

Government 1521  
Bureaucratic Politics:  
Government, Military,  
Social and Economic Organizations

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Lecture 19:  
Firms (and Other Organizations) as Political Coalitions

## Business Firm as a Political Coalition

Standard assumption: firms maximize profits “as if” an individual decision maker was running the firm.

Fact: Conflict between

- (1) short-run and long-run,
- (2) managerial versus shareholder compensation,
- (3) labor and management,
- (4) competing plans for profit max.

## Business Firm as a Political Coalition

Think of firm's executive as a "Speaker of the House" or party leader. Assemble a coalition:

"His problem ...[is] to select a coalition so as to maximize the difference between the demands of his coalition members and the potential return from the environment of the coalition." [March, p. 674]

Political science: **minimum-winning coalition**. When building a coalition in Senate, say, give away no more than needed for 51 votes.

March:

### Principles of Firm as Political Coalition

A. Shift focus of attention from owners to actual, operating organizers of coalition.

Stockholders as citizens: (1) AOL and Steve Case (2003), (2) Sears Roebuck and Edward A. Brennan, (3) Michael Eisner and Disney (March 2004). "Coups" and organized dissent at annual meetings.

"Hostile" takeover bid can be seen as political ploy. Come to our side. Must form majority coalition.

March:

## Principles of Firm as Political Coalition

- B. Non-uniqueness of short-run solutions to the coalition problem.
  
- C. Conflict can't be solved by simple payments to participants and agreement on a super-ordinate goal. Have to have policy demands and payments. Bargaining is not simultaneous but sequential.

March:

## Principles of Firm as Political Coalition

- D. Importance of institutional constraints on the solution to the coalition problem.
  - 1. Institutionalization of commitments through budgets, contracts and subcontracts, promises, precedents.
  - 2. "reification of attachments through identification and indoctrination"
  - 3. Limitations of coordination and control imposed upon an executive.

## Observational Predictions

1. Organization goals seem to be a series of more or less independent constraints.
2. Business firms seem to tolerate a rather large amount of apparent inconsistency in goals and decisions, both over time and from one part of the organization to another.
3. Goals and decisions tend to be paired and decentralized with loose cross connections.
4. The extent to which decisions within the firm involve extensive conflict and “marginal” decisions varies with the munificence of the environment.
5. The goals and commitments of business firms shift slowly over time in response to shifts in the coalition represented in the firm.

## Examples

Chandler: James B. Duke and the growth of American Tobacco Company.

Duke strategy: use current dividends to expand organization, drive competitors out of business, purchase factories.

Senior managers (NYC): agree with Duke

Other owners: strongly opposed. Want the dividends to pay.

## Examples

Wanamaker and the modern Department Store

John [father]: Christmas displays, “department store window”

Rodman [son]: Fashion department and French/European clothing. Defies convention but makes money.

Conflict within organization over priorities.

## Examples: Other Organizations?

Universities?

“basic” v “applied” sciences

Teaching versus research

Hospitals?

Some of the same issues as in universities