

# **Toward a View of Complementarity: Trust and Policy Influence Effects of Corporate Social Responsibility (CSR) and Corporate Political Activity (CPA)**

## **Abstract**

The extant literature argues that non-market strategies can establish, sustain, or enhance a firm's competitive advantage. Less clear is how and why effective non-market strategies influence a firm's competitiveness. Moreover, the extant literature tends to examine the two building blocks of non-market strategy—corporate social responsibility (CSR) and corporate political activity (CPA)—separately. In this paper we extend trust to the non-market environment. We analyze how CSR and CPA complement each other to create strong trust between firms and the polity, and how they consequently influence government policy. We show the mediating role of trust in policy influence, and argue that CSR and CPA should be aligned for the successful influence of salient government policy.

Keywords:

corporate social responsibility; corporate political activity; policy influence; trust

Successful non-market strategies can establish, sustain, or enhance a firm's competitive advantage (Bonardi, Holburn, & Bergh, 2006; Lawton, McGuire, & Rajwani, 2013; Schuler, Rehbein, & Cramer, 2002). What is less clear is the mechanism through which effective non-market strategies contribute to a firm's success (Lux, Crook, & Woehr, 2011). In this paper we address this important gap by examining the role trust plays in the success of non-market strategies and the potential synergies between the two key elements of non-market strategies—corporate social responsibility (CSR) and corporate political activity (CPA).

Trust has increasingly become a significant topic in management research. There is a growing body of literature that examines inter- and intra-firm trust. Its importance has been explored in strategic alliances (Carson, Madhok, Varman, & John, 2003; Krishnan, Martin, & Noorderhaven, 2006; Zaheer, McEvily, & Perrone, 1998), conflict management (Mesquita, 2007), leadership (Braun et al., 2013; Caldwell & Dixon, 2010; Ötken & Cenkci, 2012), international business (Zaheer & Zaheer, 2006), employee job satisfaction and commitment (Yoon & Park, 2011), and acquisitions (Graebner, 2009; Graebner & Eisenhardt, 2004). Trust has been shown to improve organizational performance (Zaheer et al., 1998) as well as team performance (Peters & Karren, 2009; Wildman et al., 2012), and at the national level to improve judicial efficiency, bureaucratic quality, and anti-corruption effectiveness (La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 1997).

The organizational trust literature largely focuses on the relations between different actors within a firm and/or between economic environment actors (Krishnan et al., 2006). In other words, the current literature is mainly focused on trust in the market environment involving firms and their employees, customers, suppliers, distributors, and/or other firms. This scope assumes that the performance of firms is mediated by intra and inter-firm trust, rather than considering that firms are embedded within environments of multiple non-market stakeholders with whom they must develop trust relationships. It is therefore important to

examine trust between firms and their stakeholders, not only in market environments but also in non-market environments.

Firms are open systems interacting with and exchanging capital, material, energy, and information with other actors in their environment (Daft, 2007). Moreover, firms are not only economic actors but also social and political actors (Donaldson & Preston, 1995; Wicks, Gilbert, Daniel & Freeman, 1994). The current literature divides a firm's environment into market and non-market (Baron, 1995a; Boddewyn, 2003; Doh, Lawton, & Rajwani, 2012), asserting that to manage successfully managers must recognize the important differences between the firm's market and non-market environments but then take an integrated, coherent, and strategic approach to both arenas because they are not mutually exclusive (Bach & Allen, 2010; Lawton, Doh, & Rajwani, 2014). Firms' key market and non-market environment actors are depicted in Figure 1. The primary means of exchange between a firm and its market actors is money. A firm's exchange with actors in its market environment directly impacts its revenue and costs. In the market environment, cause and effect are more predictable allowing the firm to assess risks and benefits of market exchange. The primary means of exchange between a firm and its non-market environment actors is information, which indirectly impacts revenue and costs. Cause and effect are extremely difficult to predict in the non-market environment. Moreover, actions in the market environment are mostly voluntary, providing private benefits, whereas actions and benefits in the non-market environment suffer more from the free-rider problem (Baron, 1995b).

[Insert Figure 1 about here]

Within non-market environments, little attention has been paid to understanding whether and how firms align two non-market strategies—CSR and CPA (Beloe, Harrison, & Greenfield, 2007). Often, CSR and CPA are treated separately, with no linkage whatsoever (Anastasiadis, 2014). Only a few “political-CSR” studies link both activities and argue that

some forms of CSR are political, in the sense that they assume some “governmental” responsibilities (Anastasiadis, 2014; Scherer & Palazzo, 2007, 2011). Similarly, only a few studies consider some political activities, such as the provision of information, testifying at government committees, and advocating against repressive laws, as social responsibilities (Alzola, 2013; Caldwell & Clapham, 2003). The extant literature points to the paucity of conceptual and empirical research examining the complementariness of CSR and CPA, particularly for enhancing reputation, credibility, reliability, and trustworthiness (Hond, Rehbein, Bakker, & Lankveld, 2014).

