KOTLER’S “MEGAMARKETING”:
POLITICAL ACTIVITIES AND FIRM PERFORMANCE
IN THE DOMESTIC MARKETPLACE

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Using Kotler’s concept of “megamarketing”, where politics is defined as the fifth “P” of marketing, this study takes a comprehensive view of firm-level political activities and their relationship(s) to firm performance. The results show that some of these activities are associated with higher levels of firm performance while others are not. Recommendations for future research are discussed as are implications for policy makers, managers and the interaction of these two groups.

INTRODUCTION

The relationship between marketing and public policy has always been unique. Frequently it has been of an adversarial nature where, on one hand, firms market products to the consuming public which may be viewed by some as unnecessary and, on the other hand, elements in the non-market/political environment (e.g., politicians, opinion leaders, special interest groups, etc.) criticize companies for being socially irresponsible in marketing these products. Any debate as to whether a given product should be classified as a “need” or a “want”, “necessary” or “unnecessary” can quickly become an exercise in futility. Clearly, provided the product in question is not illegal or being marketed in such a way as to be detrimental to society at large, some firms will act on “demand cue” and offer the product to the market. What seems to be lacking in this particular marketing/public policy paradigm is the notion that such interactions need not automatically be adversarial.

In the past, Kotler (1986) has suggested that active participation and implementation of public policy be an integral part of the marketing portfolio (Coronna 1993), a term referred to as “megamarketing” (Kotler 1986; 1997) whereby public policy becomes the fifth “P” of marketing after price, product, place, and promotion. Unfortunately, in terms of the resources deployed by firms in the political arena, a relatively small amount of research exists related to firm-level political behavior in general and its relationship to firm performance in particular. Anecdotal evidence suggests one reason for this is a reluctance on the part of firms to discuss such activities because of the potentially negative ethical perception such activities might create among the public. Another, perhaps more compelling argument, is that firms view these activities as a means of gaining substantial competitive advantage making them reluctant to reveal their “secrets”. The purpose of this paper is to recognize that, while not necessarily reflected in the mainstream marketing literature, firms have incorporated public policy activities, particularly political activities, into their marketing portfolios (Coronna 1993) and these activities, in certain circumstances, have a positive relationship with firm performance (Fuerbringer 2004).

POLITICS AND THE FIRM

Although an extensive body of literature (cf. Getz 1997; Shaffer 1995) exists which focuses on firm interactions with the political environment and the impact the political environment has on firm operations in the domestic U.S. en-
vironment, there is much less which addresses the relationship between firm-level political activities and firm performance. The coordinated and proactive approach on the part of the firm to the management of individuals or groups in the political environment who believe that they may be able to affect, or may be affected by, some aspect of firm behavior is generally known as “issues management” (Nigh and Cochran 1994; Wartick and Cochran 1985). The issues management process is comprised of three major phases: 1) issues identification, or the recognition of potential threats from the political environment, 2) issues analysis, the specification of the potential threats as either real or perceived, and 3) response development and implementation, the firm formulating plans and engaging in political activities. This research focuses on the third of these three phases.

In reviewing the present literature in order to place the current study into existing theory, a number of published studies need to be considered. Gladwin and Walter (1980) lay theoretical groundwork by developing a conflict management model constructed around five alternatives for managing conflict between firms and social/governmental aspects of the non-market environment. According to Gladwin and Walter (1980), the choice of strategy for an individual firm is predicated on: 1) assessing the stakes, 2) the overall strategy of the individual firm, 3) firm financial condition and resource availability, 4) situation urgency, 5) determination of power positions, and 6) determination of matching interests.

Moving forward in time, Esty and Caves (1983) include firm size as a measure of firm resources and introduce the variables of seller concentration and geographic dispersion as indicators of political activity within a specific industry. Using standard OLS regression models, Esty and Caves (1983) found significant relationships between the gaining of industry favors through the use of political expenditures based on both market structure and influence.

