of PAC contributions (PREPAC\$) from the first stage is used to predict the potential voting outcomes based on the underlying assumptions of 2SLS. Based on prior research that shows Democrats are less likely to support pro-business legislation, legislators' political party affiliation (PARTY) is used as a control variable. Similar to the regressions in stage one, the stakeholder (STAKE) variable is retained to control for other factors potentially influencing voting behavior.

Data Description

Table 7 summarizes descriptive data on the variables used in my analyses (Panel A for House and Panel B for Senate), while Table 8 presents Pearson product-moment correlations for the variables, with statistics for the House analyses variable in Panel A and Senate correlation statistics in Panel B. For members of the House, the mean (median) amount of actual PAC contributions was \$30,112 (\$19,500), with a range from \$0 and \$331,850. The mean (median)

for the voting outcomes measure was 0.52 (0.33). Voting record scores range from zero to 100 with a mean (median) of 53.66 (70.00). Finally the stakeholders count ranged from zero to 48. The mean (median) score was 8.36 (2.00). Panel B shows that the actual PAC contributions to the Senators ranged from \$0¹⁴ to \$276,594 with a mean (median) of \$47,746 (\$16,500). Voting outcome average scores were 0.47 (with a median of 0.33), whereas voting record scores averaged 52.31 (median of 63.50) on a range from zero to 100. The stakeholder counts were the same as for the House.

[Insert Table 7 about here]

Table 8 presents Pearson product-moment correlation coefficients for the variables used in my analysis. For both the House and the Senate, political party affiliation and predicted PAC contributions are significantly correlated ($p < .001$) with voting outcomes in the model. Table 8 also reveals that voting record and political party affiliation are highly correlated ($p < .001$ in the House and the Senate). However, these variables are not included in the same regression models (voting record is used in the first stage regression and party affiliation in the second).

[Insert Table 8 about here]

Statistical Analysis

I employ two-stage least squares (2SLS) to control for the anticipated endogeneity between voting and PAC contributions. According to Wooldridge (2003, p. 525), OLS may induce biased results when it is “applied to an equation in a simultaneous system” (also see

¹⁴ Senator Robert Byrd, West Virginia, returned \$1,000 to the donor as the amount exceeded the legally allowed PAC contribution limit. Byrd received no other positive source of PAC contributions to offset the \$1,000 he returned, thus a negative \$1,000 is the minimum of all PAC contributions in the data set. Due to this potential outlier, I replaced the negative number and assigned a value of zero (0) to reflect a more realistic scenario of PAC contributions where a legislator receives no contributions from corporations and stakeholder groups involved in the legislative process of EISA07.

Goldberger 1991). Similarly, Fleisher (1993, p. 398) in his article on the politics of national defense issues states, “Failing to consider simultaneous influences could lead to an overestimation of the effects of PAC contributions” on voting outcomes. In order to better assess the value of my 2SLS analysis, I also estimate voting equations using OLS.

V. Empirical Results

Overall results of the regression analyses appear to indicate the 2SLS approach is superior to OLS in explaining Congressional voting on EISA07, although the effects differ across estimations for the House and the Senate. Each is discussed in more detail.

House

As shown in Table 9, model fit (based on F-statistics) is highly significant for both the 2SLS and OLS models. The 2SLS estimation explains slightly more of the variation in the voting on EISA07 than is explained by the OLS model. The adjusted R^2 for the 2SLS model is .340 in contrast to the .308 measure for the OLS estimation. Both 2SLS and OLS results indicate that members of the House voted predictably along their respective political party lines. That is, Democrats were significantly more likely to vote for removing the tax deductions for the oil and gas industry relative to the Republicans. These results (significant for 2SLS at $p = .002$ and OLS at $p < .001$) show the powerful effects of political party on a legislative voting. In contrast to expectations, the stakeholder variable is negatively, and significantly ($p < .001$) associated with voting outcomes in the 2SLS analysis. While it is also negatively signed in the results from the OLS estimation, under the latter approach the variable is not statistically significant ($p = .095$). It is not clear why this relation is opposite to what was anticipated. Most

importantly, 2SLS estimation leads to different inferences from OLS regarding the relation between PAC spending and House member voting on EISA07. While the respective variable (PAC contributions in OLS and Predicted PAC Contributions under 2SLS) are both positively signed, under OLS the relation is not statistically significant at conventional levels ($p = .321$, two tailed). In contrast, the Predicted PAC Contributions variable is statistically significant ($p < .001$ level, two-tailed) under 2SLS. Controlling for the endogenous relations between PAC spending and voting records thus reveals relations not apparent under the traditional OLS approach.

[Insert Table 9 about here]

Senate

Similar to the House model results, Senate models under both 2SLS and OLS are also statistically significant ($F = 8.798$ and 8.973 , respectively). However, results from the Senate analyses, presented in Table 10 are less clear than those for the House. While the OLS approach explains variances in voting behavior slightly better (.219 vs. .216) than the 2SLS approach, both approaches reflect insignificant results on the relation between PAC spending on EISA07 voting and the statistical significance is slightly lower for the 2SLS analysis ($p = .157$ for the Predicted PAC Contributions in 2SLS and $p = .120$ for PAC contributions in OLS). Similar to the House results, political party affiliation is significantly related to EISA07 voting outcomes under OLS ($p = < .001$). However, political party affiliation is statistically insignificant in influencing voting outcomes under the 2SLS ($p = .266$) analysis. Finally, unlike the negative correlation between stakeholder variable and voting outcomes in the House results, the stakeholder variable is significantly ($p = .035$) and positively related to voting outcomes in the Senate under the 2SLS analysis. It is insignificant under OLS.

[Insert Table 10 about here]

Sensitivity Test:

In order to provide additional evidence that 2SLS analysis attenuates the potential biases generated by traditional multivariate regressions, I estimate additional multivariate regressions controlling for variables used in other political strategy studies (e.g., Fleisher 1993, Roberts et al. 2003, Dwyer and Roberts 2004, and Roberts and Bobek 2004). I estimate only OLS regressions for these sensitivity tests. The additional variables include:

LEADTEAM: A dummy variable indicating the legislator holds a leadership position (1 = Yea; 0 = Otherwise);

INDCOMM: A dummy variable indicating a legislator's membership on a non-tax, industry-specific committee (1 = Yea; 0 = Otherwise); and

TAXCOMM: A dummy variable indicating a legislator's membership on committees that deal with tax legislation (1 = Yea; 0 = Otherwise);

Table 11 reports results of the sensitivity tests. Models for both the House and Senate voting on EISA07 exhibit significant statistical fit ($F = 31.602$ and 4.321). The only statistically significant independent variable is the legislators' political party affiliations ($p. = <.001$ for House and $p. = .001$ for Senate). All other variables including the actual amount of PAC contributions are statistically insignificant. Thus, inclusion of additional explanatory variable into the OLS regressions does not appear to change the prior finding that 2SLS estimation of the relation between PAC contributions and legislative voting on EISA07 is superior to OLS.

[Insert Table 11 about here]

VI. Summary, Suggestions, and Conclusion

This paper examines the formation and passage of EISA07 considering the potential for a reciprocal relationship between corporations and legislators. In contrast to prior political strategy studies in the accounting and taxation domain, I explicitly control for the joint determination of the relationship between corporations' PAC contributions and legislators' voting outcomes relative to the passage of EISA07. I test the relational endogeneity by analyzing publicly available data on EISA07 through 2SLS estimation. Departing from the HH unidirectional prediction, where the amount of PAC contributions is argued to affect voting, I motivate this study by considering SET arguments for an interdependent relationship between corporations and legislators. I conjecture that the inconclusive results regarding political contributions and voting outcomes in prior studies may be a result of overlooking this endogenous relationship. In this study, I posit that the amount of corporate PAC contributions and the legislators' voting outcomes are mutually determined, and I apply 2SLS analysis to directly test the potential simultaneity between the PAC contribution and voting outcomes surrounding EISA07.

Results indicate that political affiliation is the dominant factor influencing voting outcomes on EISA07 in both the House and the Senate when an OLS analysis is employed. However, legislators' political affiliations are statistically insignificant in influencing voting for the House members under a 2SLS approach. Most of the results are consistent with the results of Roberts and Bobek (2004). Controlling for other independent variables, the empirical results under 2SLS analysis indicate that PAC contributions and voting outcomes were mutually determined during the formation and passage of EISA07 for the House, but not in the Senate. That is, legislators' prior voting records are useful in predicting the amount of PAC contributions

received and the amount of received PAC contributions appears to influence subsequent voting in the House. This is consistent with SET arguments. The contrasting results derived from traditional multivariate regressions (OLS) and those from 2SLS analysis underscore the theoretical and methodological importance of considering endogeneity in tax accounting political strategy research designs.

In summary, my study views the relationship between corporations and legislators as interdependent, and this relational interdependence affects how corporations strategically manage their political activities with respect to the legislative process. I specifically focus on how corporations rely on legislators' prior voting records to determine the value of a political "gift" in the form of PAC contributions to legislators in an attempt to influence legislative outcomes. Subsequently, these political gifts affect the votes cast by legislators. Empirical results are consistent with prior studies in that legislators' political party affiliation significantly affected voting outcomes in the formation and passage of EISA07. Furthermore, these results provide evidence supporting SET's postulation of an interdependence relation between corporations and legislators cultivated through exchanges of political resources through gifts in the form of PAC contributions and votes.

Future research examining the relationship between corporations and legislators to determine how and why this relationship influences the development, formulation, and passage of tax accounting laws should also consider other forms of "gifts/resources" such as lobbying for access to legislators and providing expert opinions during policy formulation, in addition to PAC contributions and votes, exchanged between the two interacting parties. Also, research could examine whether corporations always use positive "gifts" to build a relationship with legislators or whether corporations use a combination of both positive and negative "gifts" to achieve their

objectives in the legislative process. Future research should examine whether negative pressures such as adversary campaigns against a particular legislation or legislator or the threats of reduced PAC contributions, affect the formulation and passage of policies. Moreover, qualitative data may potentially provide latent evidence overlooked by extant quantitative studies to enhance understanding of the interdependent nature between corporations and legislators. By incorporating qualitative data and examining the characteristics of political resources or gifts, studies of tax accounting policies will substantively increase our knowledge of corporate political strategies and how they affect public policies.