The role of trust in policy influence has been overlooked, rendering a superficial understanding of the relationship between non-market behavior and policy outcomes. Trust is an essential mechanism of policy influence. This admission implies that CPA alone might be unable to affect salient policy issues. Due to its potential association with corruption and the fear of corporations exerting undue influence on governments, CPA is sometimes distrusted and repudiated (Doh et al., 2012; Lawton et al., 2013). Therefore, how then can CPA win over its dissidents and overcome its obstacles? The answer lies in CPA’s alignment with CSR.

This paper addresses the paucity of research on trust between firms and non-market stakeholders by proposing a theoretical framework of how firms can combine CPA and CSR to develop trustful relationships with the polity—politicians and policy makers. The paper also conceives how trust mediates the relationship between CPA and/or CSR and government policy influence. We focus on government because it possesses all three saliences attributable to a pivotal stakeholder—power, legitimacy, and urgency (Mitchell, Agle, & Wood, 1997). Governments largely determine the rules; hence they wield significant power and exercise immense influence on firms. With heightened regulations and increasing political influence on business, the ability of firms or employer representative bodies to influence government

policy forms part of the overall strategic orientation of firms and is a key driver of profitability (Kingsley, Vanden Bergh, & Bonardi, 2012; Sawant, 2012).

In our study, we seek to make two contributions. First, we show how CPA and CSR facilitate the development of trust between firms and the polity. In so doing, we reveal how these strategies, separate and combined, contribute to firm trustworthiness in political arenas. We view this as an important contribution because the extant literature has not moved beyond analyzing trust within and between firms. Trust between firms and non-market stakeholders, particularly government, is as important as trust within and between firms, for it is government that creates and maintains the environment and institutions for economic exchange (North, 1990).

The second contribution of our study is to show how trust mediates the relationship between non-market behaviors—CPA and CSR—and government policy influence. We realize that beside the extension of trust to non-market actors being overlooked by the extant literature, there is a paucity of studies that articulate the mechanisms of non-market strategies, especially CPA (Lux et al., 2011). We fill in this gap by conceptualizing trust as a mediator of the relationship between non-market behaviors and the ability of firms to influence government policy in ways favourable to them. In so doing, we show the differential impact of CPA and CSR on policy influence, arguing that even though CSR and CPA create access to the polity, CSR does not influence policy outcomes, while CPA influences only low salience policy issues. The complementarity of CSR and CPA, with its attendant synergistic effect on trust, allows for the influence of high salience policy issues.

In the following sections, we discuss the non-market environment and present an operational definition of trust. We then discuss the theoretical framing of the study and develop a conceptual model of CSR, CPA, trust, and policy influence. The paper concludes

with a discussion of the model's implications for practice, and a specification of some future research directions.

### **Non-market Environment, CPA, and CSR**

The seminal work of Baron (1995a) differentiated between market and non-market environments. He defines the market environment as “those interactions between the firm and other parties that are intermediated by markets or private agreements,” and non-market environment as “those interactions that are intermediated by the public, stakeholders, government, the media, and public institutions” (p. 47). The non-market environment is broader than the market environment and includes actors that create or constitute the general context within which firms operate. The actions of non-market environment actors, for example, government, pressure groups, and the general public have consequences for the fortunes of firms. It is therefore not surprising that scholars and managers have turned their attention to understand and manage these powerful non-market environment actors (Capron & Chatain, 2008).

In order to influence their non-market environments, many firms take advantage of CPA and/or CSR. These activities are mostly termed non-market strategies (Doh et al., 2012). CPA refers to efforts made by firms to influence government policy in ways favorable to them (Getz, 1997; Hillman, Keim, & Schuler, 2004) and involves tactics such as political action committee (PAC) contributions, lobbying, and political directorships (Doh et al., 2012). These tactics are targeted at elected officials and politicians (Hillman & Hitt, 1999). CSR is mostly concerned with the social and environmental obligations of firms (Doh et al., 2012; Hillenbrand, Money, & Ghobadian, 2013), and is targeted at the general public and the community.

Influencing the non-market environment contributes to firm performance, whether economic or reputational. Firms' political engagements and maneuvers shape their

competitive space and enable them to exploit economic opportunities (Capron & Chatain, 2008; McWilliams, van Fleet, & Cory, 2002). Improvement of the bottom line is arguably the end goal of CPA. Indeed, the impact of CPA on firm performance is one of the fastest growing topics within this field as several studies have and continue to examine the CPA–performance relationship (Adhikari, Deraship, & Zhang, 2006; Claessens, Feijen, & Laeven, 2008; De Figueiredo & Silverman, 2006). Similarly, the impact of CSR on performance has received some attention in the literature (Margolis & Walsh, 2003; Waddock & Graves, 1997). This shows that a firm’s non-market strategy or behavior is often directed to make a contribution to economic performance. There is an overlap between market and non-market strategies (Doh et al., 2012) whereby both create and sustain competitive advantage (Baron, 1995a; Porter & Kramer, 2002, 2006, 2011). In other words, both are alternate paths to superior firm performance (Henisz & Zelner, 2012; Lux et al., 2011).