Taking a somewhat different tack, Masters and Baysinger (1985) consider the determinants of one specific political activity (contributions to Political Action Committees, or PACs) within the U.S. domestic setting at the firm, rather than the industry, level. Defining PACs as “a direct attempt to buy access to lawmakers, or influence them, through influencing elections” [pp. 654-655] they develop a framework for determining firm-level PAC contributions. Masters and Baysinger (1985) suggest PAC contributions by an individual firm are a function of organizational personnel, organizational size, corporate PAC experience, government dependence and regulation, and the economic environment in which the firm operates.

From a results standpoint, Masters and Baysinger (1985) found a significant relationship between PAC contributions and firm dependence on the government, as measured by percentage of sales accounted for by government contracts. Similarly they found, using a five-step classification scheme, that firms operating in industries associated with higher levels of political vulnerability were more likely to contribute to PACs. Finally, as was the case in the Esty and Caves (1983) study, Masters and Baysinger (1985) found no significant relationship between a firm’s assets and PAC contributions although they suggest this might be due to larger firms choosing to engage in other, less visible, political activities in order to avoid drawing attention to their efforts.

Finally, the direct nature of PAC contributions, the authors argue, distinguishes them from third-party of representative type activities such as lobbying and constituency building, and other public affairs activities such as advocacy advertising. These public affairs activities involve attempts by the firm to secure or maintain legitimacy by influencing legislation affecting corporate activities using PACs, lobbying, and constituency building and/or involves attempts to secure legitimacy by influencing society using advocacy advertising or public relations (Meznar and Nigh 1993). Using the public affairs activities, the firm will either attempt to insulate itself by creating a buffer between the
Kotler’s “Megamarketing”: Political Activities . . .

firm and the social/political environment or build a bridge between the firm and the social/political environment (Meznan and Nigh 1993). Previous research found buffering to be positively associated with environmental uncertainty and organizational power while bridging was positively associated with uncertainty and an institution-oriented philosophy (Meznan and Nigh 1993).

Zardkoohi (1985) uses campaign contributions by individual firms as a proxy for measuring business efforts to influence government. Zardkoohi’s (1985) hypotheses were built around market concentration, defined as a situation where a small number of firms account for a relatively large portion of market share, and two measures of market power: industrial diversification and employment (i.e., number of employees). In the case of the former, market concentration was hypothesized to be positively associated with political activities, particularly as it relates to industry alliances given the lower transaction costs of organizing. In the case of the latter, a positive relationship was also hypothesized. Industrial diversification may indicate either a greater susceptibility to risk and/or a greater resource base leading to more political activity on the part of the firm. Employment may also lead to more political activity through an increased political contribution base and/or increasing voting power through employee voting blocks.

The findings (Zardkoohi 1985) were somewhat mixed. On the one hand, industrial diversification and employment were both significantly and positively related to firm-level political activities as were industry-specific government regulations. At the same time, market concentration was not significantly related to firm-level political activities nor was market share, although there was some evidence of a parabolic relationship as market share-squared was significant and negative. The market concentration and market share findings may be an indication that firm-level political activities on the part of competitors may drive a firm’s propensity to engage in such activities (Zardkoohi 1985). However, in expanding the focus to international operations the hypothesized relationships may be more fully supported given that the implicit assumptions of Zardkoohi’s (1985) study, namely finite market size and the use of political activities only as threat management tools and not as a part of an environment maintenance strategy, no longer hold.

Taking another perspective, Lenway and Rehbein (1991) consider the role of firm resources using the concept of “organizational slack” in investigating domestic political activity. Lenway and Rehbein (1991) suggest organizational slack, defined as excess resources measured through profitability and ability to raise long-term capital, is an important determinant of corporate political strategy. These authors (Lenway and Rehbein, 1991) point out that, as discussed above, the most important determinants of firm-level political activity from previous research are firm size and vulnerability or dependence. They also note that previous research tends to focus only on political activities associated with direct interaction such as PAC contributions and lobbying.

