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**Corporate Political Activity in State Legislatures:
Evidence from the Healthcare Industry**

by

Colby D. Green

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APPROVED, THESIS COMMITTEE

Douglas A. Schuler, Chair
Associate Professor of Business and
Public Policy

Balaji Koka
Associate Professor of Strategic
Management

Keith E. Hamm
Edwards Professor in American
Government

HOUSTON, TEXAS
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ABSTRACT

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We observe wide variation in the effectiveness of Corporate Political Activities (CPAs) across the American states. The purpose of this dissertation is to explain this variance. Why are the various CPAs more successful in some states than others? The dissertation takes the form of three essays. In the theory essay (Chapter 1), I argue that different institutional characteristics of state legislatures make direct political strategies more effective in some state legislatures and indirect political strategies more effective in others.

The empirical work in my dissertation takes advantage of two events at the federal level. The first is passage of the Affordable Care Act in 2010, which replaced DSH payments, a significant source of hospital revenue from the federal government, with a mandate that states adopt an expanded Medicaid (federal government insurance) program. The second is the subsequent U.S. Supreme Court ruling making this expansion optional. These events provide a unique opportunity to observe the political activities of hospitals across the country on the single (held-constant) policy issue of Medicaid expansion.

In the first empirical essay (Chapter 2), I demonstrate the counterintuitive relationship between hospitals' campaign contributions and a *delay* in Medicaid expansion. In the second empirical essay (Chapter 3), I identify and examine the effectiveness of two types of coalitions: vertical, comprised of the focal firm's supply chain, and horizontal, which include ideological interest groups, local governments, and individuals not affiliated with the focal firm's industry. Using data from state legislative committee hearing testimonies by hospitals and their coalitions on Medicaid expansion following the Affordable Care Act, I show a clear relationship between horizontal coalitions and the progress of Medicaid expansion bills. This effect is stronger in citizen legislatures.

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Preface

There is a pervasive assumption – almost a foregone conclusion – in the popular press and among the general public that corporations and their leaders "buy" policymakers' votes in the U.S. Congress, essentially controlling the outcomes of the policymaking process. Some scholars have found troubling evidence supporting this conclusion (Gilens & Page, 2014), despite other evidence showing a negative relationship between the firm's political activities and its financial performance (Hadani & Schuler, 2013). The popular narrative suggests that companies with deep pockets can essentially obtain any policy they desire. Yet this was not at all my experience working with state legislators on Utah's Capitol Hill, more than ten years past. During two legislative sessions, I observed only two instances of firms trying to "buy" a vote; in both cases, the legislators were visibly appalled and refused the campaign contribution. In one of those exchanges, the executive, with checkbook in hand, said something to the effect of, "so, how does this work? Who do I make the check out to?" The legislator responded, "put that away! Just sit down and help me understand your concerns." More than money, the legislator sought *information* from the executive. Most startling about this experience was the mismatch between the expectations of the executive and the legislator.

In this dissertation, I examine corporate political activity in state legislatures because of the simple observation that state legislatures operate differently from the U.S. Congress, where most prior scientific work in this area has been conducted.

A central assertion of this dissertation is that the effectiveness of different corporate political strategies varies both among the states and between the average state legislatures and the U.S. Congress, though my context allows for direct empirical tests of only the former. In other words, a political strategy that works in one legislature (including Congress) may not work in another legislature. While multiple factors may contribute to this variance, I explore the essential role that *information* plays in effective state-level corporate political strategies. The dissertation is composed of one theoretical and two empirical essays.

In the theoretical essay (Chapter 1), my arguments are grounded in the positive political theory paradigm which holds that legislators are utility-maximizing reelection seekers (Buchanan & Tullock, 1962; Downs, 1957a, 1957b). I argue that a fundamental difference between the average state legislator and members of Congress is that the average state legislator has access to much less information about voters' policy preferences. As a result, political strategies that inherently convey this type of information, such as constituency or coalition building are likely to be more effective than strategies that convey little information, such as contributing to the legislator's campaign. I systematically explore the effects of environments with an information deficit on the five corporate political strategies identified by Keim and Zeithaml (1986), which are coalition building, constituency building, advocacy advertising, lobbying, and PAC contributions ("campaign contributions" in the case of state legislatures). I then identify several institutional designs that are likely to create information deficits in a state legislature.

The broad empirical setting for my research is the healthcare industry, following the Affordable Care Act. The primary firm-level actor in my analyses are hospitals, which (nearly) universally faced an exogenous revenue stream loss due to the Affordable Care Act, which intended to replace federal "DSH payments" for uncompensated care with state-level Medicaid expansion. The Supreme Court ruling *N.F.I.B. vs. Sebelius*, made the expansion optional for each state. This sequence of events created an exogenous set of "political markets" for Medicaid expansion in every state across the United States. These markets arose in 2010 and continue to be active in a few states today.

The empirical essays of the dissertation begin to test propositions related to the least and most effective information-conveying political strategies, examining campaign contributions in the first and coalition building in the second. In the first empirical essay (Chapter 2), I demonstrate the startling result that among state legislatures, larger campaign contributions from hospitals *delay* the adoption of Medicaid expansion in a given state. Consistent with the propositions in the theory paper, my analyses demonstrate that this effect reverses for state legislatures more similar to Congress, moving away from information-deficit environments. This essay provides preliminary support for the propositions related to campaign contributions presented in the theory paper.

The second empirical essay (Chapter 3), takes a finer-grained approach to examine hospital-aligned coalition building in support of Medicaid expansion. In particular, I show that the makeup of coalitions matters: the most effective

coalitions are those that consist of disparate interests rather than those composed solely of healthcare-related firms. I argue that this result arises from the information conveyed by these disparate ("horizontal") coalitions, and I demonstrate that the effect is stronger for legislators with the greatest information deficit. In addition to providing additional empirical support for the overall theoretical propositions in the dissertation, this last essay develops a novel measure of coalition composition based on participants in legislative committee hearings. Thus, I contribute an empirical approach to the study of coalition building effectiveness, which has been elusive in previous research (e.g., Kingsley, Vanden Bergh, & Bonardi, 2012). The dataset developed for this essay was constructed legislative bill-by-legislative bill, state-by-state, year-by-year from 2010 through 2017, created a comprehensive database of Medicaid expansion bills (each representing a political market), and is an entirely original and unique dataset.

This dissertation makes three significant contributions to the corporate political activity (CPA) literature (e.g., Bonardi, Holburn, & Vanden Bergh, 2006; Hillman, Keim, & Schuler, 2004; Holburn & Vanden Bergh, 2008; Schuler, 1996; Schuler, Rehbein, & Cramer, 2002). First, my careful scrutiny of a central assumption in the literature – that legislators have knowledge of voter preferences (called "political information") – leads to an important shift in our collective understanding of the role of corporate political activities. In particular, not only does the assumption not consistently hold in practice, but it varies systematically across contexts. Thus, my analyses demand that future empirical CPA work carefully account for the context in which the CPA occurs. My second related contribution is

to the emerging stream of research attempting to demonstrate the financial returns
to CPA (e.g., Hadani & Schuler, 2013; Lux, Crook, & Woehr, 2011). Whereas my
empirical efforts examine a policy directly linked to hospital financial performance, I
demonstrate that the financial returns to different political strategies are contingent
on the institutional context in which they occur. The final contribution of my work is
to examine the phenomenon of corporate political activity in state legislatures
which, despite representing a two-and-one-half times larger financial investment (in
terms of total campaign contributions) than that made at the national level, remains
largely unexplored by CPA scholars.