While CPA and CSR may seem to be at opposite ends of the spectrum with respect to their targets or content, this is not always the case. A growing body of literature termed “political CSR” examines how firms use CSR to affect policy outcomes by influencing political constituencies (Fooks, Gilmore, Collin, Holden, & Lee, 2013). For instance, British American Tobacco (BAT) in the 1990s used CSR to diffuse the political impact of health advocates who campaigned for tobacco regulation. There are many who believe CSR is entirely altruistic and has no political dimensions, but this notion is, in part, attributed to the one-sided trajectory of management literature, which has overlooked some of the hidden agendas behind CSR (Ungericht & Hirt, 2010). This oversight is being addressed as recent studies have shown some of the political dimensions, motives, and conceptions behind CSR (Scherer & Palazzo, 2007, 2011; Scherer, Baumann-Pauly, & Schneider, 2013).

Many think CPA is always egocentric, with benefits accruing only to the firms that pursue it. This perception may be untrue. Firms are corporate citizens (Matten & Crane,

2005; Moon, Crane, & Matten, 2005; Wood & Logsdon, 2008) that have played and continue to play political roles to ensure the common good and social welfare (Alzola, 2013; Scherer et al., 2013). For instance, through policy advocacy, firms influence human rights in countries with repressive political regimes (Matten & Crane, 2005) and address social ills such as disease and illiteracy (Margolis & Walsh, 2003).

It is worth acknowledging, however, that there is a darker side to CPA. Political behaviors of firms have been noted to stifle competition (Robertson, Gilley, & Crittenden, 2008) through successful agitations for trade protection and anti-dumping regulations (Evans & Sherlund, 2011; Lee & Baik, 2010; Marsh, 1998). In emerging or developing countries where institutional development is fledgling and weak (Henisz, 2004), CPA often involves corruption (Doh et al., 2012), extensive use of informal connections for direct organizational benefit (Lawton et al., 2013), and cronyism (Gul, 2006; Johnson & Mitton, 2003). Thus, all of these socio-political actions can create mistrust, which raises the importance of understanding “trust.” Figure 2 depicts the key dimensions of trust that will be explored in the next section.

[Insert Figure 2 about here]

### **Defining and Understanding Trust**

Despite its widely recognized importance in relationships and firm performance, trust is an elusive concept, as highlighted by inconsistencies in the literature (Caldwell & Clapham, 2003). The study of trust in organizations is problematic due to difficulties in its definition (Rousseau, Sitkin, Burt, & Camerer, 1998) and cloudiness in the relationship between trust and risk. In the 1990s, two important studies (Mayer, Davis, & Schoorman, 1995; Rousseau et al., 1998) endeavored to clarify and expand on the concept of trust. Mayer et al. (1995, p. 712) define trust as “the willingness of a party to be vulnerable to the actions of another party.” Rousseau et al. (1998, p. 395) define trust as a “psychological state comprising the



intention to accept vulnerability based upon positive expectations of the intentions or behavior of another.” These definitions share two critical attributes—positive expectations and the willingness to accept vulnerability.

Rousseau et al.’s (2008) definition has found less favor in the literature, perhaps because the authors do not offer a detailed and simplified treatise of trust. We therefore adopt the trust definition of Mayer et al. (1995) and their dimensions of trust as the building blocks of this paper. Mayer et al.’s (1995) treatise of trust is flexible and has been applied at different levels of analysis. In this sense, it is suitable for the examination of trust between firms and the polity. Bringing this definition into context, trust exists when the polity is willing to be vulnerable to the proposals, comments, and activities of firms with the expectation that the outcome of accepting influence is positive for the majority of other market and non-market actors.

Mayer et al. (1995) propose three dimensions of trustworthiness, which we adopt: (a) ability, (b) benevolence, and (c) integrity. A truster holds beliefs about these three factors with respect to a trustee. Abilities are domain-specific skills and competences that, when acquired or possessed, facilitate the development of trust between parties. For a firm to be trusted, the other party must believe in the firm’s skills and abilities to meet expectations. These skills are not general but specific to particular contexts. Hence, it is possible to both trust and distrust another, depending on the specific contexts (Zand, 1972). For instance, a drug manufacturing firm can be trusted for the effectiveness of its drugs but not its pricing or delivery reliability. Benevolence is the extent to which one is perceived to be acting in good faith and wanting “good” for another, even in the absence of any personal rewards or gains (Mayer et al., 1995; Mesquita, 2007). Integrity is the willingness of the trustee to adhere to principles that a truster subscribes to.