Tables

Table 6 Description of Variables

Variable	Descriptions	Data Source
PAC Contributions	PAC contributions for EISA07 in dollar amount	Center for Responsive Politics
Voting Outcome	The weighted average of the three votes related to EISA07. Each vote is assigned either a 1 (for tax credit) or 0 (against tax credit) with the total number divided by 3	Library of Congress
Committee Leadership	A dummy variable, 1 for legislators who hold leadership position in a committee, 0 otherwise	Library of Congress
Industry Committee Membership	A dummy variable, 1 for legislators who hold leadership position in a committee over the oil and gas industry, 0 otherwise	Library of Congress
Joint Taxation Committee	A dummy variable, 1 for legislators who are members of the joint tax committee, 0 otherwise	Library of Congress
Up for Election	A dummy variable, 1 for legislators who were up for reelection, 0 otherwise	Library of Congress
Political Party Affiliation	A dummy variable, 1 for legislators whose political party is Democratic/Independent, 0 Republican	Library of Congress
Voting Record	Historical voting rating ranging from 0 to 100	League of Conservation Voters
Stakeholders	A total number of all stakeholders (corporate headquarters of the top 20 oil and gas companies, number of chapters of the American Petroleum Institute, and number of refineries) in the specific state for the legislator	Corporate Website and American Petroleum Institute
Predicted PAC Contributions	Potential PAC contributions in dollar amount as predicted by a legislator's prior voting records	2SLS prediction based on prior voting records

Table 7 Descriptive Statistics for Variables

Panel A: House

Variable	Median	Mean	Standard Deviation	Range	
				Minimum	Maximum
PAC Contributions	19,500.00	30,112.53	35,896.36	0.00	331,850.00
Voting Outcomes	.33	.52	.26	0	1.00
Committee Leadership	.00	.01	.10	0	1.00
Industry Committee Membership	.00	.20	.40	0	1.00
Joint Taxation Committee	.00	.01	.10	0	1.00
Political Party Affiliation	1.00	.55	.50	0	1.00
Voting Record	70.00	53.66	38.74	0	100
Stakeholders	2.00	8.36	13.41	0	48.00
Predicted PAC Contributions	27,968.38	30,111.53	22,169.66	6,406.49	97,658.45

N = 435

Panel B: Senate

Variable	Median	Mean	Standard Deviation	Range	
				Minimum	Maximum
PAC Contributions	16,500.00	47,746.30	63,721.94	0.00	276,594.00
Voting Outcomes	.33	.47	.28	0.00	1.00
Committee Leadership	.00	.02	.14	0.00	1.00
Industry Committee Membership	.00	.21	.41	0.00	1.00
Joint Taxation Committee	.00	.20	.40	0.00	1.00
Up for Election	.00	.51	.50	0.00	1.00
Political Party Affiliation	1.00	.35	.48	0.00	1.00
Voting Record	63.50	52.31	35.28	0.00	100.00
Stakeholders	2.00	3.86	7.81	0.00	48.00
Predicted PAC Contributions	185.02	47,746.30	149,348.96	-207,779.37	295,154.65

N = 100

Table 8 Pearson Correlation Coefficients

Panel A: House

	PAC Contributions	Voting Outcomes	Committee Leadership	Industry Committee Membership	Joint Taxation Committee	Political Party Affiliation	Voting Record	Stakeholders
PAC Contributions								
Voting Outcomes	.033							
Committee Leadership	-.003	-.037						
Industry Committee Membership	.100*	.013	-.048					
Joint Taxation Committee	-.005	-.037	-.009	.013				
Political Party Affiliation	.037	-.546**	.039	.009	.039			
Voting Record	-.007	-.552**	.047	-.005	.047	.857**		
Stakeholders	.051	-.040	-.044	.067	.118**	-.055	-.160**	
Predicted PAC Contributions	.038	.435**	-.001	.034	-.001	-.741**	-.903**	-.031

* Correlation is significant at the 0.05 level (1-tailed)

** Correlation is significant at the 0.01 level (1-tailed)

Panel B: Senate

	PAC Contributions	Voting Outcomes	Committee Leadership	Industry Committee Membership	Joint Taxation Committee	Political Party Affiliation	Up for Election	Voting Record	Stakeholders
PAC Contributions									
Voting Outcomes	.266**								
Committee Leadership	.153	-.072							
Industry Committee Membership	.169*	-.053	-.074						
Joint Taxation Committee	-.089	-.012	.107	.110					
Political Party Affiliation	-.261**	-.415**	-.003	.014	-.010				
Up for Election	.559**	.282**	.045	-.069	-.105	-.245**			
Voting Record	-.296**	-.438**	-.009	-.032	.055	.845**	-.254**		
Stakeholders	.166*	.208*	-.034	-.054	-.132	-.113	.043	-.214*	
Predicted PAC Contributions	.254**	.387**	.019	.048	-.018	-.831**	.247**	.254**	.387**

* Correlation is significant at the 0.05 level (1-tailed)

** Correlation is significant at the 0.01 level (1-tailed)

Table 9 110th Congressional Voting on EISA07: A Comparison between OLS and 2SLS Estimates, House of Representatives

House of Representatives						
Independent Variable	2SLS			OLS		
	Coefficient	SE	Sig.	Coefficient	SE	Sig.
Constant	.430***	.057	<.001	.693***	.019	<.001
Predicted PAC Contributions	<.001**	<.001	<.001	N/A	N/A	N/A
PAC Contributions	N/A	N/A	N/A	<.001	<.001	.321
Political Affiliation	-.126**	.040	.002	-.287***	.021	<.001
Stakeholders	-.014**	.003	<.001	-.001	.001	.095
F	74.006***			63.821***		
R ²	.340			.308		
N = 435						
* <i>p</i> <.05; ** <i>p</i> <.01; and						
*** <i>p</i> <.001						

Table 10 110th Congressional Voting on EISA07: A Comparison between OLS and 2SLS Estimates, Senate

Independent Variable	Senate			Senate		
	2SLS			OLS		
	Coefficient	S.E.	Sig.	Coefficient	S.E.	Sig.
Constant	.478***	.072	<.001	.525***	.046	<.001
Predicted PAC Contributions	<.001	<.001	.157	N/A	N/A	N/A
PAC Contributions	N/A	N/A	N/A	<.001	<.001	.120
Political Affiliation	-.107	.095	.266	-.202***	.052	<.001
Stakeholders	.007*	.003	.035	.005	.003	.122
F	8.798***			8.973***		
R ²	.216			.219		
N = 100						
* $p < .05$; ** $p < .01$; and						
*** $p < .001$						

Table 11 110th Congressional Voting on EISA07: OLS, House of Representatives and Senate

Independent Variable	House			Senate		
	Coefficient	SE	Sig.	Coefficient	SE	Sig.
Constant	.683***	.018	<.001	.504***	.017	<.001
PAC Contributions	<.001	<.001	.168	-.188	<.001	.376
Political Affiliation	-.285***	.021	<.001	-.286**	.053	.001
Stakeholder	-.001	.001	.071	.005	.003	.121
Committee Leadership Position	-.049	.109	.651	-.192	.186	.291
Industry Committee Membership	.011	.026	.685	-.042	.066	.525
Joint Taxation Committee	-.020	.109	.857	.032	.065	.627
Membership						
Up for Election	N/A	N/A	N/A	.082	.066	.219
F	31.602***			4.321***		
R ²	.307			.247		
N = 435 for House and 100 for Senate						
* <i>p</i> <.05; ** <i>p</i> <.01; and *** <i>p</i> <.001						

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STUDY THREE: THE LEGISLATIVE DIVIDE ON TAX PROVISIONS FOR BIG OIL: EVIDENCE FROM THE ENERGY INDEPENDENCE AND SECURITY ACT OF 2007

Abstract

I analyzed discrete discourses concerning the tax provisions differences in the House version and the Senate version prior to the passage of the Energy Independence and Security Act of 2007 (EISA07). Based on Dahan's (2005) corporate political resource typology, I investigated how and why the strategic modes of political resources employed by the oil and gas industry affected EISA07's final texts on specific tax provisions that were crucial to the oil and gas industry.

Overall results based on available data indicated that Dahan's (2005) political resource typology was useful in data analysis and applicable to the current case. The oil and gas industry along with their advocacy groups and lobbying representatives employed all political resources as delineated in Dahan (2005) throughout the discreet stages of EISA07's legislative development. Specifically, they simultaneously incorporated both interactive (positive) and adversarial (negative) strategies through the means of primary, supporting, and complementary political resources in their political involvement to influence the final texts of the controversial tax provisions and successfully preserved tax benefits for the oil and gas industry. Moreover, results from this case study potentially offered contemporary and empirical evidence in response to Dahan's (2005) call for empirical validation to the conceptualization contributions of his corporate political resource typology. Based on these results, Dahan's (2005) typology merits further validation through studies in other research methodology such as large-scale surveys of and in-depth interviews with relevant stakeholders. Finally, this study, via its results, offered

insights, some cautionary notes, and additional implications on corporate political strategic planning, tax policy setting, public interest, and future research.

Key words: Corporate political strategies; Energy Independence and Security Act of 2007; Oil and gas companies; Tax provisions; and Typology of political resources

I. Introduction

Recent corporate political strategy studies after Hillman and Hitt (1999, HH hereafter) in both management (Hillman et al. 1999, Bonardi et al. 2005, Bonardi and Keim 2005, Keim and Hillman 2008, and Hillman et al. 2009) and accounting (Roberts et al. 2003, Dwyer and Roberts 2004, Roberts and Bobek 2004, Cho et al. 2006, and Thornburg and Roberts 2008) relied on the HH model¹⁵ to study corporate political strategies and their impact on public policy. Although the HH model delineated the approaches, the level of participation, and the tactics of corporate political strategies, it did not specifically identify the political resources utilized in these strategies. The broad scope of the HH model provided researchers a useful and organized framework to examine the macro impact of corporate political strategies on public policy outcomes. However, examining the political resources employed by corporations and other stakeholder groups enables an investigation into micro, often latent, effects that these resources have on the formulation and passage of public policy. Also, a micro-level investigation allows an assessment of how a stakeholder group's political resources might be employed differently depending on its relational approach towards legislators.

In this study I compare the proposed tax provisions concerning the U.S. oil and gas industry embedded within H.R. 6 and S. 1419 drafted separately by the U.S. House of Representatives (the House hereafter) and the U.S. Senate (the Senate hereafter) prior to the passage of the Energy Independence and Security Act of 2007 (EISA07). In order to discover how and why the political resources employed by corporations impacted EISA07 during its legislative processes, I relied on Dahan's (2005) typology of political resources to conduct an

¹⁵ See Roberts et al. (2003, p. 438) for a one-page table summary of the Hillman and Hitt (1999) model.

investigation and analysis of key publicly available data from the introduction of EISA07 in January 2007 to its final passage in December 2007.

I found that important differences existed between these two versions: H.R. 6 explicitly sought to end tax deductions¹⁶ of domestic production activities for the five consolidated oil and gas companies while S. 1419 mentioned no such elimination. The preservation of the aforementioned tax deduction credits effectively amounted to approximately 46 billion dollars (U.S. Office of Management and Budget 2011) of financial benefit for the five largest, consolidated U.S. oil and gas companies. Due to the controversy¹⁷ surrounding the tax provisions of these two proposed bills, fierce debates took place in the Congress. Additionally, throughout the brief, yet complex political evolution of EISA07 (See Table 12 for the legislative highlights of H.R. 6 and S 1419), both supporting and opposing interest groups were intensely involved in the legislative process (See Table 13 for some of the stakeholder groups). In order to understand the discourses leading up to the passage of the EISA07, I investigated and analyzed data related to EISA07 in a case study format (Roberts and Bobek 2004, Trompeter and Wright 2010, and Hageman 2011) in order to investigate how and why stakeholders employed political resources and relational approaches to attempt to significantly impact the formulation and passage of the proposed tax policy.

¹⁶ H.R. 6 intended to insert a section iv under the subparagraph (B) into the original Internal Revenue Code §199(c)(4) to make “the sale, exchange, or other disposition of oil, natural gas, or any primary product thereof” part of the exception of the domestic production tax deduction rules as stated in the original 1986 Internal Revenue Code. By adding this subsection to the exception, the oil and gas companies will be disallowed to take the deductions currently set at nine percent, albeit the rate is reduced by three percent of the least of (1) oil-related qualified production activities income (QPAI), (2) QPAI, or (3) adjusted gross income for an individual, estate, or trust (taxable income for all other taxpayers) figured without the domestic production activities deduction (IRS instructions for Form 8903, Domestic Production Activities Deduction, for tax years beginning after 2009).