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Chapter 1

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An Institutions-Based Contingency Approach to Corporate Political Strategy and Legislative Decision Making

1.1.1. Abstract

Similar firms may seek the same favorable policy in multiple states, yet the results of these efforts vary significantly. What explains this variance in the effectiveness of the firm's corporate political activities (CPAs)? In this paper, I introduce a novel institutions-based contingency model to the CPA literature that emphasizes the type of information inherently provided by each CPA and the different state-level institutions that affect legislators' need for such information. The model suggests that the CPAs of coalition building, constituency building, and advocacy advertising will be particularly responsive to different institutional configurations, such as the degree of legislative professionalism in the state. In the second part of this paper, I reconcile this institutions-based contingency model with the dominant issue-based contingency model in the literature to develop a complete contingencies model of CPA effectiveness. The resulting complete model contributes to the literature by inviting analysis of CPA effectiveness rooted in both institutional context and policy issue characteristics.

Strategic management scholars have become increasingly interested in empirically demonstrating the effectiveness of corporate political activity (CPA): linking CPA to various outcomes such as favorable policies (Bonardi et al., 2006) and improved financial performance (Hadani & Schuler, 2013; Lux et al., 2011). The theoretical foundation for this literature is positive political theory, which explains policy adoption through an economic utility-maximization model. In this model, firms seek to maximize their profits (in part, through favorable policies; see Stigler, 1971) and legislators seek to maximize their reelection prospects (Buchanan, 1999; Buchanan & Tullock, 1962). Keim and Zeithaml's (1986) theoretical model, which I call the *issue-based model* is the earliest introduction of positive political theory to management scholars' study of corporate political activity effectiveness. Their theoretical work laid an important set of foundational assumptions for future CPA research. "The underlying premise is that different corporate political strategies are more effective in some situations than in other situations" (Keim & Zeithaml, 1986: 837). According to their model, the situations that determine CPA effectiveness are primarily characteristics of the policy issue itself, which is the motivation for my "issue-based" label (Bonardi & Keim, 2005; Keim & Zeithaml, 1986).

However, despite its roots in positive political economy, the issue-based model fails to address two crucial insights from related literatures in political science. The first insight is an old but significant distinction made between two types of information used by legislators to make voting decisions: *technical information* (sometimes called "policy information") and *political information* (Guston, Jones, & Branscomb, 1997; Maisel, 1981; Rahn, 1993; Sabatier &

Whiteman, 1985). Technical information is "the actual content of proposed legislative alternatives, the magnitude and causes of the problems they are designed to address, and their probable effects on society." Political information includes "the likely impact of the legislation on reelection or career prospects." (Sabatier & Whiteman, 1985: 397). The Keim & Zeithaml (1986) issue-based model assumes that firms primarily provide *technical information* to legislators, largely ignoring the firm's crucial role in providing *political information*. This omission is particularly egregious because political information is the more valuable to legislators, as it facilitates reelection. The second insight, primarily drawn from the subnational politics literature, is that institutional differences across legislatures (particularly at the state level in the United States) make varying degrees of political and technical information available to legislators (Squire, 2007, 2012). These institutional differences may create an *institutions-based information deficit* of both types of information. Without addressing the institutions-based information deficit, the issue-based model fails to explain the differential effectiveness of various CPAs under different institutional contexts.

This differential effectiveness is nontrivial. A recent well-publicized example is the issue of Medicaid expansion following the Affordable Care Act of 2010. Part of this bill included federal authorization for states to expand their Medicaid programs to essentially cover all uninsured individuals up to 138% of the federal poverty level. The program was desperately supported by hospitals around the country for whom 6% of average total annual expenses were uncompensated – medical services provided without reimbursement. Hospitals immediately began supporting the

expanded Medicaid program in state legislatures across the United States. However, their support met with varied success. Some states acted immediately; others were sluggish to respond. Now, eight years later, hospitals in 18 states have been completely unsuccessful in achieving Medicaid expansion. What explains this difference in hospitals' ability to effectively obtain their desired policy? Of course, a portion of the explanation is partisan preference, yet this explanation essentially ignores the important role of organized interests, including firms, in the policymaking process and fails to completely describe the phenomenon. For example, the state of Wisconsin, which voted for Democrat Barack Obama in 2012 and elected Democrat Tammy Baldwin in that same year has failed to adopt Medicaid expansion. In contrast, Louisiana has adopted Medicaid expansion despite overwhelming opposition to Barack Obama in 2012 and electing 4 out 5 Republicans to serve in the U.S. House.

The purpose of this paper is to offer a new model of CPA effectiveness. Whereas differences exist in the institutional characteristics across states, a central question of this paper is: to what degree do these institutional differences affect the effectiveness of the various corporate political strategies? The current model of CPA effectiveness has largely ignored the important role of political information provision provided by firms' political activities, particularly in state legislatures. After developing arguments about the intrinsic ability of different corporate political activities to provide either political or technical information, I show that political activities are likely to respond differently to differences in institutional contexts. In particular, I will argue that the indirect corporate political activities of

coalition building, constituency building, and advocacy advertising are likely to be particularly effective in states in which the political information deficit is highest because these political activities are inherently well-suited to providing political information. These arguments represent a novel contingency in the literature on corporate political activity effectiveness. This contingency is orthogonal to the current issue-based contingency in the Keim and Zeithaml (1986) model. In the second part of the paper, I reconcile these two contingencies in a novel 2x2 framework. The final result is a complete contingencies model of CPA effectiveness accounting for both issue and institutional characteristics.

One of the challenges in studying CPA effectiveness is that it is not a standalone construct. It is, instead, a relationship between CPA and favorable policy. My analyses generally adopt the baseline assumption in the literature that, on the margins and in the aggregate, firms' political activities result in policies that are at least broadly favorable to firms. This assumption relies primarily on economic theory that regulations are subject to capture by those who are most likely to be regulated (Stigler, 1971) and empirical evidence that aggregate policy trends favor economic elites (Gilens & Page, 2014; Lax & Phillips, 2012). This relationship is the "main effect" between each political activity and favorable policy. The challenge for management scholars is to develop contingencies focusing on each political strategy: under what conditions are each of these individual relationships stronger or weaker (Keim & Zeithaml, 1986)? My approach in this paper is consistent with the prior contingency approach; I assume a "main effect" between each political strategy and favorable policy. I then present institutional characteristics as a novel

contingency, constraining these "main effect" relationships. Thus, the institutional characteristics discussed in this paper are presented as constraining moderators on that main effect relationship.

This paper has theoretical and practical implications for corporate political strategy. This approach suggests that the current theoretical model in which political strategy effectiveness is contingent on the policy issue is, at best, underspecified. Without accounting for institutional design, the current model is unable to accurately predict the efficacy of various political strategies, particularly for firms that operate in multiple jurisdictions. These arguments suggest that (1) multistate firms are likely to find more success using a given political strategy in one state than in another, and (2) similar firms that operate in separate states are likely to have varying success using the same political strategy. Whereas path dependence and the high cost of learning are likely to embed a particular political strategy within a multistate firm (Hannan & Freeman, 1984), the firm may be at a disadvantage when competing in the political arena with local firms more accustomed to the locally-appropriate political strategy.

The paper proceeds as follows. In the first section, I begin with a brief description of the issue-based model of CPA effectiveness (Keim & Zeithaml, 1986). I then proceed to a description of political and technical information, describing the institutional conditions that are likely to provide legislators with each, preempting the opportunity and obviating the need for firms to provide such information. In the second section, I divide the five corporate political activities identified by Keim and

Zeithaml (1986) into two groups according to the primary mechanism through which they affect public policy, either providing political or technical information. I then develop arguments about the conditions under which each is most likely to be effective. In the third section, I reconcile the contingency model developed in this paper with that of the issue-based model. In the final section of the paper, I conclude with an agenda for future research in corporate political activity at the state level.

1.2. Legislators as Information Seekers

1.2.1. The Issue-based Model of Legislative Decision Making

In their classic application of positive political theory (Downs, 1957a, 1957b), including collective action theory (Olson, 1965), to the management literature, Keim and Zeithaml (1986) develop arguments about the efficacy of various corporate political strategies based on a detailed model of legislator behavior. This model, which serves as the foundation of subsequent work in the area (e.g., Bigelow, Fahey, & Mahon, 1993; Bonardi & Keim, 2005; Getz, 1991; Keim & Baysinger, 1988) relies on the generally-accepted assumption that legislators are rational actors attempting to maximize their own utility, which is defined foremost by reelection. In other words, in the extreme form, all legislator behaviors can be explained in terms of how the behavior affects the prospect of reelection.

