A Simple Corporate Strategy for a Better Political Game

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Even within the same government, different branches may have divergent goals. Here’s how firms can play this to their advantage.

Corporations often have a complicated relationship with the government. They strive to access state-controlled resources and influence policymaking by cultivating ties to officials. But if they are not careful, those very ties could make them vulnerable to political demands. To gain a net advantage, corporate strategists need a more sophisticated game.

To begin with, as my **latest research** suggests, they ought to be aware that government officials and lawmakers don’t always work towards the same goals. Different branches of government can have divergent, indeed conflicting, agendas. Firms position themselves on higher ground by discerning the goals and KPIs of the power brokers they deal with. Those that don’t risk being overwhelmed by waves of political pressure.

Checks and balances

Taiwan, a former authoritarian regime that democratised in the 1990s, provided fertile ground for the research I conducted with **Chi-Nien Chung** and **Weiting Zheng**. We studied the period from 2002 to 2005, during which the Taiwanese government pushed for corporate governance reforms after Taiwan joined the World Trade Organization. The reforms encouraged firms to appoint independent directors.

Taiwan had by then transitioned to a presidential democracy with separation of powers among the executive, the legislature and the judiciary. But decades of governance by the same party and a rubber-stamp parliament meant that the Taiwanese government played a proactive role in the economy. Not only did it implement policies and enforce regulations, but it also allocated resources and established institutions to support industry.

In fact, government and business in Taiwan were inextricably linked. Officials were allowed to hold shares in private companies; business executives and board members could be appointed presidential and ministerial advisers. For the sake of their careers, officials with business ties would be motivated to push firms to implement government-initiated corporate governance reforms. Thus, we hypothesised that firms with more ties with government officials would be more likely to comply than less connected firms.

By contrast, firms presumably had a rather different relationship with lawmakers. As in other presidential democracies, Taiwanese lawmakers keep the executive branch in check. But Taiwan was also a young democracy lacking a free mass media, a strong civil society, an independent judiciary and voter maturity. Most lawmakers accepted corporate donations to help fund their expensive election campaigns, often replete with performances and freebies.

Therefore, lawmakers likely felt beholden to corporations. Indeed, we found that five out of six lawmakers who attended meetings between bureaucrats and business associations to discuss board independence expressed disapproval of the corporate governance reforms.

In addition, legislators may provide information and contacts to help firms navigate the bureaucracy and access alternative resources. They also impart a veneer of legitimacy to firms that don’t comply with government initiatives. As such, we anticipated that firms with more ties to lawmakers would engage in corporate governance reform than less connected firms.

The family and foreign connection

We analysed data on 466 firms listed on the main board of the Taiwan Stock Exchange between 2002 and 2005. Firms were deemed to have an administrative tie if their chairman, board member, top executive or major shareholder had held or was holding a senior executive position in national or local government. A legislative tie was recorded if any of these corporate figures had served or was serving as a legislator. We identified a total of 356 political ties, of which 80.3 percent were administrative and 19.7 percent were legislative. Only eight firms had both types of connections.

Consistent with our hypotheses, we found that administrative ties boosted firms' appointment of independent directors. Every additional link increased the number of independent directors by 0.15. Legislative ties had the opposite effect: Every additional legislative tie reduced the number of independent directors by 0.66.

In addition, we found that **family ownership** weakened the effect of administrative ties but strengthened the effect of legislative ones. This could be due to family-controlled firms having more contacts and resources and therefore, less need of government help. Moreover, company executives who are members of the controlling family likely have longer tenures. Such companies would have more enduring legislative links that cushion them against pressure from the executive branch.

Conversely, foreign ownership – measured by firms' issuance of American Depository Receipts – diluted the effect of both types of political connections. This may seem contradictory at first glance, but the same logic holds. When firms have access to a larger pool of financial resources, they are likely to be less dependent on the government and less likely to do its bidding. Yet, to attract foreign investors, firms may be more receptive to corporate governance reforms.

A more finessed strategy

Our study addresses the gap in corporate strategy research on the conditions under which firms are vulnerable to or shielded from political pressures. The answer, as we show, partly lies in the separation of power between the executive and legislative branches of the government. Political actors hew to agendas that differ from one branch to the other. This in turn determines whether they push firms to support government initiatives or protect firms from such pressure.

Our findings are applicable to not just young democracies like Taiwan and South Korea but also formerly planned economies in Eastern Europe and the former Soviet bloc, and in the Middle East. Even in countries with different political regimes, such as China, ministries and other state organs often **play to different tunes**. For example, some ministries are geared towards economic growth while others have a clear mandate to protect the environment.

All this means that companies stand to profit from a more nuanced corporate political strategy. This requires a better understanding of government officials or departments. What are their KPIs and key concerns? How are they evaluated and promoted? This analysis should be coupled with a clear-eyed awareness of firms' own standing – to what extent do they depend on the government for resources?

The final takeaway is the impact of democracy on governments' ability to implement their agenda. Under autocratic rule, Taiwan was seen as the one to beat among the **Four Asian Dragons**. However, its economic growth slowed around 2000 – the same year an opposition party took power for the first time – and has lagged behind that of Hong Kong, Singapore and South Korea.

Our study suggests that democratisation could weaken strong political regimes and slow policy execution. In the past, companies in Taiwan had little choice but to bow to the government's demands. Now, they are no longer pushed as easily. But firms cannot afford to let their guard down. Democracy may offer them more leeway to resist government pressure yet also obliges them to step up their political game.

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About the research

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