¹⁷ In his 2010 State of the Union speech, President Obama vowed to end the tax provisions for the oil and gas companies (New York Times 2010 and Office of Press Secretary of the White House 2010). Again in his 2012 budget proposal, President Obama reiterated his intent in “Eliminating 12 tax breaks for oil, gas, and coal companies” (U.S. Office of Management and Budget 2011, p. 22).

[Insert Table 12 about here]

[Insert Table 13 about here]

Results of this study indicate that Dahan's (2005) political resource typology is useful in the analysis of secondary sources that document political activities of stakeholders and is applicable to the current case. The oil and gas industry along with their advocacy groups and lobbying representatives employed all political resources as delineated in Dahan (2005) throughout discreet stages of EISA07's legislative development. Specifically, they deployed primary, supporting, and complementary political resources to execute both interactive (positive) and adversarial (negative) strategies to influence the final texts of the controversial tax provisions and, in doing so, successfully preserved the tax benefits for the oil and gas industry.

Results from this case study also offer contemporary evidence in response to Dahan's (2005) call for empirical and theoretical validation of his corporate political resource typology through case studies. Additionally, the case study results potentially benefit management, public interest groups, and academic researchers. Based on these results, Dahan's (2005) typology merits further validation through studies in other research methodologies such as large-scale surveys of and in-depth interview with relevant stakeholders who had the first-hand experience with specific policy-making processes. These results offer insights, some cautionary notes, and additional implications on corporate political strategic planning, public interest, and future research. By understanding the various modes of operation and the "bundle" (Dahan 2005, p. 48) of corporate political resources, corporate management may improve the effectiveness of their overall corporate political strategic planning, protect their corporate interests, reduce regulatory uncertainties, and increase competitiveness. On the other hand, these results may aid public interest groups in raising the public's awareness and voicing their opposition on the influence of

corporate political resources over public policies that may disadvantage the welfare of minority or underprivileged sectors of the society. Finally, findings in this study provide corporate political strategy researchers a less utilized, yet substantially rigorous alternative to mainstream political strategic models in investigating corporate political activities either through additional case studies or large scale surveys to gain additional insights of corporate political activities.

The remainder of this paper is as follows. Section II reviewed literature pertinent to the current study. Section III discussed Dahan's (2005) typology of political resources and developed relevant research questions to current case. Section IV delineated the research method, data collection, and presented the results of the analysis. Section V summarized and discussed potential future research directions.

II. Literature Review

A rich body of academic literature in both management (Hillman et al. 1999, Bonardi et al. 2005, Bonardi and Keim 2005, Keim and Hillman 2008, and Hillman et al. 2009) and accounting (Roberts et al. 2003, Dwyer and Roberts 2004, Roberts and Bobek 2004, Cho et al. 2006, and Thornburg and Roberts 2008) has theoretically and empirically examined the impact of corporate political strategies on legislators, public policies, and society. Prior to the development of these two streams of research, the strategic management literature focused primarily on core market strategies, largely neglecting the importance of corporate political strategies for firm survival and success. Hillman and Hitt (1999, p. 839) argued, "a thorough understanding of political strategies is necessary" considering how public policies appear to affect corporations in nearly all aspects of firms' operations. Nevertheless, research concerning how corporations formulate their political strategies in order to effectively participate and

influence policy outcomes in the political arenas was lacking. Specifically, Hillman and Hitt (1999, p. 838) noticed that “the literature on political strategies has been widely varied, no general model of political strategy formulation has been proposed, and no specific variables that may affect these choices have been identified.” They observed that prior research had primarily (1) investigated the reasons why public policies affect profitability of firms (Keim and Baysinger 1988, Shaffer 1995, and Schuler 1996), (2) examined the objectives of corporations’ participation in public policy setting processes (Weidenbaum 1980 and Baysinger 1984), and (3) studied the characteristics of corporations that are likely to participate intensively in political activities (Pittman 1976 and Zardkoohi 1985).

Based on prior studies of corporate political management (Weidenbaum 1980, Keim 1981, Baysinger 1984, Boddewyn 1993, Bettis and Hitt 1995, and Hitt et al. 1998), Hillman and Hitt (1999) concluded that corporate political strategies were proactive in nature. Drawing from prior research, Hillman and Hitt (1999) developed a taxonomy detailing the corporate political strategy formulation. Hillman and Hitt’s (1999) taxonomy was known as the HH model by some studies (Roberts et al. 2003, Dwyer and Roberts 2004, Roberts and Bobek 2004, Cho et al. 2006, and Thornburg and Roberts 2008). The HH model is comprised of two general approaches to corporate political activity (transactional and relational), two levels of participation by firms (individual and collective), and three generic types of political tactics (information, financial, and constituency building). Also, Hillman and Hitt (1999) provided testable propositions in each category of their model to aid in future empirical work. The comprehensiveness of the HH model offered corporate political strategy researchers a theoretically sound and empirically testable framework to examine and analyze their particular cases, scenarios, and observations.

A surge in corporate political strategy research emerged after the advent of the HH model. Within this stream of studies, the articles published in the management discipline primarily attempted to expand the HH model theoretically while a set of accounting papers focused on empirically testing the HH model's applicability in explicating their specific cases. For example, Hillman et al. (2004) extended the HH model to theoretically establish a new model regarding the antecedents, the types, and the outcomes of corporate political activities. Similarly, Bonardi and Keim (2005, p. 555) expanded the HH model and provided theoretical propositions concerning the appropriate corporate political strategies to "prevent the occurrence of such widespread [political issue] salience and how they [(corporations)] can respond once an issue has become widely salient." Furthermore, Bonardi et al. (2005, p. 408) applied the HH model in a "political marketplace" where "demanders of public policy interact with suppliers, much like economic markets." Theoretically, they argued and concluded that the market "attractiveness is an important determinant of why firms engage in political strategies" (Bonardi et al. 2005, p. 408).

Unlike aforementioned articles, though not specifically addressing the HH model, both Keim and Hillman (2008) and Hillman (2009) strived to broaden the HH model's theoretical application. Keim and Hillman (2008) prompted managers of businesses to become aware of the importance of corporate political strategies when contemplating international operations. Nevertheless, Keim and Hillman (2008) did not empirically test their recommendations to managers. Hillman et al. (2009), similar to Bonardi et al. (2005), viewed the political environment as a market where corporations trade political resources in order to "produce a more favorable environment." Similarly, Hillman et al. (2009) did not conduct formal empirical tests to verify whether the postulations in the HH model were supported.

In contrast to the set of the management papers that theoretically expanded the HH model, accounting studies based on the HH model primarily aimed to test its theoretical efficacy. For instance, examining the political strategies used by the U.S. public accounting profession concerning the Private Securities Litigation Reform Act of 1995, Roberts et al. (2003, p. 433, italics in original) explicitly stated that their paper “is the first to provide a detailed [empirical] analysis of *how* the US profession acted” during the 1995 federal security law reform. They mapped and presented their findings according to the HH model. Results of their statistical analysis were consistent with the HH model, thus empirically supporting the underlying conjectures of the HH model. Dwyer and Roberts (2004) examined the potential influence of PAC contributions made on behalf of the U.S. accounting profession during the 1997 and 1998 U.S. federal election cycle over legislators’ voting behaviors. Even though they did not explicitly identify the HH model as their theoretical underpinnings, the PAC contributions is one of the financial tactics identified in the HH model. Dwyer and Roberts (2004) found that the U.S. public accounting profession selectively and calculatedly made political financial contributions to support legislators whose political ideologies coincided with the interests of the profession and their clients. Their empirical results supported one of the postulations in the HH model that corporations used financial support as their primary tactic to reify their corporate political strategies.

Roberts and Bobek (2004) drew on prior research, including the HH model, to analyze corporate political strategies concerning tax provisions throughout the legislative interactions and history of the Taxpayer Relief Act of 1997. Their empirical results were consistent with the HH model in that corporations used PAC contributions to influence legislators, especially those who were in the leadership positions. Drawing from multiple streams of literature, Cho et al. (2006, p.

139) empirically tested whether corporations that are poorer environmental performers spend more on political activities than their better-performing counterparts and whether there is an association between corporations' spending on political activities and the extent of their financial reporting of environmental disclosures. They found a significantly negative relationship between firms' political spending and their environmental performance. In addition, the statistical analysis indicated that there was a significantly positive correlation between the extent of environmental disclosures and the political spending by their sample corporations. Cho et al.'s (2006) empirical results supported the arguments of the HH model that corporate spending and the extent of disclosures were financial and informal tactics used by firms to attenuate the potential public policy pressure and enhance their legitimacy. Finally, Thornberg and Roberts (2008, p. 229) investigated "the rationality and effectiveness of political action committee (PAC) contributions paid to members of the US Congress by the US public accounting profession during the policy formulation period of the Sarbanes-Oxley Act of 2002." Evidence of their empirical analysis showed that financial tactics employed by PACs on behalf of the US public accounting profession allowed relationship building between the profession and legislators to influence public policy setting processes and the final policy outcomes. These results were consistent with the HH model as those financial tactics were an indispensable part of firms' corporate political strategic formulation.

Three common themes from the preceding papers emerge: (1) the reliance of the HH model in corporate political strategy literature since its publication, (2) the partial operationalization of the HH model, and (3) the dominance of an archival methodological approach. Overall results of these prior papers generally support the theoretical and empirical validity of the HH model. However, these empirical studies usually operationalized and tested

only part of the HH model. The lack of specific identification of political means or resources in the HH model might explain why most studies did not empirically explore and examine the full model. Also, large sample empirical studies might provide important results that help us understand interactions among political stakeholders, but they do not convincingly explain the direction of causality in these interactions. Thus, although we have learned a great deal about corporate political strategies and activities through the application and refinement of the HH model, there are limits to the extent to which one theoretical model can explain complex phenomena. Given the focus and consistent findings of existing research, I believe that a different typology of specific political resources and a different methodological approach (i.e., a case study) can be used effectively to investigate the less studied aspects of corporate political activities and help advance and expand the corporate political strategy literature.

III. A Typology of Political Resources and Research Questions

Dahan (2005) conceptualized and developed a new typology of political resources employed by corporations to execute their corporate political strategies. Dahan's (2005) typology of political resources mirrors to some extent the tactics delineated in the HH model. Building on prior studies (Fainsod 1940, Epstein 1969, Leone 1977, Oberman 1993, Boddewyn and Brewer 1994, Barron 1995, Attarça 1999 and 2000, Boddewyn 2000, and Jacomet 2000), Dahan's (2005) typology of political resources includes expertise, financial resources, relational resources, organizational resources, reputation with other non-market actors (i.e., legislators and their aids), public image, support of stakeholders, and recreational skills. See Table 14 for detailed comments on Dahan's (2005) typology of political resources.

[Insert Table 14 about here]

Although there are overlapping features between the HH model and Dahan's (2005) typology, two distinct theoretical views from Dahan (2005) differentiate it from the HH model: (1) two modes in corporation-legislator relationships and (2) three roles of political resources. Table 15 presents Dahan's views on the modes and roles of political resources. Finally, as far as I am aware, this paper is the first study to answer Dahan's (2005) call for case studies to empirically validate the conceptualization of his typology. Thus, this study aims to empirically validate Dahan's (2005) framework and broaden its application in corporate political strategy research.