According to the model, voters are also rational actors. A voter will choose to reelect legislators whose legislative votes on salient issues (about which the voter cares deeply) are most aligned with his or her own policy preferences (Downs,

1957a). In the simple case in which a single issue is salient to all voters in the district, legislators maximize their likelihood of reelection by responding to the policy preferences of their constituents on this issue. Whereas voters' policy preferences are distributed along a continuum, the legislator will attempt to determine the policy position of the median voter along this continuum because this position is likely to appeal to the greatest number of voters, thus maximizing reelection prospects (Downs, 1957a). For issues in which voters do not have strong preferences, the legislator "…may take any position…without affecting the chances of reelection in this district. This freedom provides the elected representative with 'political discretion.'" (Keim & Zeithaml, 1986: 831). In such circumstances, the legislator is not bound by the preferences of her constituents and is able to exercise discretion in choosing to support or oppose the issue. In this situation, firms and other interest groups may be able to successfully influence the legislator's vote on the issue.

This framework leads to the issue-based contingency model of corporate political strategy effectiveness that is centered on particular policy issues (Keim & Zeithaml, 1986). According to this model, issue characteristics such as salience to constituents and voter conflict lead directly to the legislator's political discretion, determining which political strategies will be most effective. When legislators exercise a great deal of political discretion, the direct influence strategies of lobbying and campaign contributions are likely to be effective in obtaining favorable policy. In contrast, when the legislator lacks political discretion, the indirect political strategies of coalition and constituency building and advocacy advertising will likely

be most effective because they can help to align the median policy position with the firm's desired policy position, binding the legislator to the firm's policy position.

1.2.2. Political and Technical Information in Legislative Decision Making

Legislative decision making requires that legislators have two types of information: technical (or "policy") information and political information (Sabatier & Whiteman, 1985). Technical information focuses on societal needs and the effects of specific language within a given legislative proposal. Public policy issues literally address every facet of human and economic interaction, and the nature of policy is to have impact on these interactions. This volume and diversity of policy issues faced by legislators requires deep knowledge on a breadth of issues that is very difficult for individual legislators to achieve (Guston et al., 1997). Given the complexity, it may be particularly difficult for legislators to fully know the outcomes of each policy, particularly because of the nuances that tend to be included in most legislation. Members of Congress tend to rely on a range of information sources to provide some of this information (Mooney, 1991), including (personal or committee) staff analysts with subject matter expertise and Congressional Research Service reports. A dominant academic perspective is that organized interests (including firms) serve an important role in providing this technical information to legislators, particularly for issues on which they exercise political discretion (Austen-Smith, 1993; Guston et al., 1997; Hall & Deardorff, 2006; Keim & Zeithaml, 1986). Organized interests are capable of providing this information because their routine operations provide them with credible expertise on the subject; for example,

a hospital can provide information on the financial effects of Medicaid policy because it maintains detailed financial records related to this policy. The so-called "moneyed interests" (Hall & Wayman, 1990: 797) are particularly adept at providing this information because they tend to have abundant resources to gather information, compile it into summarized reports, and deliver those summaries to policymakers. These "moneyed interests" also tend to have a financial incentive to provide such information to policymakers insofar as the information may favor their desired policy outcomes. The issue-based model of CPA effectiveness envisions a clear role for firms to provide technical information to legislators (Keim & Zeithaml, 1986). It is through the process of providing technical information, primarily through lobbying, that firms tailor the policy outcomes in their favor by providing information that supports the firm's desired policy objectives (de Figueiredo & Richter, 2014; de Figueiredo & Tiller, 2001).

However, despite the importance of technical information, even more crucial to legislators is political information (Buchanan & Tullock, 1962). By definition, political information contains knowledge about the policy's effects on the legislator's reelection prospects (Sabatier & Whiteman, 1985). Thus, political information is likely to include the median voter preference and the relative salience of any given policy issue (Keim & Zeithaml, 1986). This information is crucial to the legislator because it serves as the primary voting guide in the legislator's quest to maximize reelection prospects: for salient issues, the legislator's vote must be consistent with the median voter's preference in order to ensure reelection (Keim & Zeithaml, 1986). This information tells the legislator whether she exercises political

discretion. It is plausible that political information is related to technical information: when a policy affects constituents, that policy is likely to be more salient to constituents, and therefore may affect the legislator's reelection prospects. However, the literature tends to treat them as separate and distinct (Guston et al., 1997; Maisel, 1981; Rahn, 1993; Sabatier & Whiteman, 1985).

From a utility maximizing perspective (Buchanan, 1999; Buchanan & Tullock, 1962; Downs, 1957a, 1957b), a clear hierarchy emerges in the value of these two types of information. Whereas legislators maximize their utility through reelection, political information directly contributes to this utility maximizing behavior because it provides the necessary information to secure reelection. In contrast, technical information does not directly contribute to the legislator's reelection prospects (and therefore overall utility function). This distinction has important implications for legislator behavior and the firm's political strategy: (1) legislators will value political information over technical information, (2) under a general dearth of information, legislators will prioritize political over technical information, and (3) firms will be more successful in achieving their desired policy goals when they too prioritize the provision of political information over technical information, particularly when legislators lack both.

Given this crucial role of political information in legislative decision making, it is somewhat surprising that the topic is largely ignored in management research. The issue-based model of CPA effectiveness is particularly egregious in this respect by assuming that prior to a firm's engagement in CPA, the legislator possesses

sufficient political information to determine her degree of political discretion (Bonardi & Keim, 2005; Keim & Zeithaml, 1986). It is primarily this shortcoming that necessitates the creation of an institutions-based model of CPA effectiveness, which is the purpose of this paper. Because of the hierarchy noted above, legislators will prioritize political information over technical information when they lack both. Thus, when legislative institutional designs fail to provide information to legislators, the relative importance of political strategies that provide this prioritized political information increases. The proceeding sections will argue that (1) whereas lobbying and campaign contributions tend to provide technical information, coalition and constituency building and advocacy advertising tend to provide more political information. Thus, (2) the theory developed in this paper emphasizes the degree to which institutional characteristics may enhance the role of political information-providing strategies. In the next section, I show that the institutions-based information deficit may be relatively low in Congress but varies widely across state legislatures.

Before proceeding, it is important to draw a distinction between "well-known" issues and salient issues; these two concepts are distinct. A salient issue is one that voters care enough about to affect their behavior in the voting booth; it has little to do with the popular press or well-publicized issues. This is because people tend to care about issues that directly affect them or issues that are related to their idiosyncratic backgrounds. For example, a university professor will be much more likely than others to care about education issues, or a highly religious person may care deeply about various social issues. Newspapers can debate other well-known

issues, but these individuals will be primarily focused on education or social policy (respectively). The challenge for most legislators is that heterogeneity exists within most districts. Thus, the legislator must learn what the salient issues are for her constituents, regardless of the popular or well-publicized issues of the day. Thus, that an issue is hotly debated in the popular press is *not* evidence of that issue's salience to the legislator's constituents. Nor is an issue's salience in one location (or legislative district) evidence of that issue's salience in another location.

Political information, which contains knowledge about which issues are salient to the legislator's constituents and knowledge about the median voter preferences in the legislator's district, exists independent of legislators' knowledge of it. Voters' preferences, including which issues they care about (salient issues) are unknown to legislators *ex ante*. Legislators can become aware of this information generally through two means without firm intervention: either through the legislator's active collection of the information (through surveys, canvassing, or hosting townhalls, etc.) or through the aggregation of preferences actively expressed by constituents, through letters, emails, phone calls, etc. Below, I will argue that certain institutions facilitate both means of acquiring this information. Environments with low institutions-based information deficits are particularly capable of both means. These legislators have resources to send out surveys, host multiple townhalls, and have a large staff to aggregate the information that constituents volunteer. Thus, one of the central pieces of information that legislators in low information deficit environments have access to is whether an issue is salient. In contrast, the hallmark characteristics of high political information deficit

environments are that legislators do not have access to any of this information and they have no clear means to acquire it.