The importance of firm size can be attributed to the availability of more resources for engaging in political activities, but Lenway and Rehbein (1991) also introduce the notion that larger firms are more likely to have prestigious executives, an abundance of expertise, and an ability to mobilize stakeholders, all of which should enhance the firm’s ability to effectively employ political strategies and tactics. In the case of dependence and vulnerability, clearly the need to secure government contracts, or the possibility that access to a particular market might be barred, should also be associated with political activities on the part of the firm. Lenway and Rehbein (1991) suggest the presence of an organizational structure, in their study the presence of a firm-maintained Washington D.C. office, is an indicator of long term commitment to political activity. Further, they (Lenway and Rehbein 1991) argue that successful, profitable firms are more likely to allocate resources to such long term political activities. Thus, a substantial body of research exists which addresses issues related to firm characteristics and the
environmental conditions under which political activities might be employed, but the question of the relationship between the use of the activities and firm performance is not addressed.

Moving toward more recent research, the focus begins to shift from macro constructs associated with political activities toward relationships between these constructs and more micro level issues as they relate internally and externally to firm-level operations. Taking the perspective from inside the firm, Shaffer and Hillman (2000) explore the internal conflicts in the formulation of business-government strategies by corporations with diversified business units. Externally, Rehbein and Schuler (1995) propose that, rather than the political environment, the macro-economic environment, the competitive environment, and firm characteristics all have a direct impact on firm-level political strategy, and the firm serves as a “filter” between the environment and political strategy. Later, Rehbein and Schuler (1999) develop a structural equation model which supports the “firm-as-filter” concept. They (Rehbein and Schuler 1999) conclude the most significant contributions to understanding the means by which companies decide to engage in political activities are more likely to be achieved by examining micro-level firm factors. Further, these firm-level approaches may shed light on the relationship between a firm’s market and non-market strategies (Baron 1995); strategies which, when effectively employed, should theoretically enable firms to leverage their competitive advantages and improve overall firm performance (Baron 1997; Shaffer, Quasney and Grimm 2000).

FIRM-LEVEL POLITICAL BEHAVIOR

Firm-level political behavior can be viewed as a reactive, “cause-and-effect”, phenomena where threats lead to action on the part of the firm. Alternatively, it is possible to adopt a proactive perspective where firms engage in political activities designed to prevent, or preemptively manage, potential political threats. Mahon and McGowan (1998) recognize the fundamental difficulty in attempting to understand political behavior from the perspective of reactive response. These authors trace the problem of the gap between essentially reactive frameworks and proactive reality to the traditional view that the business-government relationship is essentially adversarial in nature.

Mahon and McGowan (1998) acknowledge that both business and government need a relationship which is, at its core, cooperative or quasi-cooperative, as the fundamental goals of each (e.g., economic growth) overlap. According to these authors, potential threats originating from political sources and targeted at firms are not of central importance. The interaction of various players (e.g., firms, politicians, government officials, etc.) within the political dynamic of the various goals of each player is primary. In order to move toward accomplishing the objectives of this study and consider the relationship between the political behaviors firms may employ and overall firm performance, it is necessary to consider the underlying nature of these behaviors.

The generally accepted definition of firm-level political behavior consists of those activities through which the firm and various players (e.g., politicians, civil servants, special interest groups, opinion leaders, etc.) interact in the political, or non-market, environment (Boddewyn and Brewer 1994; Keim 1981). Firms have a wide-range of political tactics available to them including financial contributions, the supplying of information, and constituency campaigns (Rehbein and Lenway 1994). In classifying the political behavior of business organizations, four categories emerge: 1) lobbying, 2) public/government alliances, 3) industry alliances and associations, and 4) political inducements and contributions.

Lobbying involves contact between the firm and decision makers in the political environment which is initiated through an independent intermediary (Clawson, Neustadt and Scott 1992). Lobbying can also take the form of constituency programs where various groups, such as shareholders, are organized in order to influence policy makers (Baysinger, Keim and...
Zeithaml 1985). This particular type of political activity on the part of the firm is unique in that it involves the use of a third-party to represent the firm in the political environment.