Drawing on the dimensions of trust we argue that low trust exists when one dimension is present, moderate trust exists when two dimensions are present, and strong trust when all three dimensions are present. We develop a conceptual framework, shown in Figure 3, which will be explored in more depth in the following sections.

[Insert Figure 3 about here]

### **Corporate Social Responsibility and Trust between Firms and the Polity**

Corporate philanthropy is perhaps the most benevolent of all CSR activities. Firms donating to care homes and hospitals; building schools and roads; awarding scholarships; adopting Fairtrade principles; sponsoring green and ecological projects; and providing disaster relief are all deemed to be altruistic—in demonstrating acts of selflessness. However, these corporate activities usually result in some social gain for firms, such as trust, legitimacy, and good will (De Roeck & Delobbe, 2012; Porter & Kramer, 2002). The United Nations Global Compact, one of the most prominent CSR initiatives, has been taken on by many firms that are proud to mention the adoption in their reports. They make this mention to gain legitimacy and integrity through adherence to global sustainability principles. Though some firms adopt the compact for economic reasons, others do so for ethical reasons—to espouse their values (Cetindamar, 2007).

Philanthropic activities have a positive influence on the public and are hence noticed by governments. There is a rising need for CSR in developing and transition countries where social and development problems are more severe (Yin & Zhang, 2012). These emerging countries are plagued with diverse problems that present an opportunity for socially responsible firms to address. Emerging country governments alone struggle to meet the development needs of their people, which means that firms that are able to fill portions of the development or funding gap stand to gain legitimacy and the trust of governments.

Philanthropic firms are deeply valued by governments because these firms play a significant

role in supplementing development efforts (Amaeshi et al., 2006). In the era of globalization and squeezed public finances, some corporate philanthropy augments or delivers activities that previously were regarded as the sole responsibilities of governments (Scherer and Palazzo, 2007). For example, some of the state's responsibility for improving the social welfare of the masses is now benevolently and voluntarily assumed by firms.

The tenets of CSR, beside philanthropy, include ethical, legal, and fair conduct in all aspects of business. These very tenets confer integrity on a firm (Park, Lee, & Kim, 2014). Governments enact laws to regulate the activities of firms. These laws establish the minimum standards of conduct. Compliance constitutes the fulfilment of legal obligations and hence attracts judgments and perceptions of honesty, fairness, and integrity. Therefore firms that ensure consistency between their behavior and the laws of the state earn accolades of integrity, not only from society but also from government and regulators.

Laws of the state prescribe how firms should behave, but ethics entails the expectations of society. The fulfilment of ethical responsibilities requires firms to live up to high moral standards—doing right and refraining from wrong. Behaving in ways acceptable to society gives legitimacy and increases perceptions of firms' integrity (Scott, 2001). As members of society make up government, these positive perceptions of integrity are taken into political arenas where they are disseminated and widely shared. The media has been particularly useful in reporting and spreading information about the ethical and unethical behavior of firms.

CSR, in its philanthropic form, is a benevolent and selfless behavior valued by governments. Similarly, CSR, in its legal and ethical forms, is an act of integrity recognized by governments. As benevolence and integrity are dimensions of trust, it follows that CSR develops trust between firms and government. However, the level of trust developed through CSR is moderate, because this behavior does not indicate or show the ability or skills of firms

in policy issues. Though government will recognize the abilities of socially responsible firms in other areas, it will not deem those abilities as relevant or significant to policy discourses. To develop strong trust, all three dimensions of trust must be present and relevant to the context (Mayer et al., 1995). Thus we develop the following proposition:

*Proposition 1: CSR creates strong positive perceptions of benevolence and integrity, weak or no perceptions of policy ability, and hence develops moderate trust between firms and the polity*

### **Corporate Social Responsibility and Access to Policy Decision Making**

The perceptions of integrity and benevolence that CSR creates and maintains are not sufficient to build strong trust between firms and government policy makers. The consequence is that CSR does not enable firms to influence government policy that goes to the heart of determining the “rules of the game,” largely because this activity is not perceived by government policy makers as one that commands policy skills (Park et al., 2014).

Corporate philanthropy and the fulfilment of legal and moral obligations could be abilities in their own right, but not in the context of policy making where policy knowledge and insight are highly sought after and revered. A firm can have abilities to determine when and where to donate money or provide material support. Indeed knowing where and when to donate is a skill, because many firms struggle to work out how to be philanthropic (Porter & Kramer, 2002).