Embedded in my arguments is a basic assumption that when the information deficit is high, legislators will lack both political and technical information; in contrast, when the information deficit is low, legislators will have political information and only partially lack for technical information. This is because of the hierarchy noted earlier; legislators prioritize the collection of political information, so in environments that facilitate information collection, legislators will first collect political information and then collect technical information. This assumption implies that when the information deficit is high, legislators will value political information because of its preeminent reelection value and when the information deficit is low, legislators will value technical information because they likely already hold sufficient political information.

1.2.3. Institutions-based Information Deficits

State legislative structures are surprisingly heterogeneous; this section describes some of the sources of heterogeneity and their effects on legislators' information deficit. Some legislative sessions are as short at two months, such as in South Dakota; others meet year-round, such as in New York. Some have large professional staffs, such as in California, while others have very small professional staffs, such as in Wyoming. State legislators in New Mexico are uncompensated, whereas legislators in California earn more than $100,000 annually. Some legislators are term-limited; others can (and often do) stand for reelection

indefinitely. Legislatures range in size from fewer than fifty to greater than four

hundred. Some are strongly controlled by a single political party, others experience

fierce partisan competition, and one is nonpartisan. Each of these institutional

differences may affect legislators' information deficit. When institutional designs

readily provide information to legislators, their demand for information from

external sources is likely to be lower. In contrast, when institutional designs provide

little information to legislators, their receptivity to external information sources is

likely to be higher.

1.2.3.1.   Legislative professionalism

Legislative professionalism is a well-developed construct by political

scientists (e.g., Berry, Berkman, & Schneiderman, 2000; Longo & Poggione, n.d.;

Maestas, 2000; Squire, 2007) that includes the length of the legislative session,

legislators' compensation, and the staff available to the legislator. These indicators

all tend to covary and are usually collapsed into a single index with Congress as the

reference point (Squire, 2007, 2012). Legislative professionalism is a continuum

populated on one end by "professional legislatures" with large, full-time staffs; at the

other end of the continuum are "citizen legislatures" which tend to operate with

very small staffs. For example, in the Utah legislature, a small team of government

attorneys draft bills for all legislators. Individual legislators are assigned a single

staff member – an intern from a local university – to manage their calendars,

respond to constituent requests, communicate with key stakeholders, and support

every other aspect of the legislator's agenda during the legislative session. For the

unlucky freshman legislator, the intern is shared with another freshman.

Professional legislatures provide their legislators with a significant amount

of political information. Legislators in professional legislatures rely on their staff

members to aggregate information about their constituents' policy preferences and

use that information to guide the legislators' actions. For example, a legislator with a

large staff may employ individuals to answer phone calls and emails or attend

community events. These interactions with constituents provide an opportunity for

staff members to learn the preferences of voters and salience of issues in the

district. In contrast, less professional legislators require the same political

information but face the daunting task of collecting it without large staffs to

aggregate information. This task is made more difficult by the significant limitations

on the legislator's time, which is split between legislative activities and the

legislator's profession away from the legislature. As a result, legislators in less-

professional legislatures are likely to face a greater deficit of political information

than legislators from professional legislatures.

Professional legislatures also provide their legislators with some technical

information. Legislators in these environments are able to rely on large staffs which

tend to specialize in particular policy areas, allowing them to analyze the effects of

various policy proposals. Furthermore, these legislatures tend to be supported but

large organizations such as the Congressional Research Service, providing technical

analysis of policy proposals. In contrast, less professional legislators are unlikely to

be supported by either shared, personal, or committee staff with the same degree of policy expertise.

1.2.3.2.   Term Limits

Across the States, there is substantial variation in the length of time that any one individual is allowed to hold a particular office. In some states, no limit exists. In others, legislators are allowed to hold office for as few as six years.[1] When such a limit exists and the legislator reaches that limit, he or she is said to be "term limited" and is prohibited from further service in that office. In some states, these limits apply only to consecutive years of service, whereas in others, limits apply to lifetime aggregate years of service. These term limits effectively constrain the average tenure of individual legislators in their respective legislative districts.

Term limits decrease the political information available to legislators. Whereas constituent (and voter) preferences maintain some stability over time (Brace, Arceneaux, Johnson, & Ulbig, 2004), legislators with longer tenure tend to accrue more knowledge about their constituents' policy preferences over time. In contrast, term-limited legislators have shorter periods of time to acquire knowledge of their constituents' policy preferences. Thus, term-limited legislators are likely to have a greater political information deficit than non-term limited legislators.

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[1] For a detailed state-by-state comparison, see the helpful table developed by the National Conference of State Legislatures at http://www.ncsl.org/research/about-state-legislatures/chart-of-term-limits-states.aspx.

Term limits also decrease the technical information available to legislators. Whereas longer-serving legislators may be able to leverage prior knowledge gained about the effects of policies related to the focal issue, legislators with a shorter tenure lack this advantage. These legislators are likely to have experienced fewer prior policy debates, endured feedback from fewer prior adopted policies, and have fewer relationships with professional regulators (with access to such information). Thus, term limits are likely to decrease the technical information available to legislators.

1.2.3.3. Party Strength

The strength of the two political parties varies considerably among the states. In some states such as California, the Democratic Party has consistently controlled the legislature for many years; in others, such as Idaho, the Republican Party has consistently controlled the legislature. In still others, such as Colorado or Kentucky, control is split between the houses. In Nebraska, the unicameral legislature is nonpartisan. Beyond unified control, party strength is also indicated by the percentage of legislators within each house that are part of the governing party; for example, the Republican Party maintains a two-thirds majority in both houses of the Utah legislature.

Political parties provide legislators with substantial political information. One of the important functions of political parties is to serve as a policy heuristic for both legislators and voters (Rahn, 1993). Because of the large number of policies and the nuances within each policy, political parties (and their adopted platforms)

allow individuals to generally align themselves with sets of policies that are consistent with their policy preferences. Thus, legislators may infer policy preferences from the partisan preferences or voting behavior of their constituents. In particular, when a large (super)majority of a district supports one party, the legislator may infer that the policy preferences of the district are generally consistent with the platform of the party. Similarly, when the same party controls both chambers of the legislature and the Governor's office, the legislator may infer consistent support for that party's agenda. In contrast, when the legislative district is highly competitive between political parties, the legislator is less sure about the overall policy preferences of the district. Thus, legislators in highly competitive legislative districts or highly competitive legislatures are likely to experience a greater political information deficit than legislators in which a single party is stronger.

In summary, the institutional designs of some legislatures are likely to provide legislators with more political information about voter preferences than the designs of other legislatures. By implication, legislators facing a high information deficit are likely to seek more political information from external sources in order to maximize their reelection prospects. In particular, less-professional legislators, term-limited legislators, and legislators in politically competitive districts (or states) will tend to seek more political information than their colleagues. While I have highlighted only three here, it is possible that other institutional designs have similar effects.

1.3. Firms as Information Providers

Where institutional designs fail to provide legislators with sufficient information to take legislative action, an important opportunity arises for firms and other interest groups to strategically provide information through their political activities (Hayes, 1981; Kingdon, 1973; Marasculio & Amster, 1964; Keim & Zeithaml, 1986). I categorize the five political strategies identified by Keim and Zeithaml (1986) into two groups: direct strategies and indirect strategies. As their label suggests, the direct strategies of campaign contributions and lobbying share a common goal of influencing policy directly through the policymaker. In contrast, the indirect strategies [sometimes collectively called "constituency building strategy" (Hillman & Hitt, 1999: 835) or "indirect political channels" (Schuler et al., 2002: 669)] of coalition building, constituency building, and advocacy advertising influence policy by influencing members of the policymaker's constituency, which in turn seek the desired policy from the policymaker. This categorization is helpful in part because of the mechanism through which each strategy affects policy change: direct strategies tend to provide technical information to legislators, whereas indirect strategies tend to provide political information.