Public and government alliances differ from lobbying in that they are long-term and tend to be directed at more strategic goals. While lobbying tends to focus on a single target, such as a particular piece of legislation, public and government relations frequently focus on creating and/or managing the overall environment to the benefit of the firm (Baysinger and Woodman 1982). On the one hand, public relations or constituency building has a “pull” focus in that it attempts to co-align the goals of the firm with the best interests, real or perceived, of key segments in the general populace. For example, firms desirous of tax benefits being attached to a project may publically communicate the employment benefits of the new operation to the public in an effort to influence the decision-making process. On the other hand, government relations, whether with governmental agencies or individuals, can be characterized as having more of a “push” focus. Cultivating close relationships with elements in the political environment through a co-alignment of interests, or absorption (Ring, Lenway and Govekar 1990), can positively affect a firm’s ability to proactively control the political environment thereby reducing political risk and, by extension, improve firm performance (Hillman, Zardkoohi and Birnbaum 1999).

Politically-based industry alliances or associations are unique in that they involve the banding together of at least two firms, which might otherwise be considered to be competitors, in an effort to manage current or potential political risks (Astley 1984). In some circumstances, firms conclude that their individual ability to influence the political environment is not substantial enough to achieve the desired result. The effectiveness of industry alliances is partially dependent on structural attributes, market concentration, size, and profitability (Rehbein and Lenway 1994). Forming an alliance with other organizations in the same industry, or having similar objectives, significantly increases the resources which can be brought to bear against threats in the political environment. However, while such combinations provide individual firms with a wider range of resources on which to draw, they may reduce firm-specific advantages as successful programs tend to produce “level playing fields” from which all firms, even those outside the alliance, may benefit.

The last basic category of political activities available to individual firms is inducements and contributions. At the most base level, these may be offered to individuals in the form of bribes or other gifts. Alternatively, they may be an attempt on the part of the firm to actively promote advantages, such as political contributions which may be gained by dealing with the firm. It is also possible that an incentive may benefit a group within a given society rather than an individual(s) (Boddewyn 1988). For example, one of the primary drawing cards of direct investment on the part of an individual firm is job creation which aids local economic growth and development. Individual facilitating agents and government policy makers can be targeted through this type of societally-oriented incentive approach if the firm can successfully convince these decision makers that their personal agenda will be furthered when they are identified with obtaining benefits for society at large. Empirical evidence also supports the suggestion that firms can effectively use contributions to influence political outcomes (Hall and Wayman 1990; Quinn and Shapiro 1991). Rehbein and Lenway (1994) have directly tied campaign contributions made to individual members of the International Trade Commission (ITC) with actions on the part of this commission directed at investigating escape clause behavior by foreign competitors.

Thus, the present state of literature related to political activities on the part of an individual firm, or group of firms in an industry, shows that politics are an important piece of the strategic mix when compared to other elements such as financial resources, personnel, and market research activities (Baysinger and Woodman 1982). A variety of potential political tools (cf.
Keim and Zeithaml 1986; Baysinger 1984) are available at the firm level and these activities can be applied both reactively and proactively. There is also a substantial body of literature which addresses both the firm characteristics and market conditions associated with firm-level political activities. Where there is a gap in current published research is in the relationship between these activities and overall firm performance. The purpose of this study is to take the initial steps in filling this gap by empirically exploring the connection between individual firm annual sales and the emphasis placed by these firms on seven generally accepted firm-level political activities.

**METHODOLOGY**

The sample employed was U.S. firms identified through the Standard’s and Poor’s Corporate Directory; contacted using a mail survey instrument. A total of 1404 questionnaires were mailed to potential respondents of which 170 completed, usable instruments were returned. Because firms of virtually all sizes and industries have the capacity to engage in political behavior, whether through the use of multiple activities as part of a large-scale, concerted political strategy (e.g., a major multinational) or membership in a political industry alliance (e.g., small specialty producers such as a local winery) there was no attempt made to stratify the sample. However, a comparison of the responding firms with the overall sample showed the data to be reasonably representative in terms of annual sales, number of employees, product type, and years in current industry. Table 1 provides a description of the responding firms.

The survey instruments were directed at executive-level decision makers capable of accurately reporting their firms’ use of political activities such as VP/Director of Public Affairs, Government Relations, etc. (Hamel and Prahalad 1983). Only instruments in which the respondents specifically identified themselves as executive decision makers, as reflected in their title, were used in the data analysis. A cover letter outlining the two-fold purpose (to identify the role/importance of political activities in the firm’s overall activities and to investigate the connection between the use of political activities and firm performance) of the study accompanied the questionnaire. A follow-up letter was sent to all non-respondents following an initial three-week data collection period. This yielded no additional usable completed survey instruments.

