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Election 2008: The Not So Obvious Impact on Corporations

A July 2008 Wall Street Journal headline screamed “Wal-Mart Warns of Democratic Win,” noting that Wal-Mart was ‘mobilizing’ its managers and supervisors to warn that a Democratic general election victory would lead to massive unionization. In January of 2008, the Wall Street Journal published a story asserting that ‘big labor is growing a new political muscle’ with its attention to the electoral ‘ground game’—voter registration, get out the vote efforts, targeted political spending, and union member education.

Both articles hinted at the same consequence: Election 2008 is going to have a ‘big time’ effect on corporations, not wholly positive and not all of it as a result of the current financial crisis. Which begs the question, of course: what kinds of impacts can elections really have on corporations?

Some aspects of the electoral impact are obvious. For example, a new President and a new Congress usually bring policy agendas different in scope and emphasis than their predecessors. Climate change, financial services reform, globalization, military intervention, international trade, environmental regulation, tax reform—these policy areas will likely be tweaked and prioritized by a new Administration and a new Congress. The regulatory arena will see new and detailed prescriptions.

Already, corporations, trade associations, and lobby groups have mapped the Presidential candidates’ positions on key issues. Corporations understand that policy pronouncements offered during Presidential and Congressional campaigns can be a starting point for policy initiatives undertaken once power control is ratified.

What is undeniable is that a new President and a new Congress will offer a different slant on a whole host of major and minor public policy issues and regulation. Changes in slant will mean corporate winners and losers. It is worth remembering, however, that (1) winning and losing may not be completely absolute or zero sum for any company; and (2) not all corporations will be equally affected by election induced policy change. Tax breaks for example, could be denied to major oil companies while provided to wind, solar or bio-fuel energy companies. Within the major oil companies, tax provisions can easily strike an Exxon but have a different effect on a Chevron.

What is also undeniable is that while electoral change creates policy winners and losers, it also creates opportunities for corporations. The test is this: will a corporation be able elevate its political game as a serious public policy participant? If a corporation is going to have any competitive political advantage, then corporate political engagement must expand not contract. And, a crisis such as the current financial meltdown only increases the need for expanded political engagement.

Corporations are familiar with election induced policy change. Suffice to say that most corporations would be relatively relieved if elections only affected policies.

But they do not.

Elections affect a host of other not so obvious variables vital to how corporations function in the public arena. Here is short guide:

1. Political and Governing Uncertainty Increases

Broadly, there are two kinds of elections—change elections and confirmation elections. The elections of 2000 and 2006 could be classified as change elections with political party control altered. Elections such as 1996 and 2004 could be classified as confirmation elections, with political party control maintained.

With confirming elections, what corporations know about how government is likely to operate in the future is substantially more than

with a change election. Regarding confirmation elections, corporations are aware of the policy players and their general philosophic thrust. Uncertainty still exists, but it is a bounded uncertainty—with sufficient cues and experiences about government and political operations that corporations can calibrate political behavior.

Conversely, with change elections, uncertainty is markedly increased as corporations have less ability to predict how government and politics might function. The cues and experiences are minimal to nonexistent. Calibrating corporate political behavior becomes difficult and political risk swells. Much about the operation of government and politics is left to conjecture. And, conjecture is the first cousin of uncertainty.

Corporations dislike uncertainty. Uncertainty, especially political uncertainty, heightens corporate nervousness. Elections results, from either change or confirming elections, are almost guaranteed producers of uncertainty—how will the newly elected executive team function? How will the new Congress operate? What is the governing framework and style?

Between now and beyond Election Day, corporations that have politically active management systems will labor to reduce uncertainty. Corporate officials will look for straws in the wind. Every word or phrase from new public officials will be parsed and reparsed. Corporations will seek out academics, journalists, lawyers, and lobbyists as they try to get a fix on the new power structure. There will be innumerable meetings and conferences all dedicated to decreasing the uncertainty, reducing the unknown, and getting a foot hold as to which way government and politics might move.

All of this analysis will likely provide a set of parameters as to how the new power structure might behave, who will be appointed to key executive posts, or who might claim congressional leadership positions. To the degree that the data is 'hard', then uncertainty will be reduced. But political data points are seldom absolutely rock solid. The key fact is this: in the short term, corporations will just have to live with a big dose of the unknown. While time and experience will erode the unknown, the major hope is that few corporate governing

mistakes will be made during periods of high political uncertainty. “Wait and See” becomes a defensible risk reduction corporate political strategy.