[Insert Table 15 about here]

The Two Modes of Corporation-Legislator Relationships

Dahan (2005) argues that there are two relational modes an organization develops in its interactions with legislators, and that the mode of corporate relationship with legislators is crucial in understanding how corporations utilize their political resources. Dahan's (2005) understanding about the mode of the corporation-legislator relation is theoretically different from that in the HH model. The HH model assumes that political tactics or resources generally created interactive or positive relationships (e.g., Jacomet 2000) between politically involved corporations and legislators. Under this positive mode, organizations and legislators exchange political resources critical to the survival of both parties. For example, corporations use political resources such as PAC contributions or useful information valued by legislators to gain access and potentially influence legislators' voting and policy outcomes. In exchange for these valuable resources, the legislators tend to vote favorably on behalf of the organizations or make public

policy decisions such as tax subsidies or deductions that are desired by these politically active organizational groups.

In addition to a positive relational mode, Dahan (2005) adds an adversarial or negative mode that is overlooked in the HH model. Under the adversarial relational mode of operation (Birnbaum 1985 and Bourgeois and Nizet 1995), organizations pressure legislators by hinting at or threatening deleterious actions if the enacted public policy outcomes are unfavorable towards the organizations. Fundamentally, these threats are connected to losing valuable political resources such as the loss of campaign contributions, public support, or actual votes during the next election. Dahan (2005) believes that organizations might choose to use their political resources in a combination of both interactive (cooperative) and pressure (adversarial) strategic approaches when undertaking corporate political activities. He purports “the type of relationship chosen by the firm has a fundamental bearing on the kind of resources which are going to be mobilized and how this will be implemented” (Dahan 2005, p. 49). Finally, assuming these stakeholder groups (e.g., corporations and other interested organizations) choose a combination of political modes to implement their political strategies, the choice of mode(s) might help explain related public policy outcomes. This leads to the first set of research questions:

RQ1: How and why did the mode of relationships chosen by the oil and gas industry and other organized interest groups affect the overall strategic utilization of corporate political resources during the formulation and passage of EISA07?

RQ2: How and why did the combination of modes of relationships chosen by the oil and gas industry and other organized interest groups affect the final outcome of the tax provisions in EISA07?

The Three Roles of Political Resources

Dahan (2005, p. 49) contends that political resources play differing roles as determined by the mode or the combinations of modes that comprise a stakeholder groups' approach to forming relationships with legislators. The three roles of political resources are (1) primary, (2) supporting, and (3) complementary. Dahan (2005) perceives the primary resources as those that produce the most significant impact on legislators. Under the interactive mode of strategic choice, the primary resources, such as financial support and expertise, are utilized to gain access to legislators, legitimize their preferred policies, and influence the final outcomes. For example, corporations and other stakeholder groups could use their financial resources to attend fundraising events sponsored by legislators, thus gaining access to the legislators to discuss relevant policy issues. On the contrary, under the adversarial mode, corporations and other stakeholder groups might use resources such as negative media coverage, public demonstrations, and petitions to undermine the legislators' "public image and political reputation" (Dahan 2005, p. 50). The supporting resources, according to Dahan (2005), are necessary vehicles that facilitate the flow of primary and complementary resources from these stakeholder groups to policy makers. These supporting resources included (1) relational resources, (2) organizational resources, (3) political-administrative expertise, and (4) recreational skills. Regardless of which mode of relationship strategy the stakeholder groups chooses as their approach to political activities, these resources are employed with the exception of using recreational skill when the approach is adversarial.

Finally, complementary resources "reinforce the impact [on legislators] of the primary resources" (Dahan 2005, p. 50). When the approach is a cooperative mode, corporations use complementary resources like political reputation, public image, and stakeholder support to

enhance the impact of their primary resources. For example, a stakeholder group that is viewed positively by the public is more likely to gain access to legislators through primary resources such as a report of expert's position on policy issues. However, when corporations pursue a negative mode of political approach toward legislators, financial resources and expertise are more likely to be used as complementary resources that increase pressure on targeted legislators. In this instance, a stakeholder group could use its expertise (complementary resource) to increase voters' support (primary resource) of the group's position and pressure these legislators to support an alternative policy.

Dahan (2005) posits that the modes, roles, and their combinations are embedded within the political strategic planning of organizations that actively participate in the legislative process when the outcomes of these legislative acts are critical to the viability and survival of these organizations. Thus, Dahan (2005) hypothesizes that the modes, roles, and their combinations play a vital role in the development and passage of many public policies. Drawing from the preceding discussions, I argue that the varying roles of political resources and the combinations of roles and modes of organizations' overall political strategies and activities will impact policy makers' voting patterns, and public policy outcomes. This argument leads to the next set of research questions as follows:

RQ3: How and why did the roles of political resources affect the final outcome of the tax provisions in EISA07?

RQ4: How and why did the political resource combinations of modes and roles affect the final outcome of the tax provisions in EISA07?

IV. Method, Analysis, and Results

Method

According to Yin (2009, p. 13), a case study methodology is appropriate when the research poses “how” and “why” questions about a contemporary set of real-life events over which the researcher has little or no control. The current study of EISA07 fits the conditions delineated by Yin (2009) to apply the case study methodology. First, this study investigates “how” and “why” political resources utilized by corporations and other stakeholder groups influenced legislators to propose opposing tax provisions in the House and the Senate. Second, I have no control over the legislative processes throughout EISA07. Finally, EISA07 is a real-life social phenomenon in a contemporary setting. Thus, a case study methodology is an appropriate approach for investigating the impact of political resources on the formulation and passage of EISA07.

Data and Analysis

Suárez (2000) conducted longitudinal studies on how a group of U.S. pharmaceutical and electronics companies operating from the 1970s to the 1990s in Puerto Rico executed their corporate political strategies to secure, renew, and prevent the repeal of important tax breaks.¹⁸ Suárez (2000) observed the strategies, tactics, and rhetoric employed by U.S. pharmaceutical and electronics companies to defend their private interests. Following the evolutions of the Internal Revenue Code (IRC hereafter) §§ 262, 931, and 936 regarding possession tax credits and their

¹⁸ The Possessions Corporations System of Taxation (PCST) was enacted as § 262 (later 931) of the Revenue Act of 1921 and again as §936 of the Tax Reform Act of 1976. The PCST was eliminated under the Small Business Job Protection Act of 1996. It exempted all possession-source income of individuals and corporations from U.S. taxation (Suárez 2000, p. xiii). For the chronological evolutions of the PCST, see Chronology in Suárez (2000, pp. xiii to xvi).

revisions from 1921 to 1996, Suárez (2000) qualitatively disclosed how corporate organizations cope with political uncertainties via various political strategies. Drawing on organizational learning theory (Cyert and March 1963 and 1992, Argyris 1977, Fiol and Lyles 1985, Levitt and March 1988, and Kang et al. 2007), Suárez (2000) chronologically detailed the tactics employed and adopted by both industries when facing political uncertainties. She observed how firms learned from results of prior political activities and such learning subsequently affected their strategic approach when facing legislative insecurities in a series of tax acts. Suárez's (2000) sequential approach provided an organized template for this study to examine the effects of political resources utilized by corporations and other stakeholder groups facing political uncertainties related to EISA07.

In addition to adopting Suárez's (2000) chronological approach, I also follow Yin's (2009) suggestions in data collection by relying on multiple sources of evidence to investigate and answer my research questions. Data or evidence in case studies, according to Yin (2009, p. 98), "may come from six sources: documents, archival records, interviews, direct observation, participant-observation, and physical artifacts." In this study, I collected a broad array of primary and secondary archived documents and records throughout the discourses of EISA07. A database composed of several electronic and archived sources in Table 16 was used for the analysis in order to provide relevant interpretations and insights to answer the research questions.

[Insert Table 16 about here]

Case Analysis and Results

The contentious section of EISA07 that is the focus of this study is IRC code §199. It is this section of the act that would either include or omit language that continues tax subsidies for

the oil and gas industry. Regardless of the positions towards the inclusion and exclusion of IRC code §199 as proposed in both the House and the Senate, the opposing stakeholder groups, such as the oil and gas industry, the pro-business organizations, the renewable energy manufacturers, and the environmental groups, all simultaneously employed both interactive/supportive and adversarial/negative modes of political strategies. Also, these stakeholders incorporated the combination of all primary, supporting, and complementary political resources as postulated by Dahan's (2005) in their attempts to influence the final tax provisions as passed in the current EISA07. Although political resources and the means to deliver these resources either through interactive or adversarial modes of operations were available to both groups of stakeholders, there were apparent asymmetries of political resource affordability and availability between the opposing groups. According to the publicly available data, the oil and gas industry, their constituent lobbying groups, and supporting pro-business organizations devoted substantially more financial resources to gain additional stakeholder support and expert statements concerning the benefits associated with preserving §199 production tax deductions in EISA07.

Contrary to the rich political resources afforded by the oil and gas industry and their supporters, renewable energy producers and environmental groups were considered financially constrained in comparison with the vast financial, expertise, administrative, and stakeholder resources available at the oil and gas industry's disposal. The groups that supported the exclusion of §199 production tax deductions in EISA07 and advocated transferring the potential tax revenues from such deduction exclusion for the development of renewable energy sources found themselves constantly battling their opposing group with substantially less political resources. In the end, the §199 production tax deductions in EISA07 were preserved and the oil and gas industry won over the renewable energy producers and the environmental groups. In

order to systematically present the strategic modes, political resources, and their combinations used by these opposing groups in an organized fashion, sub-sections will include details of the strategic modes, political resources, and their combined use in order to provide answers to the research questions.

Primary Resources

Interactive Mode

According to Dahan (2005), two primary political resource roles are expertise and financial resources when an interactive or positive strategic approach is adopted. For stakeholders who supported the elimination of the §199 production tax deductions for the oil and gas industry, they offered expert insights to strengthen their position. The expert knowledge declared by these groups relied on assumptions of potential benefits of environmental improvements, less expensive energy costs for consumers, and job creation. They also argued that there was a positive relationship between the amount of oil and gas subsidies granted by Congress and the level of foreign oil dependence. For example, Wentworth (2007), from the Union of Concerned Scientists Clean Energy Program, believed that by passing EISA07 with the elimination of the §199 production tax deductions for the oil and gas industry, “Congress would give Americans three gifts: lower electric bills, cleaner air, and more homegrown energy.”

Echoing Wentworth’s (2007) view, Carl Pope (2007), President of the Sierra Club made the following statement:

“This bill [EISA07]—unprecedented in its support for clean energy and action to combat global warming—will take America’s energy policy in a dramatically different direction. It will create hundreds of thousands of jobs, save consumers over \$26 billion at the pump and \$18 billion on their energy bills, give us greener

cars and clean electricity, put us on the road to energy independency, and make real progress in the fight against global warming.”

Pope (2007), while praising EISA07, further condemned the existing policy on energy as flawed, saying, “Our environment, our climate, and the pocketbooks of hardworking American families are hurting after decades of failed energy policy” and called for reevaluation of the rationale behind the tax subsidies for the oil and gas industry. Pope’s questioning of the failed energy policy appeared to have borrowed the same sentiment provided by other commentators on the issue of oil and gas subsidy policies. Kretzmann (2007) proclaimed, “The truth is we’ve been increasing market subsidies since the 1980s, but our dependence on foreign oil has increased—they [subsidies] are not working. I don’t see many legitimate arguments against repealing oil and gas subsidies.”