**TABLE 1**

<table>
<thead>
<tr>
<th>Characteristics of Responding Firms</th>
<th>(N)</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong># of Employees</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 100</td>
<td>30</td>
<td>17%</td>
</tr>
<tr>
<td>100 – 500</td>
<td>31</td>
<td>18%</td>
</tr>
<tr>
<td>500 – 1000</td>
<td>59</td>
<td>35%</td>
</tr>
<tr>
<td>1000 – 5000</td>
<td>26</td>
<td>15%</td>
</tr>
<tr>
<td>5000 – 25,000</td>
<td>16</td>
<td>9%</td>
</tr>
<tr>
<td>&gt; 25,000</td>
<td>8</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Primary Product Type</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Good</td>
<td>56</td>
<td>33%</td>
</tr>
<tr>
<td>Consumer Service</td>
<td>30</td>
<td>17%</td>
</tr>
<tr>
<td>Industrial Good</td>
<td>59</td>
<td>35%</td>
</tr>
<tr>
<td>Industrial Service</td>
<td>25</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Years in Industry</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 5 yrs.</td>
<td>26</td>
<td>15%</td>
</tr>
<tr>
<td>5 – 10 yrs.</td>
<td>35</td>
<td>21%</td>
</tr>
<tr>
<td>11 – 25 yrs.</td>
<td>49</td>
<td>29%</td>
</tr>
<tr>
<td>&gt; 25 yrs.</td>
<td>60</td>
<td>35%</td>
</tr>
</tbody>
</table>

Prior to conducting the data analysis, a test for non-response bias was conducted. In order to identify the possible existence of such a bias a time-trend extrapolation test was performed (Armstrong and Overton 1977; Frazier and Rody 1991). This test operates under the assumption that “early” and “late” responders during a finite survey period should not be significantly different. The fewer the differences between the groups, the more likely the validity of the data analysis will not be adversely affected by potential non-response bias. The non-response test was conducted by combining the first and last quartile of respondents into “early” and “late” categories. Pairwise comparisons were then conducted across a variety of firm characteristics to determine if any significant differences existed. None were detected based on the firms’ annual sales, com-
pany age, or market share suggesting that a non-response bias did not exist.

The method of analysis employed a standard OLS regression model (Pedhazur 1982) using annual sales as the dependent, firm-performance variable and seven firm-level political activities as independent variables. The final regression model used was:

\[
\text{PERF} = B0 + B1(\text{LOB}) + B2(\text{PR}) + B3(\text{AGENT}) + B4(\text{INDALL}) + B5(\text{POLIND}) + B6(\text{PAC}) + B7(\text{FRIEND}) + \epsilon
\]

where PERF refers to annual firm sales, LOB to the firm’s use of lobbying, PR the firm’s use of public relations, AGENT the firm’s use of relationships with government agencies, INDALL the firm’s use of industry alliances, POLIND the firm’s use of political inducements (e.g., bribes, etc.), PAC the firm’s use of political contributions, and FRIEND the firm’s use of personal relationships with politicians, etc. Annual sales was measured as an actual dollar amount while the seven independent variables were measured using a six-point Likert scale designed to measure the extent to which each individual political activity was considered to be important to the firm’s overall annual sales (1 = not important to 6 = very important).

**ANALYSIS**

Seven unique firm-level political activities were included in this study as independent variables in the regression model with the dependent variable (i.e., firm performance) being measured as annual sales. The seven independent variables, which comprised the potential firm-level activities were: 1) lobbying, 2) public relations, 3) relationships with government agencies, 4) inducements and/or bribes, 5) political industry alliances, 6) political contributions, and 7) relationships with individual government officials and/or politicians. The results show that of the seven firm-level political activities included in this study, three were found to be associated with higher levels of firm performance as measured by annual sales. Interestingly, each of the three significant variables could be considered to be organizational-level “push” strategies as opposed to direct individually-based political interactions, the use of large amounts of resources, or public relations “pull” strategies to deal with political threats, or potential political threats.