The following subsections will argue that an institutions-based information deficit experienced by legislators has differential effects on the role of technical and political information provision. As summarized in Figure 1-1, an institutions-based information deficit is likely to increase the effectiveness of achieving favorable

policy through the indirect corporate political strategies but has an ambiguous effect on the effectiveness of direct corporate political strategies.

Figure 1-1. The Role of an Institutions-based Information Deficit on CPA Effectivenesss
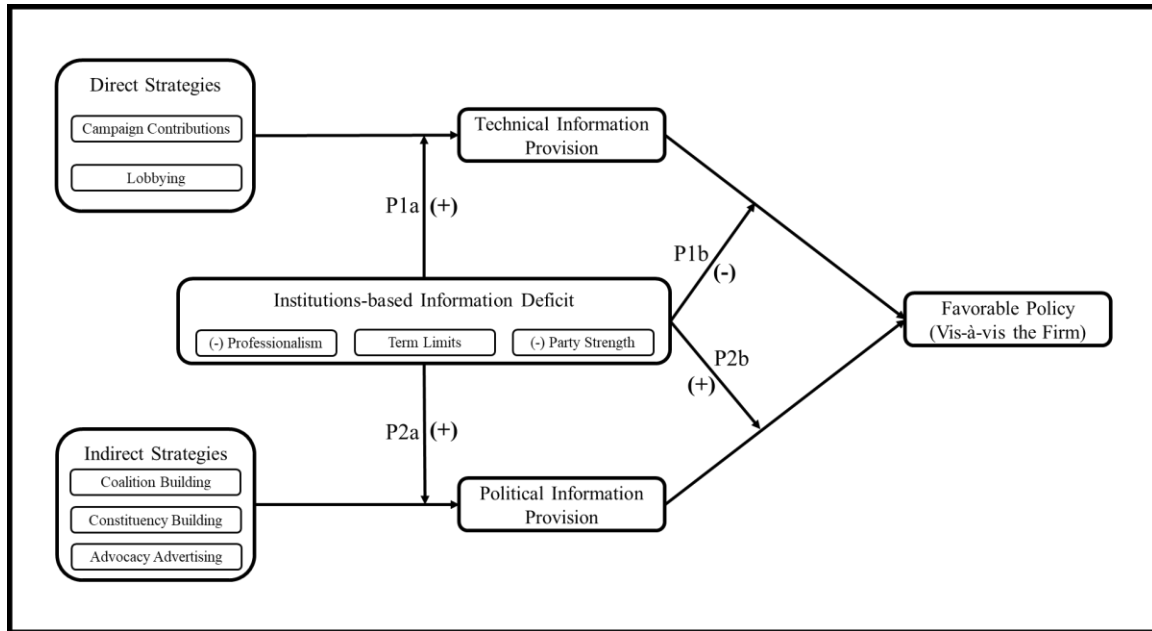
There are two important caveats to this discussion. The first is that individual corporate political strategies are rarely used in isolation. That is, a firm that engages in one type of political strategy will very likely engage in multiple strategies (Schuler et al., 2002). The most obvious example is the connection between campaign contributions and lobbying; the access literature holds that the primary purpose of the former is to facilitate the latter (for a detailed description, see Austen-Smith, 1995: 566). Firms are so likely to engage in multiple political strategies that some scholars have combined the various types of corporate political spending into a single firm-level index in order to measure the overall returns to CPA (e.g., Hadani & Schuler, 2013). A second caveat is that multiple typologies of

corporate political activity have been introduced to the CPA literature; the most common of which was introduced by Hillman and Hitt (1999). I have adopted the Keim and Zeithaml (1986) typology in my analyses in order to directly link their work to my own.

1.3.1. Direct Corporate Political Strategies

Where legislators lack technical information, a market arises for the provision of that information. From the politically active firm's perspective, then, political activities that inherently provide technical information are able to respond to high deficits of such information. By their very nature, different political strategies convey different types of information. The direct corporate political strategies ("direct strategies") primarily rely on the provision of technical, rather than political, information to obtain favorable policy. At the heart of this assertion is a simple assumption about a hierarchy of credibility regarding political information provided by the firm directly to the legislator. A firm can most credibly provide information about its own policy preferences because it is ostensibly equipped to identify its own utility function and assess the effects of policies on its own operations. The firm can less credibly provide information about the policy preferences of stakeholders (such as employees or competitors) whose interests partially align with the those of the focal firm. Finally, the firm can least credibly (and perhaps not at all) provide information about the policy preferences of

unrelated individuals, organizations, or interest groups.[2] This assertion arises from

the complexity inherent to political information and the costliness of collecting it.

Because of the repeated nature of political activity (Snyder, 1992; Stratmann, 1992),

firms have an enormous incentive to provide only factually accurate information to

legislators in order to develop trust over time (Levine, 2009) and therefore are not

likely to provide information about the preferences of other organizations or

individuals that would be costly to obtain and verify. Thus, I will assume that a

firm's direct communications with a legislator may credibly provide only a very

limited amount of political information related to its own preferences or to a lesser

extent the preferences of immediate aligned stakeholders. In this way, I assume that

the firm may provide only a negligible amount of political information directly to the

legislator.

1.3.1.1. Campaign Contributions & Lobbying

At the federal level, the firm is limited to contributing to campaigns through

political action committees (PACs) which raise funds from employees through

voluntary contributions rather than the corporate treasury. In contrast, at the

(state) level, many states allow firms to contribute directly from the corporate

treasury with no limits on the amount that can be contributed.[3] Excluding

presidential elections, about three-fourths of all campaign contributions in the

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[2] An exception to this point is the rare case of firms whose primary purpose is to collect such information, including professional polling firms like Gallup.

[3] Campaign finance laws change. The most up-to-date laws are available at http://www.ncsl.org/research/elections-and-campaigns/state-limits-on-contributions-to-candidates.aspx.

United States appear to be directed at state-level officials rather than federal-level officials.[4]

Campaign contributions from firms are routinely exchanged for access to policymakers, rather than directly for public policy in the United States (Austen-Smith, 1995; Kalla & Broockman, 2015; Langbein, 1986). In fact, if such an exchange for policy were possible, we would likely observe far greater contributions than we actually observe (Ansolabehere, de Figueiredo, & Snyder, 2003). Extensive anecdotal and scientific evidence supports this claim. One governor promised lobbyists that, "… I will go anywhere. I will meet with people. We'll come to your office, you bring them in and we will give them quality time, but we've got to raise the money" (Gehrke, 2016). In their randomized field experiment among members of Congress, Kalla and Broockman (2015) demonstrate striking evidence that even the prospect of a contribution is enough to significantly increase the likelihood of a meeting with an elected official. From the firm's perspective then, the value of access, and therefore the value of contributions, is to have the opportunity to lobby the legislator.

Lobbying is "… the transfer of information in private meetings and venues between interest groups and politicians, their staffs, and agents" (de Figueiredo & Richter, 2014: 164). These private meetings take place in many different settings. They may occur in the legislator's office but are also likely to occur in recreational

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[4] According to independent analysis by the author using contribution data from the 2014 election cycle, compiled by the National Institute on Money in State Politics.

settings such as restaurants, country clubs, and sporting events. Lobbying is usually carried out by one of two types of lobbyists: internal, full-time employees of a firm or other organization, or contracted lobbyists external to the organization (de Figueiredo & Tiller, 2001). The term encompasses all personal interactions between the firm's agents and government officials in the executive and legislative branches of government at the federal, state, and local levels. Finally, as noted earlier, lobbying and campaign contributions are often closely linked to one another because lobbying can only be carried out when the firm has access to the policymaker, and access is often successfully obtained through campaign contributions (Kalla & Broockman, 2015).