Nevertheless, CSR builds and protects corporate reputation (Minor & Morgan, 2011; Park et al., 2014), increases corporate visibility (Hond et al., 2014) and confers legitimacy (De Roeck & Delobbe, 2012; Zhao, 2012). Visibility and reputation from CSR can be used to establish contact with the polity and gain access to decision making. Good reputation, derived from CSR, lowers barriers to political entry (Wang & Qian, 2011), and unlocks doors along the corridors of policy power. However important access may be, it is only a means to an

ultimate end—influencing policy outcomes. A firm could gain access to the polity, but will not be able to influence the polity's decisions. Along this line, CSR works well to enhance political entry, but does not offer much beyond access. To influence policy, access to policy makers is a necessary, but not a sufficient, condition. Through demonstrating benevolence and integrity, CSR facilitates access to policy makers but does not address ability/skills dimension of trust. Therefore the following proposition is developed:

*Proposition 2: CSR creates access to the polity, but is unable to influence policy outcomes.*

### **Corporate Political Activity and Trust between Firms and the Polity**

The credibility and competence of the firm to assess the impact of policy must be assumed by politicians and regulators, if a firm is to make any headway in policy influence. In other words, government must perceive firms as knowledgeable and honest in order to accept their positions in the policy-making process. Firms that are knowledgeable of policy issues are thus in a better position to present accounts acceptable to politicians (Bouwen, 2002).

Competence and credibility in policy issues are signalled by political maneuvers such as the appointment of politicians to corporate boards, press conferences, advocacy advertising, and grassroots mobilizations.

The appointment of politicians on corporate boards co-opts external political influences into the firm and serves as a tactic to manage the uncertainty surrounding the dependency relationship between firms and government (Agrawal & Knoeber, 2001; Boyd, 1990). Evidence from the management literature suggests that the appointment of political office holders to corporate boards confers integrity on firms (Hillman, 2005; Pfeffer & Salancik, 1978). Politicians are entrusted with the protection of public interests. Therefore their appointment to corporate boards suggests to other politicians and the public that the firms will fulfill legal and ethical obligations (assuming the politician has integrity).

Larger firms are increasingly adding government relations to their operational functions and are developing competence in policy issues. Firms with government affairs departments (GADs) have formalized their interaction with government and have added this function to their corporate structures (Lawton et al., 2014). A GAD serves as a window in and a window out of the firm (Adams, 1976). As a window in, it increases transparency between the firm and government, and hence enhances credibility. As a window out, it shapes the opinions of politicians and regulators. Government affairs departments are staffed with skilled personnel, mostly people who have policy or government experience and are knowledgeable of policy processes and dynamics. The opinions and accounts of firms with specialized government functions are weighty because such firms have policy competence. They do not analyze government policy on an ad-hoc basis, but they do so systematically and regularly.

While the participation of firms in political processes to promote citizenship rights (Matten & Crane, 2005); advocate appropriate laws and regulations (Neron & Norman, 2008); and lobby for the right set of regulations, fill regulatory gaps, and sponsor or endorse “best political candidates” (Alzola, 2013) seems benevolent, many consider this point of view as highly irrational and erroneous. It is argued that CPA is not altruistic, but is intended to achieve corporate economic goals (Keim & Zeithaml, 1986; Kim, 2008). As mentioned previously even CSR, which is widely perceived as a selfless activity, is seen by some scholars as a source of competitive advantage (Cheng, Ioannou, & Serafeim, 2014; Porter & Kramer, 2006; Ye & Zhang, 2011). Nevertheless, CPA and CSR are different in some senses, for the selflessness in CSR is more visible through donations and charity. Moreover, firms seem to indulge in CPA as a reaction to issues that affect them (Hillman & Hitt, 1999). They hardly advocate if they are not directly affected. In this sense, benevolence is missing in

CPA, implying that CPA is not always focused on the common good, but rather on the corporate good. Consequently, we formulated the following proposition:

*Proposition 3: CPA creates strong positive perceptions of integrity and policy ability, weak or no perceptions of benevolence, and hence develops moderate trust between firms and the polity*

### **Corporate Political Activity and Government Policy Influence**

The objective of CPA is to influence government policy in ways favorable to the firm (Getz, 1997; Hillman et al., 2004). There are two facets to this motive. First, policy influence is the core of CPA. Firms strive to initiate, change, or defend policy through political behavior. Second, the policies that firms attempt to influence affect them somehow, either directly or indirectly. A firm lobbies for regulations that support its business, or lobbies to block regulations that harm its business interests (Shaffer, 1995). Indeed, the benefits of CPA mostly accrue to firms in a private manner, in the form of lower taxes (Adhikari et al., 2006; Richter, Samphantharak, & Timmons, 2009), subsidies (Liebman & Reynolds, 2006; Wu & Cheng, 2011), or increased access to finance (Claessens et al., 2008; Khwaja & Mian, 2005). Even though other outcomes of CPA, such as anti-dumping regulations, sweep across industries, and hence benefit a large number of firms (Marsh, 1998; Schuler, 1996), private rent extraction is still a driver of CPA (Hillman & Hitt, 1999).

CPA thus seems to be an egocentric and opportunistic activity; it is rarely perceived as benevolent. In fact, some political tactics such as PAC contributions are regarded by the public as inducements aimed to influence political processes and give undue political power to corporations (Hond et al., 2014; Milyo, Primo, & Groseclose, 2000). In corporate governance circles, CPA is noted to have negative implications on firms' performance and shareholder protection (Aggarwal, Meschke, & Wang, 2011; Hadani & Schuler, 2013). Because of these views of CPA, the polity is cautious of the extent to which firms' influence

is allowed and tolerated, especially when there is public resistance to corporate involvement in politics.