**TABLE 2**

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Regression Coefficient</th>
<th>Significance Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lobbying</td>
<td>2.185</td>
<td>p&lt;.01*</td>
</tr>
<tr>
<td>Public Relations</td>
<td>.752</td>
<td>p&lt;.453</td>
</tr>
<tr>
<td>Relationship w/ Govt.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agencies</td>
<td>2.167</td>
<td>p&lt;.01*</td>
</tr>
<tr>
<td>Inducements/Bribes</td>
<td>.729</td>
<td>p&lt;.468</td>
</tr>
<tr>
<td>Political Industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alliances</td>
<td>.431</td>
<td>p&lt;.667</td>
</tr>
<tr>
<td>Political Contributions</td>
<td>1.828</td>
<td>p&lt;.05*</td>
</tr>
<tr>
<td>Relationships w/ Govt.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Officials/Politicians</td>
<td>.332</td>
<td>p&lt;.740</td>
</tr>
</tbody>
</table>

* Sig. p<.05

**“Pull” Strategies**

In terms of direct, individually-based, political interactions, neither the use of inducements (t=-.332; p<.740), or the fostering of relationships with government officials and/or politicians (t=-.729; p<.468) were found to be significantly related to firm performance. These results are supported by a recent study conducted by the Massachusetts Institute of Technology (MIT) which showed no significant positive performance results from individual firm inducements (Mehring 2004). This may be particularly noteworthy, given the amount of attention frequently focused on inducements and the closeness of individual firms and individual politicians in the popular press and other publication outlets, with the implication being that special favors and/or access is gained by the firm to these individuals. The data in this study does not bear out firms employing such interactions. Quite the contrary, the analysis here shows the relationship between the two variables and firm performance, as measured by annual sales, to be almost irrelevant in terms of statistical significance.
Similarly, the use of industry alliances was shown not to be significantly associated ($t = .431; p < .667$) with firm performance. Although previous studies (Hillman and Hitt 1999) have shown the amount of resources which can be quickly, and effectively, applied to deal with political threats when industry alliances are employed, their benefit may be offset by the resulting “level playing field”. Such a situation produces no unique firm competitive advantage but rather simply removes the identified threats for all firms in the industry, thus reducing the ability to gain competitive advantage to the traditional, conventional means (i.e., the 4 P’s: price, product, place, and promotion).

Finally, the use of “pull” strategies, most notably public relations, was also found not to be significantly related to firm performance ($t = .752; p < .453$). Often firms will engage in reasonably large-scale public relations campaigns in an effort to raise public awareness of the voting public to circumstances affecting the firm which they hope will, in turn, raise the awareness of the relevant government official(s) and/or agencies resulting in the reduction or removal of the given threat. This has, in the recent past, been a common tactic used by U.S. manufacturing firms in their attempts to block, or otherwise impede, foreign competition (e.g., the U.S. steel industry). Unfortunately, the data in this study does not support the relationship between these activities and overall firm performance.

“Push Strategies”

The analysis now turns to the “push” firm-level political activities which are significantly associated with firm performance. The research contained here identified three such activities: lobbying, relationships with government agencies, and political contributions. As discussed earlier, lobbying generally involves employing a third party to represent the firm’s specific issue to the relevant target in the political environment. Relationships with government agencies are recognition on the part of the firm that laws and regulations, particularly as they relate to specific business activities, require ongoing interpretation and implementation. Close relationships with key agencies within a specific industry (e.g., a tire manufacturer and the National Transportation and Safety Board and/or the Department of Transportation) can help facilitate interpretations which favor the firm. Campaign contributions, on the other hand, recognize that the driving force behind many in the political environment is re-election which, in turn, can require substantial financial resources. Campaign reforms notwithstanding, firms which can identify means to provide these resources will often create a faster and more direct conduit to the necessary key decision makers.