According to the issue-based model of legislative decision making, lobbying is most effective when the legislator enjoys political discretion (Keim & Zeithaml, 1986). Political discretion occurs when a median voter position does not exist on a particular policy issue, usually because the policy is not salient to voters. This situation is relatively common; because of the technical nature of policymaking and the vast breadth of issues, the median voter is indifferent to or ignorant of the significant majority of policies (Bartels, 1996). When the median voter is indifferent to a policy, the legislator is likely to be more receptive to the firm's influence. For example, the firm may analyze and convey information about the likely effects of a given policy on the firm or related firms/industries. In this way, lobbying provides a service to the legislator, who would otherwise need to collect (technical) information about the effects of the policy in order to make a decision on the issue.

From this perspective, scholars succinctly summarize lobbying as a form of "legislative subsidy" (Hall & Deardorff, 2006: 69).

The ultimate effects of direct strategies on obtaining favorable policy are likely to respond to institutions-based information deficits in two countervailing ways. On the one hand, in environments of high information deficit, legislators are likely to need a larger "subsidy," i.e., they will rely more heavily on the technical information provided by firms than they otherwise would if their legislative institutions provided the needed technical information. In this way, institutions-based information deficits should enhance the effectiveness of direct strategies on favorable policy by increasing the amount of technical information provided to legislators:

> *Proposition 1a: The institutions-based information deficit will enhance legislators' reliance on the firm's provision of technical information.*

On the other hand, in environments of information deficit, legislators are likely to lack *both* political and technical information. As a result, the relative value of technical information to political information is diminished. Absent both types of information, the legislator is likely to prioritize the collection and aggregation of political information over technical. In practice, legislators in these environments are likely to be more concerned with "who" supports a particular policy rather than "why" they support said policy. Thus, institutions-based information deficits should *decrease* the effectiveness of direct strategies on favorable policy by decreasing the value of technical information relative to political information:

Proposition 1b: The institutions-based information deficit will weaken the relationship between the firm's provision of technical information and obtaining favorable policy.

Overall, then, institutions-based information deficits have an ambiguous effect on the relationship between direct strategies and obtaining favorable policy. On the one hand, they increase the amount of technical information needed by legislators. On the other hand, they reduce the value of technical information relative to political information.

1.3.2. Indirect Corporate Political Strategies

While campaign contributions and lobbying directly target legislators, a second set of political strategies targets other interest groups, individuals, and firms. These strategies *indirectly* influence legislators because the targeted third parties represent an intermediary that firms must influence which in turn directly exert pressure on the legislator. This category includes coalition building, constituency building, and advocacy advertising. Indirect political strategies rely on a distinct mechanism from direct political strategies to obtain favorable policy: they primarily provide *political information* to the legislator. They do so through some combination of directly altering the median voter position and salience of an issue and altering the legislator's perception of the median voter position and salience on the issue. Where legislators lack political information, a market arises for the provision of that information. From the politically active firm's perspective, political activities that

inherently provide political information are likely to be most effective in environments characterized by a high deficit of such information.

1.3.2.1. Coalition Building

The purposes of coalition building are to obtain support for the firm's desired policies from multiple other firms or interest groups and to encourage those groups to express that support. Coalitions are often composed of firms within the same industry, although they may include firms from other industries and other types of organizations. Industry or trade associations are another form of coalition, providing a certain degree of stability over time. Industry associations also help to overcome the free rider problem, that individual firms prefer to allow others to incur the private costs of participation and then reap the collective benefits, by reducing the cost of participation for all members and providing ancillary firm-specific benefits (Olson, 1965).

Coalition building is an important facet of CPA research. Early theoretical work in this area posits that "...as a rule, regulation is acquired by the industry and is designed and operated primarily for its benefit" (Stigler, 1971: 3). This organizational economics perspective holds that the policy environment obtained by the industry supports the status quo structure of the industry, which in turn allows the incumbent firms to enjoy quasi-monopolistic rents primarily through dissuading new entrants (Stigler, 1971). Recent work has highlighted the role of trade associations in the political process, shifting analysis away from individual firms and toward the actions of trade associations which represent groups of similar

firms (Barnett, 2012; Rajwani, Lawton, & Phillips, 2015). Recent enhancements to the notion of coalition building have refined the idea of "horizontal coalitions," which include "interest groups and stakeholders outside of the 'vertical' chain of production where more natural coalition partners often reside" (Kingsley et al., 2012: 58).

1.3.2.2. Constituency Building

Constituency building is described as "building and nurturing a good grassroots stakeholder base [of support among the legislators' constituents]" (Lord, 2003: 113). It is related to the more recent concept of "vertical" coalition building (Kingsley et al., 2012: 58) which consists of developing support among members of the firm's value chain (sometimes called "primary stakeholders;" see Freeman, Harrison, & Wicks, 2007) including employees, which can act in their role as a legislator's constituents to influence her policy positions. Though relatively little CPA research emphasizes constituency building (with some notable exceptions; e.g., Lord, 2000, 2003), a vast literature, primarily grounded in stakeholder theory, has emphasized the firm's relationships with employees, suppliers, and customers (e.g., Agle et al., 2008; Freeman et al., 2007; Mahoney, 2012; Mitchell, Agle, & Wood, 1997; Parmar et al., 2010). Constituency building is a particularly powerful political strategy because it simultaneously seeks to move the median voter position to the firm's position while also elevating the salience of the issue. This increased salience, in turn, motivates the legislator's constituents to express their support. The net

result of a successful constituency building campaign is to remove the legislator's political discretion *in favor* of the firm's policy goals.

1.3.2.3. Advocacy Advertising

A similarly powerful yet difficult-to-implement political strategy is advocacy advertising. "Advocacy advertising, as a form of institutional advertising, is designed to present the views of the business firm to policy decision-makers and to mass and specialized publics... It is intended to build and maintain a favorable business environment, but it seeks to do so by promoting the firm's viewpoints on current controversial issues." (Waltzer, 1988: 44). From the issue-based model of CPA effectiveness, the overarching goal of advocacy advertising is to increase the salience of a policy preference with aligned voters to such a degree that they will communicate their preferences to the legislator (Keim & Zeithaml, 1986). This strategy is closely related to the tactics of public relations and political education programs (Hillman & Hitt, 1999). Difficulty in differentiating political from commercial advertising has precipitated numerous legal challenges to advocacy advertising and normative debates among scholars about its role in society (Cutler & Muehling, 1989; Middleton, 1991). Advocacy advertising is a risky political strategy because it has the potential of "alienating potential customers [and]...wasting corporate funds on ineffectual communications" (Marchand, 1987: 129). Empirical research on the effectiveness of advocacy advertising demonstrates that it is an effective approach to shore up preexisting support for the firm's position

(Burgoon, Pfau, & Birk, 1995) and may be able to sway the preferences of centrist or nonpartisan individuals (Pfau, Holbert, Szabo, & Kaminski, 2002).