According to Dahan (2005), stakeholders who take an interactive mode in approaching policy makers typically provide financial support to legislators in addition to using their expertise resources. Data on campaign contributions and lobbying expenses incurred prior to EISA07’s final passage support Dahan’s (2005) political resource typology. For the 110th Congress, the overall campaign financial contributions via PACs to the Senate by the energy related industries alone were approximately four and a half million dollars (\$4,474,630). The same energy-related industries that donated approximately five million dollars in financial campaign contributions to the Senate contributed through their PACs more than 25 million dollars (\$25,516,555) to House members in the 110th Congress.

Energy-related industries spent substantially more resources on lobbying expenses than on PAC contributions. Publicly available data released by the Clerk of the House of Representatives and the Secretary of the Senate on corporations’ lobbying reports shows that the

oil and gas industries, non-renewable and renewable energy-related producers, environmental groups, pro-business private organizations, and their lobbying firms spent approximately 190 million dollars (over six times of the amount on PAC financial contributions) on lobbying issues critical with H.R. 6, the proposed Congressional bill that later became the EISA07. The combination of total PAC financial contributions and lobbying expenses related to EISA 07 alone amounted to about two hundred and twenty million dollars (\$220,000,000).

Kretzmann (2007) views the practice of allocating large amounts of financial resources over a policy as a wise investment and stated that the returns for the oil and gas industry accruing from their investments were substantial. He, after calculating the estimated annual subsidies the oil and gas industry would have received over the financial resources spent, found that the returns on investment for the oil and gas industry were respectively 65,000 percent and 8,000 percent for the money they spent on PAC financial contributions and lobbying expenses. If the financial resources of campaign contributions and lobbying expenses were great investments, why did the renewable energy industry and environmental groups fail to sway legislators in repealing the tax subsidies they deemed a failed policy and detrimental to the overall energy supply dependence concerns they raised? After all, there were no limits on lobbying expenses for all stakeholder groups.

The answer might lie in the different levels of financial resources between the stakeholder groups supporting or opposing the oil and gas tax subsidy that was eventually included in EISA07. The non-renewable energy industry, the pro-business organizations, the labor unions, and the oil and gas industry had substantially more financial resources and they outspent their opposing counterparts of renewable energy producers and environmental groups

by a large margin. The former group (\$180,613,566)¹⁹ spent approximately 20 times of the latter group (\$9,602,955) in their lobbying expenses targeting issues related to H.R. 6 prior to its passage as EISA07. It appeared that the wide gap between both groups' financial political resources impacted the final tax provision outcomes regarding the applicability of §199 to the oil and gas industry. Not only did the vast array of the oil and gas subsidies remain untouched, the 110th Congress passed the EISA07 bill at the end of 2007 and left the entire package of all subsidies intact.

Adversarial Mode

Given the differential in financial resources between the stakeholder groups who supported oil and gas tax subsidies and those who opposed it, it is understandable that stakeholder groups who did not support the tax subsidies relied primarily on opposition and public image tactics as the basis of their political strategies. The short, eleven month period under which EISA07 was debated and passed may explain why more extended, political reputation strategies were not used.

Stakeholders' Opposition

All stakeholder groups, whether supportive or opposed to the oil and gas tax subsidies, utilized oppositional strategies. Immediately after H.R. 6 was sponsored in the House, Matusic (2007a) of the American Petroleum Institute (API), a lobbying group for the major U.S. oil and gas industry, equated the success of the U.S. oil and gas industry with a guarantee to the financial

¹⁹ Not all lobbying expenses were solely for the preservation or abolishment of the production deduction tax credits in the IRC §199. Lobbyists and their firms might have incurred the reported expenses while lobbying for several IRC §199 related and non-related issues simultaneously. However, the total amount of lobbying expenses were tallied from reports that had included either H.R. 6 or other versions of the proposed bills related to EISA07. All other reports without identifying H.R. 6 as one of the lobbying items were not included in the final amount of lobbying expenses.

security of “Millions of hard-working Americans [who] have a stake in the success of U.S. oil and natural gas companies through their stock ownership.” She claimed that individuals “with retirement or pension accounts, including many state and local pension fund participants, hold 41 percent of the shares of the U.S. oil and gas companies.” Matusic (2007b) echoed her previous assumption that the success of the oil and gas industry would translate into financial success of the investing public. Along this line of reasoning, she linked punishing the oil and gas industry under the proposed tax provisions as synonymous with punishing the significant portion of the general population, especially the retirees and senior voters who often actively participated in voting and elections.

In an official statement, John Bisney (2007), tax policy analyst of API, insisted that by repealing “the Sec. 199 manufacturing deduction for the major oil and natural gas companies” Congress would reduce job creation since the specific code “was designed to broadly create U.S. jobs.” He continued that the same code section had been helping the oil and gas industry maintain its global cost competitiveness. Bisney (2007) saw the need to keep the §199 tax credits intact because they increase domestic energy production and decrease dependence of imported foreign oil and energy. The Council for Citizens against Government Waste stated:

“On behalf of the undersigned organizations²⁰ representing hundreds of thousands of taxpayers, small businesses, shareholders, consumers and senior citizens, we strongly urge you and your colleagues to reverse the increasingly dangerous . . . [and] punitive energy policy that would punish the economy by raising taxes, raising energy prices and driving a death nail into domestic energy production . . .

²⁰ A total of 26 groups signed this petitioning letter. Groups included local, state, and national organizations that had diverse objectives such as 60 Plus Association, A non-partisan, conservative seniors advocacy group, American for Tax Reform, an anti-tax increase group, Independent Women’s Forum, a pro-market and limited government non-for-profit organization, Maryland Taxpayers Association, Taxpayer Association of Oregon, and Tennessee Tax Revolt, three local and state organizations on tax matters, and U.S. Business & Industry Council, a non-for-profit lobbying group for small and family-owned business. Due to space constraint, these examples are not exhaustive. However, they demonstrated the wide diversity among the overall signing organizations.

[with] the new taxes targeted at the U.S. oil and gas industry [under] Titles I & II of H.R. 2337²¹.”

In addition to the letter by the Council for Citizens against Government Waste stating their opposition to the tax treatments to the House, both API and the U.S. Chamber of Commerce (USCC) voiced their objections through the organizations’ letters to legislators. On December 5 and 6, 2007, before the final vote of EISA07, API and the U.S Chamber of Commerce separately sent a letter of opposition to Congressional members (API to both the House and the Senate while the U.S. Chamber of Commerce to the House only) concerning the proposed tax provisions on the treatment of the §199. All three letters urged the legislators to vote against the House version of the tax provisions that would eliminate the domestic production deduction tax credits for the oil and gas industry. These letters characterized EISA07 as “punitive, overly burdensome tax” (Josten 2007) legislation that unfairly targeted the major oil companies. In addition, these letters projected that if the tax deductions were eliminated or restricted, there would be significant job losses (Cavaney 2007a).

In its opening statement, the U.S. Chamber of Commerce (USCC) stressed its position as “the world’s largest business federation representing more than three million of businesses and organizations of every sizes, sector and region” (Josten 2007). In the letter, the USCC described the tax credit elimination as an unjustified attempt by the House to “single out the oil and gas industries for punitive treatment” (Josten 2007). The letter continued to point out that the USCC openly opposed “any denial or limitation of the section 199 deduction for oil and gas companies.” The USCC anticipated that if the tax credit were eliminated, it would “discourage domestic energy investment, result in the loss of U.S. jobs” (Josten 2007).

²¹ H.R. 2337 was one of the several preceding versions of H.R. 6.

Besides the foreseen reduced financial benefits, loss of employment, and increased competitive disadvantages, all three letters pointed out that such policy direction would also decrease domestic energy supply capability and stability due to the disincentive for domestic energy exploration, refining, and production. Cavaney (2007b) warned, “Were the Senate to follow in the House’s footsteps [to eliminate tax credits under the §199], the ability of American consumers to get the energy they need, when they need it, could be profoundly impacted.” In the letter dated one day earlier, Cavaney (2007a) pressed the Congress to show “leadership in arriving at a balanced energy policy” to truly reduce the foreign energy dependence toward “greater energy security.”

These letters and comments from various stakeholder groups opposing the proposed elimination of tax provisions are consistent with the concept of collective unity reinforcement action advocated by Jacomet (2000): A unity action is “purely collective by nature, as opposed to individual resources which become collective because they are simply shared” (Dahan 2005, p. 46). Drawing on Jacomet (2000), Dahan (2005) believed that although stakeholder groups do not own the unity action as a political resource, there is a positive association between the weight of such unity action and its political weight. Specifically, Dahan (2005, p. 46) explained that the political weight of a collective unity reinforcement action depended on (1) the number of members, groups, and coalitions, (2) the unity of interests, and (3) the diversity of stakeholders. Dahan (2005) assumed that a greater number and diversity of groups opposing a legislative action would achieve the most effective political action without being accused of self-interest. As the final texts on tax provisions in EISA07 showed, the stakeholder groups that opposed the elimination of tax provisions had successfully used the collective unity reinforcement action as

one of their powerful and effective resources to preserve the tax deduction credits worth billions of dollars for the oil and gas industry.

Public Image

When stakeholder groups take an adversarial or pressure approach, Dahan (2005, p. 50) posits that attacking an opponent's public image can become a political resource that is "far more important in a pressure strategy than resources such as expertise or financial support." In the case of EISA07, there is considerable evidence that conservative and pro-business groups attacked legislators who held liberal ideology by painting them as the villains to a sensible energy policy. On the other hand, environmental groups and liberal political parties portrayed pro-business and conservative legislators as selfish and shortsighted lawmakers who lacked common sense in safeguarding the future of the country.

My analysis of the data uncovered three examples of stakeholder groups publicly creating a negative impression of legislators who opposed their own stances on the §199 tax credits for the oil and gas industry. All three examples questioned the true intent of policy makers on targeting the five major U.S. oil and gas producers and equated the elimination of a tax subsidiary to a tax increase. First, Grover Norquist, President of Americans for Tax Reform, suggested the House proposed and passed elimination of the §199 tax credits for the oil and gas industry as the first wave of many tax hikes initiated by the then Democratic House Speaker, Nancy Pelosi. By hinting that the Democrat-controlled House of Representatives during the 110th Congress legislators were for tax increases, Norquist (2007) effectively painted a negative public image for the Democrats. He further predicted "disastrous consequences" that such "oil-tax increase will, by the laws of economics, *decrease* domestic energy production and provide a

boost for OPEC producers—thereby *increasing* our energy dependence” (Norquist 2007, italics original). Sharing the same unfavorable view of the Democratic lawmakers, Jerry Taylor and Peter Van Doren, senior economics fellows at the CATO Institute (a conservative, free-market based public policy research organization) followed Norquist’s attack on the ideologically liberal Democrats and questioned their legislative intent, stating that “eliminating—or at least, cutting back on—federal subsidies to the oil and gas business is a fine idea. But that’s not exactly what the Democrats have in mind” (Taylor and Van Doren 2007). With a statement like this, these two economists insinuated Congressional members who favored altering the existing tax code were hiding a broader, ideologically motivated tax agenda. Finally, Andrew (2007) labeled the legislative debates over the tax provisions as personal and political. He remarked, “Privately, some Democrats say it is payback time: the oil [and gas] industry’s political contributions have overwhelmingly gone to Republican lawmakers and President Bush, and many Democrats say they have little sympathy for the industry now.”