Widely salient issues that have captured the attention of the public or that have sweeping implications for diverse stakeholders are difficult to influence through CPA. As noted by Schuler (2008), the desire of politicians to stay in office implies that they fulfill the desires of the public or electorate or at least those that vote for them. They are cautious in allowing firms to influence their decisions, especially when the positions of CPA and of the public conflict. They are also cautious, as the accounts of firms might be egocentric and not consider the interests of other actors. This implies that CPA is able to influence narrow policy issues that affect the firm and a few others. As CPA might not be fully trusted because of its self-serving outlook, it will have little bearing on broad policy issues that have gained salience among voters and the public. Therefore the following proposition is developed:

*Proposition 4: CPA creates access to the polity, but influences narrow and low salience policy issues.*

### **The Complementarity of CPA and CSR**

On their own, CPA or CSR cannot always create the strong trust necessary to influence major policy issues. Separately, each has its shortcomings and limitations. CSR meets two dimensions of trust—benevolence and integrity—but does not convince on the third dimension—policy ability/skill. Similarly, CPA meets two dimensions of trust—integrity and policy ability/skill—but is not perceived as a benevolent activity. Consequently, CSR and CPA separately create moderate trust, with the former only granting access to policy makers, and the latter influencing only narrow and low salience policy issues. Combining both overcomes the limitations of each.

To influence broad policy issues, a firm must have knowledge (Bouwen, 2002). It must also have integrity and not be perceived to be self-centered. CSR and CPA complement



each other to create this desirable “corporate profile.” Through the benevolence effect of CSR, the polity will see firms as selfless, and hence tolerate influence. Moreover, through the reputation effect of CSR, public and voter resistance towards corporate political influence is reduced (Fooks et al., 2013), a situation that makes it easy for politicians to accept and incorporate firms’ viewpoints into salient policies (Schuler, 2008). CPA strategies, such as advocacy advertizing and constituency building, can be used to galvanize support from the public for policy influence (Keim & Zeithaml, 1981, 1986; Meznar & Nigh, 1995). However, these strategies are more likely to succeed if the public perceives benevolence in the advocating firm.

Therefore these two non-market strategies, when aligned, produce strong synergy in political circles as they leverage each other’s strengths and weaknesses. CSR reduces barriers to political access, quells resistance, and builds mass coalitions of grassroots. With the way paved by CSR, CPA can be launched to influence policy. Thus the following proposition is formulated:

*Proposition 5: CPA and CSR complement each other to create strong trust and enable firms to influence broad and salient policy issues.*

## **Discussion and Conclusion**

Non-market strategy recognizes that firms are social and political actors, not just economic actors (Donaldson & Preston, 1995; Wicks, et al., 1994). Barron (1995a) distinguished between market and non-market environments, and successful firms increasingly develop complementary market and non-market strategies (Bach & Allen, 2010). Non-market strategies are built on two premises. First, actors “beyond the market” have a significant influence on firms’ competitive position. Second, the relationship with non-market actors can be managed just as strategically as conventional “core business” activities within markets (Bach & Allen, 2010). The current literature, as discussed, is instrumental in arguing that

doing CSR and CPA improves performance without articulating the linking mechanism. The aim of this paper is to address this gap by exploring the mechanism through which two popular non-market strategies—CPA and CSR—influence government policy. The focus of this paper is on government and its policies, because government is a pivotal actor in the non-market environment. Drawing on management research, we developed a conceptual model depicting the mediating role of trust in the relationship between CPA, CSR, and policy influence.

Our discussion takes trust beyond the market environment of firms, i.e., trust within and between firms. First, we argue that trust plays a significant mediating role in policy influence. Following Mayer et al. (1995), we conceptualize trust to have three dimensions—benevolence, integrity, and ability, and argue that all three dimensions must exist in the relationship between firms and the polity if the former is to succeed in policy influence. Second, with respect to the creation of strong trust we argue that on their own neither CSR nor CPA have all three dimensions of trust. Both strategies confer integrity, but they do not share the other two dimensions. CSR is perceived to be benevolent, CPA is not. CPA embeds policy skills and ability, CSR does not. Consequently, integrating both strategies accounts for all three dimensions of trust and allows for complementarity to create strong trust between firms and the polity. Third, we argue that because of the moderate trust that CPA and CSR create due to their each missing one dimension of trust, the extent of their policy influence varies. On one hand, CSR creates access to the polity but does not influence policy. On the other hand, CPA creates access but influences only low salience and narrow policy issues. When combined, CSR and CPA nurture strong trust; create access to the polity; reduce voter resistance to corporate political engagements; and enable the influence of high salience and broad policy issues.