The first of the activities significantly ($t = 2.185; p < .01$) related to firm performance was lobbying. Frequently lobbying is associated with quasi-unethical behavior as its fundamental nature is that of employing a third party to serve as a go-between in interactions between the firm and elements in the political environment. The reality is that lobbying as an activity in general is little different from firm-government interactions in the legal environment. Just as attorneys tend to specialize in particular areas of law, lobbyists focus on relatively narrow areas within the political environment. This makes them especially well suited to represent a firm given that they possess both the necessary relationships and knowledge of important issues related to the political threat, whether real or perceived, to reduce and/or remove the threat. Thus, the use of expert representation in the form of lobbying would seem to be a particularly efficient means of managing potential political threats and, therefore, it would be reasonable to identify a significant relationship between this particular type of firm-level political activity and individual firm performance.

The second of the firm-level political activities significantly related with firm performance was relationships with government agencies ($t = 2.167; p < .01$). Although government agencies generally are not charged with creating legislation and regulations related to business, they are heavily involved in the interpretation and im-
Kotler’s “Megamarketing”: Political Activities . . . .

plementation of these potential barriers. By developing and cultivating relationships with government agencies, firms can both better anticipate potential political problems and manage outcomes in favor of the firm. For example, a major U.S. tire manufacturer works closely with the National Transportation Safety Board (NTSB) and the Department of Transportation (DOT) by providing access to testing facilities beyond the financial means of these agencies given the current federal budget situation. The result is the firm is directly involved in the safety approval process of new passenger tires at virtually every step of the process, resulting in a much more streamlined and efficient new product development process which, ultimately, is reflected in firm performance.

The third, and last, firm-level political activity significantly associated with firm performance was political contributions (t = 1.828; p < .05). Considering the costs associated with election to both state and national office, providing needed financial resources should enable firms to access political decision makers with an eye toward dealing with current, or potential, political threats. This approach has been used effectively over the years. In particular, U.S. manufacturing firms, such as those in the steel industry, have attempted to avoid investment in needed capital upgrades through the application of trade barriers on imported steel to maintain performance levels higher than what might have been otherwise achieved in a truly free-market competitive environment.

**DISCUSSION**

The findings of this research indicate a relationship between firm performance and political activities and provides support for Kotler’s (1986; 1997) concept of megamarketing. The 21st century global business environment mandates a working relationship between businesses, policy makers, and policy implementers. In an era of public distrust of both corporations and government it is important for firms to understand how to best leverage their political assets to maximize performance, minimize customer distrust, and increase value to their stakeholders.

However, the findings did demonstrate that not all of the traditional political activities are directly related to a firm’s overall performance. For example, traditional “pull” activities, such as fostering relationships with government officials/politicians, participating in industry alliances, and generating policy oriented public relations, were not found to be significantly related to firm performance. Relationships with specific government officials or policy makers can be viewed in a number of ways. First, from an efficiency perspective it may prove to be cost inefficient to create singular relationships that have limited utility no matter how powerful the politician or official might be. Second, such relationships may become problematic if the official becomes embroiled in issues that, by association, will place the firm in a precarious situation. Third, the firm may be viewed by members of the public and, by default, customers as being in collusion with the official. Fourth, and finally, there is always a temptation in these one-on-one relationships for the focus to shift to what benefits the individual involved rather than the firm.

Similarly, alliances, while important for the overall industry, may have limited utility at the firm level. Alliances and industry associations tend to serve in an advocate role by providing both a common playing field and voice, but do little for the actual performance of individual members. As such, they form a structured framework in which the firm exists. This framework may provide the firm with a springboard to launch more specific activities while not manifesting tangible performance benefits in and of itself.

Finally, policy-related public relations activities generated at the firm level were not found to be significantly related to performance. Policy oriented public relations may place the firm in the position of having to explain its political involvement to its customers and stakeholders. From the public’s perspective questions may arise as to why the firm is actively involved in
attempting to influence policy and the appropriateness of doing so. While the policy being advocated may be beneficial to the firm, it may be contrary to the attitudes of the public and, in turn, directly influence stakeholder perceptions. From a financial perspective the cost of the public affairs involvement should generate added value to the firm (albeit in many cases intangible). If it appears that the involvement will generate less than positive publicity and, more importantly, possibly alienate the public it should be avoided.