Two news articles that supported the reversal of the originally “temporary” production tax credits focused their attention on a pro-oil and gas industry Senator to create the adversarial pressure during the legislative process. Kachan (2007) of CleanTech accused the oil and gas industry of playing the victim card, “Far from being big beneficiaries [of oil tax subsidies], some oil companies claim they are net victims. They point to gasoline taxes and environmental regulations, such as fuel-efficiency standards for new vehicles.” Kachan (2007) seemed to indicate that the oil and gas industry intended to divert the true debates over the production tax credits to other items that were unfavorable to the industry in order to garner some sympathy from a less informed audience.

Instead of attacking the oil and gas industry, business columnist of the *Washington Post*, Steven Pearlstein, boldly called out the Democratic Senator Mary Landrieu from Louisiana and publicly accused her of being a traitor to her own political party. Specifically, Pearlstein (2007) believed, “that it was Democrat Mary Landrieu of Louisiana who broke ranks and gave President Bush and the Republican leadership the one-vote margin they needed to defeat the Democratic version of the energy bill last week.” He further refuted Landrieu’s rationale of opposing the House-passed tax provisions by calling the tax provisions “one-sided policymaking [leaving] Louisiana industry footing the bill” as “laughable.” Pearlstein (2007) concluded by labeling Landrieu’s defection as “simply putting her own and her state’s selfish interests before the national interest.” Although it was too late for Pearlstein’s (2007) comments to alter the final outcomes of the tax provisions in EISA07; nevertheless, he had managed to create pressures on Senator Landrieu and potentially other legislators to avoid publicly defending the oil industry in the future policy making process. Both supporting and opposing sides of the tax provisions used public image creation as a political resource to pressure legislators when stakeholders had determined that an adversarial relational approach would be an effective political strategy. In this case, final text concerning the tax provisions in EISA07 indicate that the corporations and stakeholder groups against alterations of the existing §199 tax code were more effective in using public image as a primary political resource to help reverse the direction of this particular policy.

Supporting Resources

Relational and organizational resources, recreational skills, and political-administrative expertise are supporting resources according to Dahan (2005, see Table 14). Supporting resources alone, Dahan (2005, p. 50) claims, are “not valued by public decision makers.” Instead,

these supporting resources function as an important means for carrying out the use of primary political resources. Different from primary and complementary resources where strategic or relational modes determine which resources will be deployed to express either cooperation with or threats against legislators, Dahan (2005, p 50) states, “With the exception of recreational skills (only used within cooperative context), supporting resources do not vary with the relationship mode adopted.” Since the resources will be the same regardless of the relational approach adopted, the succeeding discussion includes only resources that are applicable to the current case study with recreational skills discussed first under the interactive approach, then both relational and organizational resources discussed under the adversarial mode of operation.

Interactive Mode

Recreational skills, such as sponsoring retreats or travel for legislators and their staff, are employed frequently so members of the sponsoring organization can interact with policy makers in an exclusive setting. Historically, data regarding the details of the use of these interactive political resources are private. However, in 2005, both the House and the Senate granted American Public Media, Northeastern University’s Medill News Service, and the Center for Public Integrity access to disclosure documents for approximately 23,000 privately sponsored trips taken by Congressional aides and members between January 2000 and June 2005. Prior to the publication of the key findings of this joint project, Lathrop (2006), data editor of the project team, detailed the pain-staking processes of nearly nine months of intense engagements and the methodology project researchers used to arrive at their conclusions and key findings. Due to the unavailability of public data regarding the actual trips the oil and gas industry and their supporters sponsored for Congressional aides and legislators prior to and during the legislative

processes of EISA07, only inferences can be drawn from the data collected and analyzed under their joint research project.

Key findings of this joint project provide insights into the use of stakeholder groups' recreational skills (Dahan 2005) that were used to gain exclusive access to Congressional staffers and legislators. A number of patterns emerged from the results of this project. First, Congressional staffers took a significant portion of all the trips among the approximately 23,000 trips analyzed in this project. The rationales of offering trips to exotic locations and with planned, lavish leisure activities²² to Congressional staffers were to build a long-term rapport with them. Generally speaking, legislators often hire Congressional aides and assistants in order to delegate the overwhelming demands placed on legislators. These staffers often have expertise in a field that is particularly beneficial to legislators who sit on specific Congressional committees. By building close relationships with Congressional staffers, stakeholder groups gain access that allows them to provide information to Congressional members that aids in debating and voting on relevant policy issues. It can be inferred that privately sponsored trips were also used by the oil and gas industry and their supporting coalitions to secure access, provide expertise information, and influence the final version of the EISA07 tax provisions regarding the §199 domestic production deductions.

Some researchers argue that these types of recreational activities create an implied obligation to the sponsors because stakeholder groups strategically target committee leaders who oversee policy decisions that are crucial to these special interest groups. For example, the joint

²² As long as the staffers and legislators gave a one-hour speech or participate in at least one half day of tours on some educational or investigative sites, trips were considered legitimate and purposes fulfilled. Some of the leisure activities in addition to the limited engagements of education and investigation, the project found, included a \$180 round of golf, \$49 for a ticket to a St. Louis Cardinals game, a limousine ride of more than \$100, and a helicopter tour of more than \$250 over several islands of Hawaii.

project discovered that the office of Republican, Joe Barton, then chairman of the House Committee on Energy and Commerce, during the one-year period prior to June 30, 2006 accepted a total of 54 trips. Congressman Barton took one trip himself and his staffers took the rest of the trips. According to the disclosure reports filed by Barton's office, these trips were worth about \$87,000. Energy-related industries were among the sponsors of these trips.

In addition to sponsoring recreational activities for industry-related Congressional committee members and their staffs, stakeholder groups also helped sponsor similar activities for legislators sitting on the Congressional Ethics Committee who are responsible for evaluating the legitimacy of Congressional travel. According to disclosure documents filed by Congressional offices, trips taken by the ten House members who were in charge of its Committee on Standards of Official Conduct and their staffers were valued at \$966,000. See Table 17 on the breakdown of total trip amount by each committee member according to the results of the joint project.

[Insert Table 17 about here]

This project also brought an interesting strategy used by the lobbying firms for these stakeholder groups to light. Representatives from lobbying groups were often invited participants in trips sponsored by non-lobbying stakeholder groups. As long as the lobbying groups did not financially pay for trips, their active participation in trips taken by Congressional members and their office members is legal, although the ethicality of these trips is questionable. Based on my analysis of the findings of the joint project, I conclude that stakeholder groups used the sponsoring of retreats and other forms of travel as recreational skills that help to gain access to and attention of lawmakers. Through incorporating this supporting political resource in their overall strategic political activities, stakeholder groups successfully ensure policy directions and

legislators' voting patterns match the desired outcomes of these groups. The key findings reported by this joint project are included in Table 18.

[Insert Table 18 about here]

Adversarial Mode

As mentioned previously, stakeholder groups that opposed any proposed revision to the existing tax provisions under the §199 domestic production deduction tax credits used primarily a negative relational approach. Under this strategic approach, they pressured non-market actors or policy makers using relational and organizational political resources. Thus, adversarial resources assisted the stakeholder groups to reach their ultimate goal of influencing the final version of EISA 07. For example, Andrews (2007) reported how the oil industry “carefully positioned themselves, picking their fights on selected issues that attract fairly little popular interest but affect potentially large amounts of money.” In order to win these strategically selected “fights,” the oil industry mobilized its adversarial resources they had accumulated over many years of political involvement: “Exxon, Shell and trade group like the American Petroleum Institute have hired former Democratic lawmakers and Democratic lobbyists to help press their case.” Considering it was primarily a Democratic objective to eliminate the IRC §199 domestic production deduction tax credits for the five major oil and gas companies, hiring former colleagues and lobbyists who had established relationships with Democratic lawmakers to advocate opposition of the elimination appeared to be successful when it came to the final EISA07 bill.

Echoing the same view on how the oil industry had consistently maintained the power to influence federal policymakers, Kretzmann (2007) quoted President Franklin Roosevelt stating

that, “The trouble with this country is that you can’t win an election without the oil bloc, and you can’t govern with it.” From Roosevelt’s statement, it can be inferred that the gas and oil industry had a historically deep-rooted formal relation with the elected officials in the U.S. The oil and gas industry understood and used such relational resources to safeguard their own interest. Observing the drastic differences between the proposed and House-passed version eliminating the entire §199 domestic production deduction tax credits for the oil and gas industry and the final texts of both Titles I and II as passed in the Congress that left the tax credits intact, it can be argued that the oil and gas industry achieved their goal of preserving the preferential tax treatment through the use of the relational resources they had established throughout the long legislative history with legislators.

Besides relational resources, the oil and gas industry, through supporting lobbying groups and other pro-business coalitions, also employed organizational resources to pressure lawmakers and influence policy outcomes. Again, stakeholder groups that were opposed to eliminating the oil and gas tax subsidies took on the role of advocate for consumers and members of certain organizations. For instance, Grover Norquist of Americans for Tax Reform (ATR) argued that not only would the proposed H.R. 6 “raise taxes on domestic energy production . . . and American consumers,” but “hinder American energy independence” (Norquist 2007). Other organizations also made similar claims on the negative impact the tax treatment reversal would have on consumers. President & CEO of FreedomWorks, Matt Kibbe, speaking on behalf of “850,000 FreedomWorks members and supporters nationwide” urged Congressional members to vote against removing the tax subsidies because it “will only increase the cost of energy for consumers.” As an added pressure and incentive to legislators, FreedomWorks also hinted that the legislators’ votes would impact the calculation of the FreedomWorks Economic Scorecard.

These adversarial political resources seemed to have influenced the direction and outcomes of the proposed tax treatment of the IRC §199. Instead of eliminating the existing tax benefits, the final version of EISA07 mentioned no such tax subsidy elimination. By using both the relational and organizational resources, the oil and gas industry successfully pressured the legislators to revise their original proposal and pass EISA07 by leaving the domestic production tax credits intact for the industry.

Complementary Resources

Stakeholder groups used expertise, financial resources, public image, political reputation, and stakeholder support/opposition as their political resources in their public policy engagement. How these resources were planned depended on the choice of these stakeholder groups' strategic mode of operation. When these tactics were used as primary political resources, expertise and financial resources would be employed under an interactive mode of approach. These primary resources differed when an adversarial or opposing approach was planned. Under this negative relational approach toward policymakers, stakeholder groups would most likely use public image, political reputations, and stakeholder support as their complementary political resources to achieve their attempt in influencing legislators and possibly policy outcomes. Opposite to how primary resources were used, the complementary resources planned and deployed under an interactive mode of operation would be the opposite under the two different approaches: stakeholder groups would use public image, political reputation, and stakeholder support under a supporting relational approach to gain favor of legislators whereas expertise and financial resources would most likely be deployed as the adversarial tactics to impose pressures on policy makers during the legislative processes.