An important issue this paper highlights is that CPA and CSR create access to the polity, but they have differential impact on policy influence. CSR is rarely perceived as policy ability. In this sense, it has no influence on policy outcomes. Even if it does, the impact is negligible or insignificant. CPA is rarely a benevolent activity, at least as perceived by many. Consequently, its impact on policy is limited to low salience issues, which are of no interest to or do not affect the majority of the actors in market and non-market environments. The self-serving view of CPA accounts for this narrow scope of policy influence. In other words, while CSR does not influence policy issues, CPA does, but only in issues of low salience.

The aforementioned differential impact of CPA and CSR on policy influence has implications for firms. CSR is not a prudent strategy to influence policy, as discussed above. Similarly, CPA alone is not effective for high salience policy issues. The appropriate way to have a strong impact on salient policy issues is to align CPA and CSR. However, only large and resourceful firms might be able to deploy both. For small firms that may have to choose between CPA and CSR for policy influence, CPA seems a better choice, even though it has its limitations in terms of influence.

This research makes significant contributions as it develops arguments beyond the scope of those developed in the separate CPA and CSR literatures. The CSR literature largely analyzes how CSR can be integrated into the market and social environments of firms (Cheng et al., 2014; Hillenbrand et al., 2013; Porter & Kramer, 2006; Ye & Zhang, 2011). In CPA studies, much of the emphasis is on how firms influence government policy and the economic or financial consequences of CPA (Hillman et al., 2004; Lawton et al., 2013; Lux et al., 2011; Liedong & Rajwani, Forthcoming). We extend the analysis by integrating both strategies and highlighting their complementarity for creating trust and influencing important government

policies. We show that trust plays a mediating role in policy influence and argue that CPA alone may not achieve its intended outcomes.

While we agree that some CSR is political, in the sense that it assumes some of government responsibilities (Scherer & Palazzo, 2007, 2011) and subsumes behaviors such as lobbying (Anastasiadis, 2014), our discussion transcends the presentation of linkages and instead analyzes the complementarity between CPA and CSR (Hond et al., 2014). CSR is not a concept that directly influences policy outcomes. However, it is able to galvanize mass support for policy influence or quell resistance against policy influence. In this sense, the alignment of CSR and CPA should be a strategic priority for firms.

There is great opportunity for firms to tap the benefits of CPA and CSR. Huge development funding gaps can be filled by CSR (Frynas, 2005). Governments, in recognition of corporate support for development, would be willing to grant audience and access to socially responsible firms. This access, created by CSR, can then be exploited through CPA.

Having said this, there are unanswered questions emanating from our framework. First, research is needed to show which kind of CPA strategies help to develop trustworthiness. There are numerous tactics and strategies that firms use to influence government policy (Hillman & Hitt, 1999). Just as not every strategy is good for every policy issue or at every policy lifecycle stage (Bonardi & Keim, 2005), it is likely that not every CPA strategy or tactic embeds the dimensions of trust. Second, the paper focuses on a pivotal non-market actor namely “government”; however, the non-market environment supports many other actors and it is important to extend this line of reasoning to other actors and assess its relevance.

Moreover, we argue for the integration of CPA and CSR, but further research is needed to unravel whether there is a trade-off in combining both strategies. CPA can have negative interpretations among the public, especially when there is perceived corruption in

business–government relations (Oberman, 2004). Perceptions of unethical CPA could tarnish corporate reputation (Hond et al., 2014), break up constituencies, increase public and voter resistance to corporate political participation, and reduce the discretion of the polity in extending rent to firms. The important question for further research is: Does CPA erode the gains of CSR?

Finally, future research could empirically test the propositions developed herein. The dimensions of trustworthiness could be similar to the polity in different institutional contexts, but the items that define these constructs could be different. For instance, inducements could be perceived as an act of benevolence by politicians in contexts where the practice is prevalent. This same act could be perceived differently elsewhere. Hence, an exploratory study may be necessary for a proper definition of what trust means to the polity and in which contexts. In this case, the comparison of trust between developed and developing countries would be interesting. Also, future studies could attempt to identify cases of ruptured trust and investigate how the combination of CPA and CSR work to restore trustworthiness.