The indirect strategies of coalition building, constituency building, and advocacy advertising are particularly powerful in environments of high institutions-based information deficit. Whereas the central problem for legislators in these environments is to obtain political information about a broad set of constituents, the firm's coalition building efforts may be particularly effective in indirectly providing this information. As participation by these other members of the coalition increases, legislators receive increasingly convincing political information supporting the coalition's position: the policy issue is broadly salient and the position advocated by these multiple members is likely to represent the median voter position. This approach is likely to be particularly effective with larger numbers of coalition participants, which increase the legislator's perception of that policy's salience. Like coalition building, constituency building demonstrates support for the policy from a broad set of the legislator's actual constituents. The breadth of participants (of coalitions or constituents) in the process increases the legislator's perception that the policy preference expressed represents the median voter's preferences. Effective advocacy advertising may increase salience of a given policy with voters whose preferences are aligned with those of the focal firm. These voters, with newly-discovered salience on an issue, will actively support that issue (by sending letters to their legislators, etc.). In this way, not only does the median voter shift in the firm's favor, but the salience is also revealed to the legislator through credible

direct-contact means. Thus, the indirect strategies are likely to provide a large amount of political information*.*

The ultimate effects of indirect strategies on obtaining favorable policy are enhanced in two ways by high institutions-based information deficits. First, like technical information, in environments of high information deficit, legislators are likely to need a larger "subsidy" of political information, meaning that they will rely more heavily on the political information provided by external sources than they otherwise would if their legislative institutions provided the resources to collect and aggregate that information independently. In this way, institutions-based information deficits should enhance the effectiveness of indirect strategies on favorable policy by increasing the amount of political information provided to legislators:

> *Proposition 2a: The institutions-based information deficit will enhance legislators' reliance on external sources of political information.*

Second, in environments of information deficit, legislators are likely to lack *both* political and technical information. As a result, the relative value of political information to technical information increases. Absent both types of information, the legislator is likely to prioritize the collection and aggregation of political information over technical. As mentioned previously, legislators in these environments are likely to be more concerned with "who" supports a particular policy rather than "why" they support said policy. Thus, institutions-based information deficits should *increase* the effectiveness of indirect strategies on

favorable policy by increasing the value of political information relative to technical information:

> *Proposition 2b: The institutions-based information deficit will enhance the relationship between the external provision of political information and obtaining favorable policy.*

Overall, then, institutions-based information deficits have an unambiguously positive effect on the relationship between indirect strategies and obtaining favorable policy. In the first place, they increase the amount of political information needed by legislators. In the second place, they increase the value of political information relative to technical information.

1.4. Bridging the Contingency Models

A central assumption of the issue-based model of CPA effectiveness is that determining which of the firm's political activities will be successful largely depends on whether legislators have political discretion (Keim & Zeithaml, 1986). My arguments in the preceding section hold that having political discretion is insufficient; legislators must also have sufficient political information to be aware of the degree to which they have political discretion. From this perspective, I developed a new contingency model of CPA effectiveness emphasizing the important constraining role of institutions on CPA effectiveness. The purpose of the current section is to reconcile the propositions above with those made by the issue-

based model of CPA effectiveness (Keim & Zeithaml, 1986), developing a complete

contingencies model of CPA effectiveness.

The central prediction of the issue-based model of CPA effectiveness

implicitly makes this direct-indirect distinction (using the labels "direct" and

"alternative") to predict that issue salience is the most important indicator of a

strategy's effectiveness: direct strategies tend to be more effective for non-salient

issues, while indirect strategies are effective for salient issues (Keim & Zeithaml,

1986). In contrast with the issue-based model, my arguments have relied on an

institutions-based indicator of CPA effectiveness: the information deficit. Under

conditions of high information deficit, the indirect political strategies of coalition

building, constituency building, and advocacy advertising are likely to be

particularly effective in achieving favorable policy. However, a high political

information deficit is likely to have a more nuanced effect on the ability of direct

political strategies (campaign contributions and lobbying) to achieve favorable

policy.

The complete contingencies model integrating these frameworks is

presented in Figure 1-2 as a 2x2, with simplified predictions from the issue-based

model along the horizontal axis (emphasizing issue salience) and the simplified

predictions from my model along the vertical axis (emphasizing the political

information deficit). In the cells where both models agree, a single set of strategies is

indicated for CPA effectiveness. In contrast, in the cells where the models disagree, a

more careful examination is needed to determine the most effective political

strategy.

Figure 1-2. Indicated Political Strategies in the Complete Contingencies Model of CPA Effectiveness

		Ex-ante Issue Salience	
		Low	High
Information Deficit *Indicated Political Strategy* (Rationale)	**High**	Direct **Indirect** *P3: Combined strategy, emphasizing indirect.* (A direct strategy raises the specter of salience, provoking the need for indirect support.)	Indirect **Indirect** *P4: Indirect strategy.* (An indirect strategy is the only way to overcome opposing forces which will provide information because of the issue's salience.)
	Low	Direct **Direct** *P5: Direct strategy.* (When legislators know that salience is low, they are free to exercise political discretion and exchange support with firms for contributions or other information.)	Indirect **Direct** *P6a: Direct strategy under firm-voter alignment.* (A direct strategy may increase the perceived salience of the issue.) *P6b: Indirect Strategy under firm-voter nonalignment.* (An indirect strategy may move the median voter position.)

1.4.1. High Institutions-Based Information Deficit

The primary arguments presented in this paper have contended that indirect political strategies tend to be most effective in environments of high information deficit, such as state legislatures with part-time legislators. In these environments, political strategies involving a broad set of stakeholders, including the firm's primary stakeholders and the policymaker's constituents, will tend to provide the political information needed by the policymaker to support the firm's position.

When the focal issue has low ex-ante salience to these external stakeholders, the issue-based model of CPA effectiveness indicates that the more direct political strategies of campaign contributions and lobbying will be effective because they are not likely to meet resistance from the policymaker's constituents (Keim & Zeithaml, 1986). However, this situation of low salience is particularly challenging under conditions of a high information deficit because the policymaker is likely to be ignorant of her political discretion on the issue. Employing a direct political strategy in this circumstance creates a problem for the firm: the very act of conveying the firm's support for the issue raises the specter of salience on that issue by signaling that it is at least important enough to one group (the focal firm) for the firm to incur the cost of engaging the policymaker. Thus, the very act of employing a direct political strategy in this circumstance increases the policymaker's perception of the issue's salience, which in turn may necessitate that the firm pursue indirect political strategies to demonstrate broad support for the focal issue. Thus, while a combination of direct and indirect strategies will likely be necessary in this

circumstance, the firm is most likely to achieve success when emphasizing indirect political strategies:

> *Proposition 3: For non-salient issues in environments with a high information deficit, a combination of indirect and direct political strategies, with an emphasis on indirect strategies, increases the firm's likelihood of obtaining favorable public policy vis-à-vis the firm.*

In contrast with issues of low ex-ante issue salience, the issue-based model of CPA effectiveness indicates that indirect political strategies will be most effective for highly salient issues (Keim & Zeithaml, 1986). While it may be unnecessary for the firm to employ any political strategy when the median voter supports the firm's position, the firm must employ an indirect strategy to alter the median voter position when it differs from the firm's preferences. For these highly salient issues, interested parties are more likely to voice their position on the focal policy, partially providing the political information needed in conditions of a high information deficit. Thus, the firm must employ indirect political strategies to enhance support for the firm's policy position among the median voter in these environments:

> *Proposition 4: For highly salient issues in environments with a high information deficit, indirect political strategies increase the firm's likelihood of obtaining favorable public policy vis-à-vis the firm.*

1.4.2. Low Information Deficit

The arguments presented in this paper have largely held that institutions-based information deficits will have mixed effects on the relationship between direct political strategies and obtaining favorable policy. However, they may be more effective in conditions of a low information deficit, when their value is not diminished relative to indirect strategies because the policymaker holds sufficient political information, i.e., she knows whether she exercises political discretion. Generally speaking, this condition of a low information deficit is the baseline assumption in the issue-based model of CPA effectiveness (Keim & Zeithaml, 1986), and is likely to be relatively common in Congress, where professional policymakers are supported by large staffs that aggregate information (Romzek & Utter, 1997). The conditions of a low information deficit and low issue salience are the ideal conditions for direct political strategies to be effective. Under these conditions, the policymaker is aware of the fact that she exercises political discretion, and thus the firm's lobbying activities, with access provided through campaign contributions, are most likely to influence the legislator's policy position:

> *Proposition 5: For non-salient issues in environments with a low information deficit, direct political strategies increase the firm's likelihood of obtaining favorable public policy vis-à-vis the firm.*

The final case occurs when the information deficit is low and the ex-ante issue salience is high. Here, as in proposition 3, the models indicate different strategies and analysis is further complicated by the necessity of examining

alignment between the firm's policy preference and the policy preference of the median voter. When issue salience is low (voters do not care about an issue), their preferences are irrelevant to the legislator (for the practical effects on the legislator's reelection prospects) and are therefore irrelevant to understanding the effectiveness of the firm's strategy. Similarly, when legislators are unaware of voters' preferences (and whether the issue is salient), then alignment is irrelevant because the legislator does not perceive a discrepancy between the firm's preferences and voters' preferences. Thus, firms must consider alignment between their preferences and voter preferences only in the limited case in which legislators are aware of voter preferences and the issue is salient.