Interactive Mode

For groups that supported the IRC §199 deduction credits elimination for the oil and gas industry, they used both public image and stakeholder support as their political resources to interact with legislators in an attempt to increase the probability of including the elimination proposal in the final Act. Stakeholder support was the main complementary political resource these groups used during the legislative process of EISA07, followed by creating a positive public image for policymakers. Different from the primary resources used under an adversarial mode of operation, stakeholder groups that used stakeholder support under an interactive relational approach often emphasized the overwhelming support from members of trade, labor, or nonprofit organizations. Before the debates over H.R. 6 and the final votes were cast, Ron Gettelfinger, President of the United Autoworkers Union (UAW), declared, “The UAW strongly supports this [H.R. 6] historical bill.” Considering the more than one million members (total of 1,158,926 including both active and retired, UAW 2005) of the UAW, a mutually positive relationship was formed between the labor union and policymakers in Washington. This positive relationship allows UAW to influence policymakers. The same article additionally explained the rationale behind why their members supported this proposal for “The tax credits are fully offset by repealing more than \$13 billion in tax breaks for U.S. oil companies over ten years, including subsidies provided by the 2005 energy bill” (The MiddleClass 2007).

Besides union members’ support in the elimination of the §199 deduction credits for the oil and gas industry, Nick Rahall, a West Virginia Democratic Congressional representative and then Chairman of the House Natural Resources Committee expressed his optimistic prediction of a “very strong bipartisan support” to “repeal \$7.7 billion in tax breaks for oil companies” (Efstathiou 2007). Gaining the legislative stakeholders’ support in a public policy was definitely

a significant, supplementary political resource stakeholder groups desired since such support indicated a high likelihood that the tax subsidies would be eliminated.

The adversarial mode of political strategy tends to portray a negative public image of legislators. Under an interactive mode, stakeholder groups tend to praise and create a positive public image of policymakers. Three articles illustrate the positive public creation techniques by praising legislators who supported the §199 deduction credit elimination for the oil and gas industry. First, Kachan (2007) described the elected 110th Congressional Democratic House of Representatives as a contemporary “Robin Hood” who was taking “some money previously allocated for oil and gas and reallocating it to renewable energy.” This depiction created a positive public image of House members who intended to ‘take from’ the rich oil and gas industry and ‘give’ to the much underfunded renewable energy industry.

An article by Efstathiou (2007) viewed the same Democratic House of Representatives as determined lawmakers who followed through on policy objectives set by the Democratic leadership. Particularly, he described how Speaker Pelosi pledged to repeal the oil and gas subsidies approved by the Republican-controlled Congress as one of the six legislative actions newly elected Democratic representatives intended to “enact in the first 100 hours of Democratic control of the chamber” (Efstathiou 2007). Finally, Andrews (2007) described the Senate Democrats as the policymakers who sought “a major reversal of energy tax” that had benefitted the oil industry. Specifically using the word “reversal” in his news article, Andrews (2007) had created a positive public image for the Senate Democrats by hinting that the old energy tax policy was heading in the wrong direction. All three articles explained how and why stakeholder groups had intentionally created positive public images for the Congressional members who

proposed the §199 deduction credit elimination and had used them as their complementary political resources to influence policy outcomes.

Adversarial Mode

Based on my analysis of available data, it appears that appeals to expertise and expert knowledge were the most frequently utilized complementary resources when an adversarial mode of political activity was adopted. Commentators and authors with opposing positions on this matter primarily relied on expert knowledge when weighing the pros and cons of the §199 deduction tax credits for the oil and gas industry. Expert comments came from both supporting and opposing groups published prior to and during EISA07's relatively short eleven-month legislative process. For example, Kachan (2007) criticized the view of a CATO Institute energy economist, Ronald Southerland, who used statistics provided by the U.S. Department of Energy to argue that the oil and gas industry had received less than one billion dollars since the inception of production subsidies. Quoting study results comparing American and European oil and gas industry conducted by Greenpeace, Kachan (2007) countered Southerland's conclusions that "the American oil and gas industry might receive anywhere between \$15 billion and \$35 billion a year in subsidies from taxpayers."

Another rationale used by stakeholder groups that opposed alterations to the existing IRC §199 was that such legislative amendments would discourage new domestic oil production, lead to U.S. job loss, increase energy cost to consumers, and deepen foreign energy dependency. Among the most vocal promoters, four API employees (Matusic, technical writer, Bisney, tax policy analyst, John Felmy, chief economist, and Red Cavaney, President & CEO) repeatedly condemned the proposed elimination of the §199 domestic production deduction credits as a

punitive tax policy. In order to boost the claims, Bisney (2007) supported such claims with results conducted by the Congressional Research Service. He argued that “between 1980 and 1986, domestic oil production dropped by as much as 1.26 billion barrels and oil imports increased by as much as 13 percent” when “windfall taxes” were imposed upon the oil industry. Therefore, any proposed tax increases would have had the same deleterious effects as it did in the early 1980s. Parallel to Bisney’s (2007) assertion on the negative association between increased oil taxes and reduced domestic oil production, Cavaney (2007b) used another study by the National Taxpayers Union to argue that “similar taxes in the past have simply reduced domestic oil production.”

In repudiating claims by representatives of the API, Kachan (2007) quoted a U.S. Interior Department study (reported in the New York Times) that questioned the subsidies encouraged domestic drilling and energy production. Contrary to arguments by the representatives of the API, an Interior Department analyst believed, “if they [the oil and gas companies] took that [subsidy] money, they could buy a whole lot more oil with it on the open market” than drilling, refining, and producing it domestically. It appeared that both arguments could be valid depending on the sources they quoted or relied upon.

Finally, both sides saw direct impacts on U.S. jobs if and when the existing §199 domestic production deduction credits were amended, restricted, or eliminated. The opposing groups believed that the repealing of the §199 tax credits would inevitably cause substantial job losses in the U.S. For instance, the Council for Citizens against Government Waste sent a letter signed by various stakeholder groups to the House members predicting that “the repealing of Section 199 of the Internal Revenue Code as the current bill provides will drive American oil and gas companies overseas taking American jobs with them.” Cavaney (2007b) made a similar

forecast that any changes to the existing tax credits allowed under §199 would “cause significant job losses.”

In contrast to these dire predictions of massive job losses, the groups that supported the complete elimination of §199 credits to oil and gas industry believed the repealing of the domestic production tax credits would provide new jobs in the U.S. The main rationale supporting this argument was based on the assumption that all the subsidized tax credits would be transferred to the alternative and renewable energy industry, thus creating “green jobs” that did not exist due to the lack of tax credit incentives for the existing renewable energy industry. Both sides of the arguments seemed to have merit, although the net result of the policy change is an empirical question. Expertise was a significant complementary political resource that was used by all stakeholder groups during the formulation and passage of EISA07.

V. Summary and Suggestions for Future Research

The aim of this case study was to assess empirically the applicability and validity of Dahan’s (2005) conceptualization of his corporate political resource typology. It responded directly to Dahan’s (2005, pp. 50, 52) call for “empirical validations of this conceptual contribution . . . through in-depth case studies.” Specifically, this case study examined the discrete discourses throughout the brief, yet complex processes that took place during the formulation, revision, and the final passage of the Energy Security and Independence Act of 2007 (EISA07). Sitting in the core of the policy controversy was the proposed treatment of the IRC §199 on the domestic production tax credits. Title I of the House sponsored and passed House bill H.R. 6 explicitly excluding the §199 tax credits granted to the five largest, consolidated U.S. oil and gas companies (nicknamed Ending Subsidies for Big Oil Act of 2007)

granted under Energy Policy Act of 2005. However, the texts under Title I of the Senate's version of the same proposed bill included no such explicit elimination and effectively kept the tax credit benefits afforded to the oil and gas industry intact.

Given that prior research had predominately applied and expanded the Hillman and Hitt (1999) model's political tactics employed by corporations during their legislative involvement and assumed corporations deployed tactics to create a positive relationship with legislators, this case study offered an alternative view to the HH model. Instead, this study focused on how and why the various political resources, modes of relational approaches, and the combination of these two, as conceptualized by Dahan (2005), impacted policy outcomes. Also, prior corporate political strategy research relied significantly on the archival methodology in their studies. There appeared to be a need for a qualitative methodological approach to supplement additional knowledge on corporate political actions in the literature. By conducting an in-depth case study, these results add additional knowledge on how and why stakeholder groups use the compilation of Dahan's (2005) resource typology to argue and defend the final texts of the Title I tax provisions regarding the IRC §199 domestic production deduction tax credits as enacted in EISA07.

Based on Yin's (2009) approach in conducting case studies, I collected a broad array of primary and secondary archived data in both archived and electronic formats throughout the discourses of EISA07. In order to adequately provide relevant interpretations and insights to answer the four research questions in this paper, I conducted several iterations of data collection and analysis until either the available relevant data was exhausted or the additional data reached a stage of saturation that they yielded no further insights to answer the research questions posed in the current case study. The results indicated that stakeholder groups, depending on their

modes of operation as Dahan (2005, p. 49) conceptualized and predicted, used different political resources and a combination or “bundle” of these resources to influence legislators’ opinions and voting patterns, and, ultimately, the final text of the tax provisions in question as enacted in EISA07. Overall, results from this case study support Dahan’s (2005) typology and provide the empirical evidence Dahan (2005) called for to validate the typology’s theoretical assumptions.

One notable exception, based on all available data analyzed, is that stakeholder groups, in general, did not use financial tactics as the complementary resources to approach legislators under the adversarial mode of operation. One possible answer is the relatively short time span of EISA07’s legislative history. Stakeholder groups may not have had a sufficient amount of time to threaten withdrawing financial support to legislator’s election campaigns. The Senate voting rules also may provide an alternative answer to why no stakeholder groups used financial means as their complementary resources to pressure Senators in the 110th Congress: Although the 110th Senate was controlled by 51 Democratic senators, in order to pass a legislative act, a filibuster-proof vote would require 60 votes to pass the proposed Senate bill during bill reconciliation between the two chambers of the Congress. With EISA07, stakeholder groups only needed to convince one Democratic senator to break with the party line to ensure the filibuster-proof vote on a particular version of the proposed bill would not be passed. Instead of using an adversarial approach, the oil and gas industry was able to use campaign contribution incentives as their primary political resource to positively persuade senator Landrieu to request a “clout” vote and vote against the proposed elimination of the §199 tax deduction credits. Therefore, it would be irrational for stakeholder groups to approach legislators with a negative mode of relational operation. Additional research may be needed to specifically investigate when and under what circumstances stakeholder groups such as corporations and other interest organizations would

approach legislators under an adversarial mode of operation in order to alter the direction and outcome of a particular public policy.

Results derived from the iterative data collection and analyses in this case study offers insights for corporate political strategic management, cautionary notes for public interest organizations, and additional implications for future research within the stream of corporate political activities and strategies. By understanding the various modes of operation and the “bundle” (Dahan 2005, p. 48) of corporate political resources, corporate management may improve the effectiveness of their overall corporate political strategic planning, protect their corporate interests, reduce regulatory uncertainties, increase competitiveness, and avoid adverse policy outcomes. On the other hand, these results may aid public interest groups in raising society’s awareness and in voicing their opposition on the unfair or unethical influence of corporate political resources over legislators and public policies that may further disadvantage the welfare of the certain minority or underprivileged sectors of the society. Finally, findings in this study provided corporate political strategy researchers a less utilized, yet substantially rigorous framework alternative to mainstream political strategic models in investigating corporate political activities. One potential future research to strengthen one result of this study is to obtain and analyze data on actual privately sponsored trips funded by the oil and gas industry and their supporting associations or coalitions during EISA07 once such data becomes publicly available. Another potential future research, according to Dahan (2005), may be conducted either through additional case studies of different tax/public policies, large-scale surveys, and unscripted personal interviews with participants who had the first-hand experience during the various stages of a highly controversial policy setting process to detail the interactions through exchanges of political resources between stakeholder groups and non-market actors.