2. Access Disruption/Access Renewal

An election can disrupt long standing corporate-public official relationships. Yearly visits to the White House Christmas Party end for some, start or restart for others. Long friendships with the current President do not automatically translate into friendships with the new President, regardless of political party. Politically engaged corporations—its leaders, board members, government relations officials and consultants—spend enormous quantities of time and resources cultivating useful public sector relationships. These relationships provide corporate officials with inside knowledge of policy actions, opportunities to articulate supporting or contrary policy arguments, or give the corporation the benefit of the doubt if a policy call is a close one. All of these factors can be affected positively or negatively by election outcomes.

But more than just personal relationships are impacted.

Elections tend to significantly alter well established points of penetration into the governing process. Phone calls to the upper levels of executive departments or Congressional leadership may no longer be returned...or returned by lower level staff. If a corporation visibly backs a candidate who loses, there may be a “cold winter” with the victor. Election outcomes can inevitably lead to a reduction of access for those corporations, trade associations, and individuals that are perceived as being on the “wrong’ side of an electoral outcome.

Conversely, elections can restore access for those corporations, CEOs, or business trade associations that have spent the last years outside looking in and happen to saddle up with a winner. Victors tend to reward supporters. Access gets a revival.

No corporation, however, can let access go away by default. Corporations, regardless of the election results will work to establish alternative patterns of access. Corporations need access to public

policy makers for a variety of reasons, not all of which are simply explained by notions of influence. Access helps corporations anticipate market and non market public policy and international changes. Access affords corporations a sense of the public mood, reflected through elected officials, which imparts all kinds of clues for a company to gauge its public behavior. Access adds an edge in the shaping of public policy—the traditional influence role. Access also provides a competitive political advantage over a company's competition, increasing the ability of the firm to survive within its market and non market arenas. That alone makes augmenting or restoring access a corporate priority—which is why election results can have a worrisome access related impact for companies.

3. Atmospheric Alterations

Election induced atmospherics are crucial because they are the tone that underpins corporate political engagement. Whether a corporation expands or contracts its level of political engagement is very much a function of tone induced risk. If the tone of political exchange is biting and negative, then corporations tend to be reluctant participants. The chance for less than positive visibility is risky and not additive to corporate reputation. If however, the tone of political exchange is solicitous and endearing or at the very least neutral, if the political tone is not personal or threatening, then companies and their corporate leaders are likely to expand political participation because doing so could be reputation additive.

Prior to any election, corporations have at least two and as many as four years to understand the atmospherics of the prevailing mode of governance. When the Republicans controlled the House and Senate, corporations and their management had a solid sense as to how the Congress would operate, awareness as to the type of legislation they could expect, and a good feel for the pulse of governing. When Democrats won the 2006 Congressional elections, a different mode of governing along with a whole different set of atmospherics took over. The years of familiarity that allowed corporate leaders to understand the Republicans gave way to questions about what made the Democrats tick.

Atmospherics are likely to alter once again after 2008—with either an Obama or a McCain victory. How will the tone and thrust of politics and government change? What will that change mean for corporate political behavior? These are tough questions to answer in the abstract but are real questions that corporations must ultimately confront.

4. Procedural Differentials

Election results can alter the *policy process* as much as they alter *specific policies*. For example, would total Democratic control of the executive and legislative branches mean that the Democrats abandon all oversight over and investigations of the Executive branch—a common complaint of Democrats against Republicans when they controlled both branches of government? Or if there were to be oversight, how tough will it be on a new President of the same party?

If Democrats enlarge their Congressional majorities, how will those majorities be used? Many political observers suggest that larger majorities could lead to decidedly anti-business legislation and oversight hearings highlighting business sensitive issues such as job outsourcing, executive pay, minimum wage, international trade, and labor relations.