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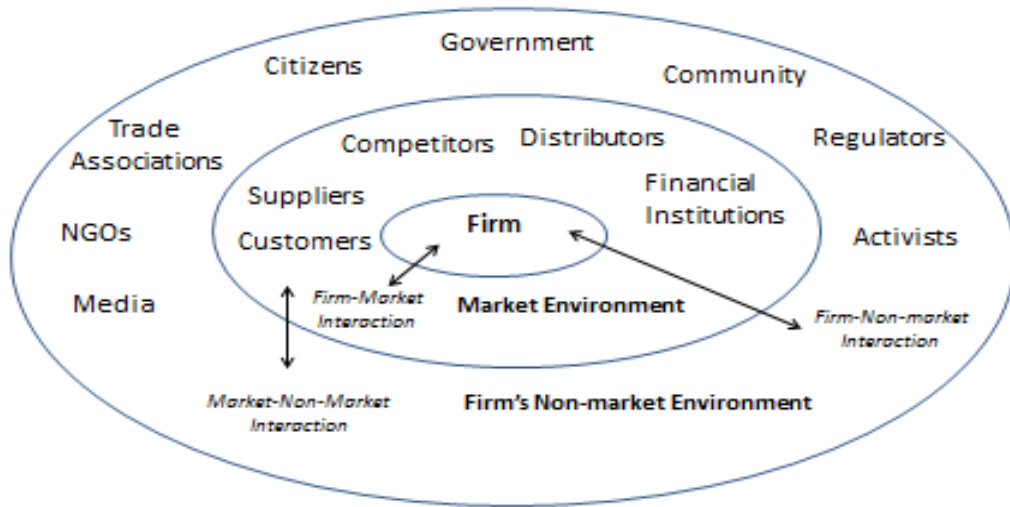


Figure 1: Market and Non-market Environment and Key Actors

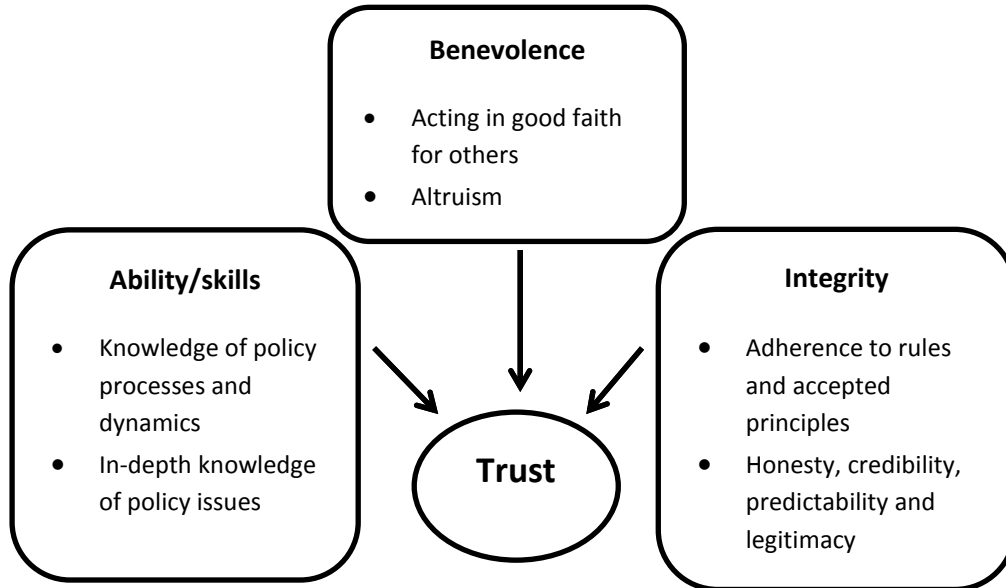


Figure 2: The Dimensions of Trust

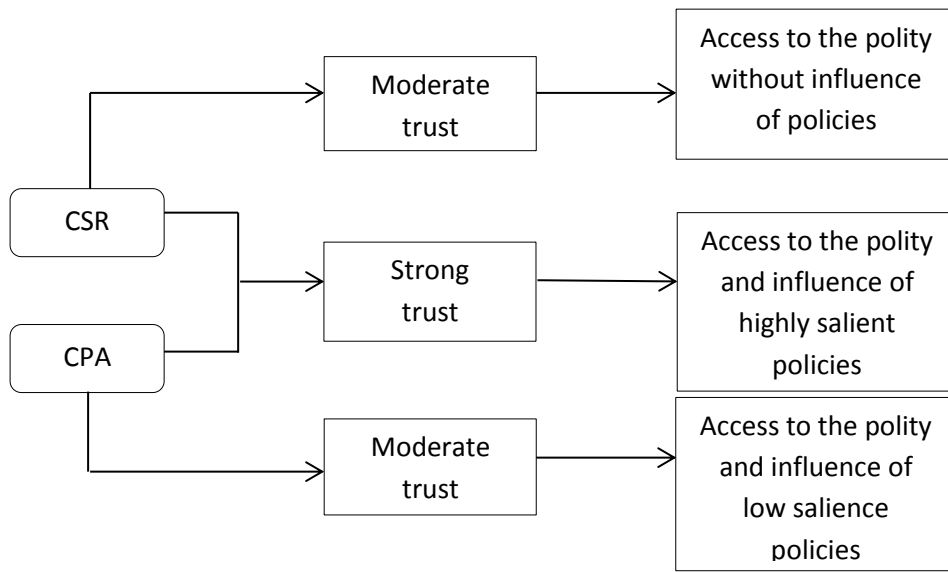


Figure 3: Conceptual Framework of CSR, CPA, Trust, and Policy Influence