Such unscripted personal interviews of relevant participants will allow researchers to recognize the patterns of interactions combined with the array of corporate political resources to gain broader insights on how and why such interactions and resources affect the final outcomes of public policies that the current literature may find beneficial.

Tables

Table 12 Historical Legislative Highlights of H.R. 6 and S. 1419, The Library of Congress/Thomas Legislative Database

(<http://thomas.loc.gov/cgi-bin/bdquery/z?d110:HR00006:@@R/home/LegislativeData.php?n=BSS;c=110>)

House (H.R. 6)		Senate (S. 1419)	
Date	Event	Date	Event
January 12, 2007	Representative Nick Rahall of West Virginia sponsored with 198 co-sponsors.	May 17, 2007	Senator Harry Reid of Nevada sponsored with no co-sponsors. Order placed on Senate Legislative Calendar under General Orders. Calendar No. 56.
January 18, 2007	Passed/agreed to in House: On passage Passed by the Yeas and Nays: 264 – 163 (Roll no. 40).	June 21, 2007	This bill as introduced was identical to Senate Amendment (S.A.) 1502, a subsequent Senate substitute amendment to H.R. 6. Record Vote Number: 224.
December 6, 2007	Resolving differences – House actions: On motion that the House agree with <i>amendments</i> to the Senate amendments Agreed to by the Yeas and Nays: 235 – 181 (Roll no. 1140).	June 21, 2007	Passed/agreed to in Senate: Passed Senate with <i>an amendment</i> by Yea-Nay Vote: 65 – 27. Record Vote Number: 226.
December 18, 2007	Resolving differences – House actions: On motion that <i>the House agreed to the Senate amendment to the House amendments to the Senate amendments.</i> Agreed to by the Yeas and Nays: 314 – 100 (Roll No. 1177). Cleared for White House. Presented to President.	December 13, 2007	Resolving differences – Senate actions: Senate concurred in the House <i>amendment</i> to the Senate <i>amendment</i> to the text of H.R. 6, with <i>an amendment</i> (S.A. 3850) by Yea-Nay Vote. 86 – 8. Record Vote Number: 430.
December 19, 2007	Signed by President George W. Bush and became Public Law NO: 110-140.		

Table 13 Support and Opposition of Stakeholder Groups on H.R. 6

Tax Deduction Elimination for Oil and Gas Industry	
Support	Oppose
Alliance of Automobile Manufacturers	American Conservative Union
AFL-CIO	Americans for Tax Reform
Apollo Alliance	American Highway Users Alliance
League of Conservation Voters	American Shareholders Association
National Farmers Union	Council for Citizens Against Government Waste
Sierra Club	FreedomWorks
U.S. Climate Emergency Council	National Association of Manufacturers (NAM)
	Small Business and Entrepreneurship Council
	U.S. Chamber of Commerce

Table 14 Political Resources Based on Dahan (2005, p. 47)

Political Resources	Comments
Expertise	Expertise can be gained in several separate areas: technical/ technological, economic/managerial, social, environmental, legal, political/administrative
Financial resource	It can be both a direct political resource (through campaign contributions) and an indirect resource (through the financing of other political resources)
Relational resource	Including formal relations (e.g. the membership of a standard committee) and informal relations (interpersonal contacts with nonmarket actors)
Organizational resource	Either an internal resource (permanent office of representation, in house office of public affairs or regulatory monitoring, etc.) or an external resource (consultant under contract, offices of a trade association, etc.)
Reputation with other non-market actors	— This concept is close to Yoffie and Bergenstein's (1985) 'political capital', which stresses the idea of accumulation over time — A useful distinction could be made between the individual reputation of the firm's leaders or advocates (e.g. chief executive officer, prominent lawyer, etc.) and the institutional reputation of the firm itself
Public image	This public image may be a moderating factor in the public decision makers' reactions to the firm's attempt at political influencing
Support of stakeholders	— The weight of this support is a positive function of the stakeholders' number, unity of interest and diversity of origins — This support may be more or less formally organized (from a simple petition or demonstration to the creation of an association), and more or less durable (ad hoc versus permanent coalition)
Recreational skill	I include all kinds of recreational services supplied to public decision makers and journalists in order to gain the opportunity for a more informal, personal and perhaps favourable contact. These services are diverse: restaurants, hotels, 'study' visits, trips by planes, helicopters, etc. (usually all free of charge)

Table 15 Political Resources in Corporate Political Activities in Dahan (2005)

Resource Role	Strategic Mode	
	An Interaction Strategy (positive)	An Adversarial Strategy (negative)
Primary	Expertise and financial resources	Public image, political reputation, and stakeholder support
Supporting	Relational resources, organizational resources, recreational skill, and political-administrative expertise	Relational resources, organizational resources, and political-administrative expertise
Complementary	Public image, political reputation, and stakeholder support	Expertise and financial resources

Table 16 Summary of Database Sources

Type of Archived Data	Data Source
Committee Meeting Minutes	C-Span; Library of Congress; Congressional Research Service; Congressional Budget Office
Financial Contribution/Lobbying Information on EISA07	Center for Responsive Politics; Govtrack.us; Implu Corporation
Legislative History	Library of Congress
Second sources, including trade articles, popular press articles, newspaper columns, and news broadcast	Publications of involved interest groups as identified in Table 13; Electronic databases including ProQuest, Business Index, LexisNexis, the Wall Street Journal Index; Major news media and corporations; Multiple web search engines such as Google and Yahoo!

Table 17 Total Trip Value in Dollar Amount Taken by House Committee on Standards of Official Conduct Members

<u>Office</u>	<u>Total Trips in Dollar Amount</u>
Chairman Richard "Doc" Hastings, R-WA	\$70,000
Rep. Howard L. Berman, D-CA	245,000
Rep. Gene Green, D-TX	198,000
Rep. Stephanie Tubbs Jones, D-OH	130,000
Rep. Mike Doyle, D-PA	95,000
Rep. Tom Cole, R-OK	78,000
Rep. Judy Biggert, R-IL	60,000
Rep. Lamar S. Smith, R-TX	39,000
Rep. Melissa A. Hart, R-PA	29,000
Rep. Lucille Roybal-Allard, D-CA	22,000
Total	\$966,000

(Source: House Travel Disclosure Records between January 2000 and June 2005 as analyzed by the Center for Public Integrity)

Table 18 Key Findings of Power Trips: How Private Travel Sponsors Gain Special Access to Congress

Key Findings

1. From January 2000 through June 2005, lawmakers and their aides took at least 23,000 privately funded trips with a total value of almost \$50 million.
2. Staffers, who often influence how their bosses view issues and vote, took almost three-quarters of the trips.
3. Ethics rules require that such trips be educational or investigative, but many were to vacation destinations — at least 200 to Paris, 150 to Hawaii and 140 to Italy.
4. Of the two dozen congressional offices on which trip sponsors spent the most money, 15 were Republican.
5. Of the 25 lawmakers who each accepted more than \$120,000 worth of travel for themselves, 17 were Democrats.
6. At least 11 offices accepted more than \$350,000 each in travel. Top beneficiaries included the offices of Reps. Tom DeLay, R-Texas, and Don Young, R-Alaska.
7. Ethics rules infractions involving travel usually go unpunished.
8. If the aim is to enlighten the public about their trips, the disclosure forms filled out by congressional travelers leave much to be desired. Many lack information that could be used to determine whether a trip was a serious fact-finding mission or simply a vacation in disguise.

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GENERAL CONCLUSION

This dissertation consists of three separate, yet interconnected studies examining the stakeholder influence over the formation and management of public and tax policies through both quantitative statistical analyses and qualitative case studies. The first study analyzed the tactics employed by TfL in the strategic management of relevant stakeholders over the policy reform known as the LCC and how and why these tactics affected the LCC's formation, passage, and amendments. Prior studies examining the LCC and issues related to this policy reform had significantly focused on the economic impacts before its enactment. Simulated modeling on the impacts of a public policy is important to aid the feasibility assessment of a proposed policy, especially when such proposal has broad effects to the society. However, very few studies looked beyond the apparent economic factors and discussed the ongoing policy management tactics employed by TfL to ensure the viability of the LCC. Using the stakeholder typology of power, legitimacy, and urgency as a guide, results of available data demonstrated that TfL mainly focused on maintaining the LCC's legitimacy to relevant stakeholders throughout its brief yet revolutionary policy history. In addition to legitimation tactics, TfL also drew on legislative, administrative, and judicial power with a sense of policy urgency to convince stakeholders that the passage and subsequent amendments of the LCC were necessary and justified. These findings provided important tools to policy makers to enable more efficient and effective strategic public policy management. Furthermore, these results expanded the application of the stakeholder typology for future academic research.

The second study aimed to broaden SET's theoretical application and improve methodological precision in the tax-related corporate political strategy literature. The aim is not to disprove findings of prior corporate political strategy research in accounting and taxation, but

rather to explicitly consider the complex relations with an extended methodological approach. Instead of the traditional multivariate regression approach used in prior literature, this study used the simultaneous equations modeling to analyze the publicly available data of voting outcomes and the amount of PAC contributions during the 110th U.S. Congress concerning the EISA07.

Statistical results demonstrated that, as SET postulated, legislators voted mainly along their respective political party affiliations for both chambers under OLS and the House under 2SLS. However political party affiliations alone was not statistically significant to influence voting in the Senate. In addition to political party lines, the predicted amount of PAC contributions was statistically significant to influence voting in the House while no such significant results are found in the Senate. Finally, stakeholders appear to significantly affect legislators' voting in both chambers, albeit the direction was unexpected in the House. The study's results supported the interdependent relationship between corporations and legislators as proposed by SET. This expanded relational view might potentially aid researchers in the field of corporate political strategy studies to consider such interdependence instead of the traditional unidirectional approach in conducting their research.

The third study attempted to validate Dahan's (2005) political resource typology through an in-depth case study. Applying an established case study format, this study investigated the political resources used by both supporting and opposing stakeholder groups to demonstrate how and why these resources affected the final tax provisions embedded within EISA07. Results provided empirical support that, depending on the relational approaches (interactive/positive or adversarial/negative), stakeholder groups used different political resources in their attempts to influence the outcomes of EISA07. One exception to this typology based on the results of this case study was that both stakeholder groups preferred the interactive relational approach. These

results not only validated Dahan's (2005) typology, but also offered some cautionary notes to public interest groups that political resources as defined by the typology might unfairly benefit resource rich groups in the policy making process. Moreover, this validation enhanced the typology's future application in methodologies such as large-scale surveys and unscripted interviews of relevant stakeholders who had firsthand experience during controversial and hotly debated proposed public and tax policies for future academic research.

Overall, the three studies within this dissertation build upon prior theoretical and empirical research to advance the corporate political strategy literature in accounting and taxation through both quantitative and qualitative methodologies. These empirical evidence and findings all have important and practical implications as to how and why relevant stakeholders influence the formation and subsequent management of public policies.