On the other hand, three “push” political activities were found to be related to firm performance. These included lobbying, creating relationships with government agencies, and making political contributions to candidates. Lobbying, usually performed by a third party, allows an industry “expert” to focus directly on creating mutually beneficial relationships with policy makers while not directly involving the firm. Not only do the policy makers work with an experienced and knowledgeable advocate, they are also working with someone who understands the nuances of the political environment. At the same time, the third party lobbyist serves as a buffer between the firm and the elected representative should negative public relations and/or image issues emerge. In the international realm this relationship was recently demonstrated by the lobbying efforts of U.S. firms in Europe to change proposed safety and environmental impact tests resulting in industry savings in excess of $10 billion (Loewenberg 2003).

Developing relationships with appropriate government agencies may be advantageous for a number of reasons. First, the agency may involve the firm in the actual interpretation of a given policy or regulation that directly impacts the firm, thus allowing the individual firm the advantage of helping to shape the regulation and being the first to understand and leverage the process to its exclusive benefit. Next, due to the relationship, the firm may be asked to test and evaluate the policy in terms of practical application (e.g., product modifications). Finally, the firm may be given an active role in defining how the policy will be implemented (e.g., U.S. automakers’ close relations with the Environmental Protection Agency in determining fleet MPG targets and implementation dates). In all of these cases, the positive relationship with the agency leads to a compelling competitive advantage for the firm.

The third significantly related activity is political contributions to candidates. While this might at first glance seem self-serving, it can also be viewed as maintaining business continuity. Assuming the existing official is viewed as adding value to the firm it may be more advantageous to support reelection than to have to start over again with a new individual. One of the characteristics of the U.S. political environment of particular concern to business is its inherent instability. The average individual considers the U.S. political environment to be a shining example of stability, but they are applying ideological criteria in drawing their conclusion. The truth is that the multi-layered nature of the U.S. political environment, the numerous elections, term lengths, term limits, etc. have the potential to create a very unstable political policy environment. Obviously, this instability can work in the firm’s favor, if the elected official is perceived to have an agenda that is detrimental to the firm’s goals leading the firm to contribute to the election of a candidate who has an agenda more in line with firm objectives.

CONCLUSIONS AND IMPLICATIONS

The findings of this study provide a number of valuable implications for management. From an exploratory perspective there appears to be a relationship between a firm’s political activities and performance. This is supported by previous research which shows a significant relationship between a firm’s level of experience and/or trust in political institutions and performance (Campbell 2004). However, not all of the political activities were found to be significantly and positively related to performance. Given the financial costs and potential risks of incorporating political activities into the complete strategic mix, relative to their unique needs and goals, firms should consider the ad-
vantages of one political activity over the others both from the perspective of cost-benefit as well as from the perspective of the firm’s areas of expertise relative to the political environment. This is especially true when budgets for such activities are finite. At the same time, management should consider developing integrated megamarketing strategies that profitably integrate the push activities of lobbying, relationship building with agencies, and political contributions. For example, does it make more sense to implement one activity at a given point in time or should all three be implemented at the same time? Also, should the activities be sequenced so that they are implemented at the optimal time relative to the different stages of the firm’s strategic marketing plan. An additional consideration would be how to sequence the political activities. In either case, the results here suggest political activities should be at least considered by individual firms as the fifth “P” of marketing and, as such, an integral ingredient in the marketing mix designed to help foster a political/policy environment which is conducive to optimal firm performance.

**FUTURE RESEARCH**

In conclusion, the potential relationship between certain political activities and firm performance has been identified in this study. Yet, there are a number of additional factors that need to be addressed in future research. First, it is important to ascertain the potential role of social desirability bias in defining and reporting political activities. It may be possible that respondents provided what they thought were politically correct responses for their firms’ involvement, particularly given the cultural bias in the U.S. against perceived business-government “collusion”. Second, more in-depth analysis is needed across each of the political activities to better understand the effects of other related factors such as the length and intensity of the political activity. Third, future analysis should also focus on the size of the firm to ascertain whether some political activities are more profitable to smaller firms vis-à-vis larger ones, as well as the role of resources and in-house expertise in affecting public policy. Finally, the role of politics, policy making, and firm performance in emerging markets, such as China and India, would be an important contribution to the existing literature base (Cao 2004).

**REFERENCES**


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