Another area of corporate procedural involvement involves the nexus of political campaign contributions, governmental ethics, and lobbying reporting. The procedural drive surrounding governmental ethics has been (1) to reduce the overt use of corporate financial resources as a lobbying tool; and (2) to increase transparency as to what corporations and their consultants are doing to influence public policy. In each case the regulations and laws tend to be so new that patterns of compliance have yet to emerge. Even without additional laws, the incoming Administration—regardless of political party—is likely to impose new procedures and regulations for government executives and political appointees. For example, both Obama and McCain have indicated that government meetings will be subject to an expanded open meetings requirement, and, government officials will have prohibitions on lobbying after they leave government service.

With internet technology, there is no doubt that shareholders, media, political campaign competitors, and interested publics will have an additional window on corporate political engagement.

Each succeeding election will be more affected than the previous one when it comes to delineating the linkages among corporations, lobbying, political contributions, and policy outcomes.

Process and procedure matter. Election results shape both.

5. Realignment of Political Capital

Political capital is harder to define than to assert. After the 2004 election, President Bush claimed that “he earned political capital” from his successful campaign. What did he mean?

Political Capital is fairly akin to the good will that corporations build in the market place. In the public arena, corporate political capital refers to the sum total of obligations that a corporation believes it is ‘owed’ by public policy officials—and the sum total of what the corporation believes it owes those same public officials. When President Bush said he earned political capital, he was referring to the potential political clout with Congress and the American people he felt he received from winning reelection.

Corporations that want to accrue political capital with political leaders do so by employing a diverse array of resources—campaign finance contributions, public policy assistance, electoral reelection assistance, speaking forums, and such. Political capital is useful to corporations: it can enhance commercial objectives; increase political advantage over competitors; be a reservoir of political support to block negative policy actions or promote commercially advantageous actions; add to corporate political reputation; and, be an accelerator for broadening the relationships that corporate leaders have with governing policy actors.

Political capital is not static. It can go away easily. It does not remain forever. More over, it can be difficult to replace. Corporations actively

involved in political engagement can gain or have political capital diminished, depending on the circumstance.

Election results can require wholesale changes in how corporations build and bank political capital because elections produce winners and losers. Sometimes the consequences of these elections are substantial and immediately apparent—such as a corporation providing major support and backing for a winning Member of Congress. Other times, political capital consequences can be marginal or even negative if the corporation happens to be rather visible on the downdraft side of an election outcome. Most corporations are pragmatic however; and, if caught in an electoral downdraft, they tend to move assertively to rebuild or augment the storehouse of political capital. In either case, the election outcome tends to be the independent variable; political capital is very much the dependent variable. Elections rearrange the political capital bank, relinquishing or replenishing as corporate political fortunes increase or decrease.

6. Corporate Political Positioning

Corporations engage in the political arena for a mixture of reasons. Some corporations view political engagement as a self-preservation mechanism; others engage politically because their competitors are doing so. Still other corporations participate in politics as part of civic responsibility. Others engage because they see political activity as a means of securing commercial assistance from government. Regardless of the motivations, a clear corporate objective is to politically position the company so that it can gain significant competitive political advantage over its competitors.

Election results impact corporate political positioning because elections provide the bench mark by which political actors judge the corporation: did the corporation come out a 'winner' in the election? Is its political capital enhanced or degraded? Does it have more or less public policy access? The point is evident: election results can have an impact on political positioning-- the perceived corporate leverage, on how corporate leaders are viewed, and how the political

leaders evaluate the political attributes and sophistication of the corporation.

Conclusion:

Elections have consequences not simply for the body politic generally, but for the institutions of that body politic. Corporations, as part of the body politic are influenced by elections—at times significantly, occasionally as minor blips, but almost always in discernible ways.

There tends to be a rhythm of political change. It is most visible in campaign finance, as political victors reap the political rewards—and political contributions follow election results. But the rhythm exist also as institutions of the body politic adapt to new circumstances, new power structures, new issues, and new relationships. After a number of years of perceived lax market and corporate regulations, it may well be that the pendulum will swing the other way.

All of this, of course takes time. Knowing the how and why of what business might face from the election aftermath can help business fast track its market, nonmarket, and internal corporate adjustments.

The slogan for the Clinton 1992 campaign was “It is about the economy, stupid.” For corporations and business, the slogan should be, “it is not just about the policies, stupid.” Uncertainty, access, process, atmospherics, political capital, and political positioning, are electoral stimulated alterations that can present problems or opportunities for corporations.

Resolving that dichotomy is matter of corporate choice, resting on the ability to understand clearly which is which.