The arguments contained in my institutions-based model, which are largely agnostic to issue salience, have suggested that indirect strategies take on a more important role when the information deficit is high; when it is low, legislators are likely to have sufficient political information and therefore may rely more heavily on the technical information provided through direct strategies. The issue-based model of CPA effectiveness generally indicates indirect strategies for conditions of high issue salience. What action should the firm take when the information deficit is low, but issue salience is high? In such a circumstance, a direct political strategy is likely to be effective when the median voter position is consistent with the firm's position because it will allow the firm to increase the policymaker's perception of the issue's salience. Such a strategy will be ineffective when the median voter position differs from the firm's position because the policymaker lacks political discretion and must therefore support the median voter. In contrast, an indirect strategy opens the

opportunity for the firm to move the median voter toward its position on the focal issue and simultaneously increase the salience of that position among its supporters. Thus, the effectiveness of a given strategy under conditions of a low political information deficit and high issue salience depends on alignment between the firm and the median voter on that policy issue:

> *Proposition 6a: For highly salient issues in environments with a low information deficit, direct political strategies increase the firm's likelihood of obtaining favorable public policy vis-à-vis the firm when the firm's policy position is aligned with the median voter.*

> *Proposition 6b: For highly salient issues in environments with a low information deficit, indirect political strategies increase the firm's likelihood of obtaining favorable public policy vis-à-vis the firm when the firm's policy position is at odds with the median voter.*

1.5. Discussion

Central to the issue-based model of CPA effectiveness is an assumption that, for any given policy issue, legislators have sufficient political information: they know the salience of that issue and the median voter preference on that issue. This assumption plays an important role in predictions of firm success in corporate political activities: where salience is low, the legislator's political discretion presents an opportunity for campaign contributions and lobbying to effectively create a policy preference in the legislator. Where salience is high, the firm's political

strategy depends on preference alignment with the median voter. In this paper, I have argued that this assumption fails in a systematic way across the United States and this failure has important implications for corporate political strategy. In particular, corporate political strategies which inherently tend to convey political information about policy preference and issue salience will be more successful in environments in which legislators lack this information, a condition I call high institutions-based information deficit.

My contribution to the literature is a complete contingencies framework for assessing CPA effectiveness that incorporates the political information deficit. In an environment of a low information deficit, political strategy effectiveness depends on the salience of the issue and the firm's preference alignment with the median voter (Bonardi & Keim, 2005; Keim & Zeithaml, 1986). In an environment of a high political information deficit, political strategy effectiveness is more predictable, with indirect strategies likely to be more effective than direct strategies.

The most significant implication of this research is that repeated complaints in the literature bemoaning our empirical emphasis on campaign contributions only to recommend examination of lobbying activities (e.g., Rivera & Patnaik, 2017) are missing the important insights: (1) that contributions and lobbying behave the same way, and (2) that there is a large and important set of political activities outside of these direct strategies which are likely to be consistently more effective in a broad set of circumstances, including in many state legislatures, which has received scant empirical examination in our literature. Stated simply, if we want to understand CPA

effectiveness, we must expand our empirical examinations *beyond* lobbying to include coalition building, constituency building, and advocacy advertising. Thus, the arguments presented in this paper also suggest the importance of moving research in CPA away from the well-studied direct strategies (like campaign contributions) toward the indirect strategies of coalition and constituency building in these contexts of a high information deficit. This emphasis has the possibility of bridging two loosely related streams of nonmarket strategy research, corporate political activity (e.g., Holburn & Vanden Bergh, 2014) and stakeholder research (e.g., Henisz, Dorobantu, & Nartey, 2014). In particular, one fruitful endeavor may be to develop a more rigorous distinction between horizontal and vertical coalitions (Kingsley et al., 2012). Another important endeavor may be to examine externalities in interactions between the focal firm and its stakeholders. For example, can firms that successfully develop long-term relationships with suppliers (for purely market-based reasons) leverage those relationships into successful vertical coalitions?

This paper invites future research examining the firm's strategic behavior when conducting political activities in multiple institutional contexts. My arguments suggest that an appropriate political strategy in one institutional environment may not be appropriate in another. By implication, we should expect firms to develop a political strategy consistent with the first institutional environment in which they engage politically, meaning that firms in an environment of high political information deficit are likely to develop a strategy (and political capabilities; see Jia & Mayer, 2015) emphasizing coalition and constituency building activities. However, the robust findings in the organizational ecology literature suggest that

firms have difficulty adapting their strategy to fit environmental changes or different environments (Hannan & Freeman, 1984). Whereas firms develop their political strategy initially in a local institutional context, an extension of the arguments in this paper from an organizational ecologist lens suggests that firms will have difficulties adapting those strategies to other contexts. In practice, this means that firms will be likely to use the same strategy in a foreign environment that they use in the local environment, but also experience less success in their political strategies in foreign environments that differ substantially from the local environment.

While I have emphasized differences between state legislatures, it is plausible to assume that information deficits may also vary in other contexts. For example, members of Congress with longer tenure are likely to have accumulated greater stores of knowledge than their freshmen colleagues. Thus, the model suggests the importance of accounting for this type of information in all legislature-directed CPA research. In this way, my arguments may shed some light on the burgeoning debate about the financial returns to CPA (Hadani & Schuler, 2013; Lux et al., 2011). First, the theoretical arguments presented in this paper suggest the dangers of aggregating corporate political activities into single indices because these activities are likely to have differential effects on policy goals in certain environments. Second, my arguments suggest that the returns to CPA are likely contingent on the institutional environment in which that CPA occurs.

Prior CPA research holds that political strategy effectiveness is contingent on the focal policy issue. I have argued that political strategy effectiveness is also contingent on legislators' information deficit, particularly regarding voter preferences and issue salience. When this deficit is high, the commonly-studied strategies of campaign contributions and lobbying are likely to be less effective than other strategies, such as coalition and constituency building that provide this information. Thus, firms that engage in political activities in multiple environments, such as in state legislatures and Congress, will find more success as they adapt their political strategy to the information deficit in that context.

Chapter 2

The Contingent Effects of Hospital Campaign Contributions on Medicaid Expansion Following the Affordable Care Act

2.1.1. Abstract

This paper adds a novel contingency to the literature on the effectiveness of corporate political activities (CPAs). Whereas prior work has demonstrated that CPAs are most effective for non-salient issues, I show that CPA effectiveness is contingent on the institutional constraints on supply-side policymakers, holding the issue constant. I examine the campaign contributions made by hospitals and their employees to state legislators in the years following the Affordable Care Act. Because this context instigated a market for the same policy (Medicaid expansion) in all 50 states, the context allows me to examine the influence of state-level institutional characteristics on the effectiveness of campaign contributions while holding the policy issue constant. I empirically demonstrate that increased campaign contributions were associated with an overall delay in Medicaid expansion, but hastened expansion in more professional legislatures.

Understanding the conditions under which the firm's political activities, including campaign contributions, are effective in achieving policies favoring the firm has been an important focus of corporate political activity (CPA) scholarship. Early theoretical work holds that campaign contribution effectiveness is contingent on the public's awareness and concern of issues: a firm's campaign contributions may be effective in shaping policy for non-salient issues, but are generally believed to be ineffective in shaping policy for salient issues (Keim & Zeithaml, 1986). Subsequent research following this logic shows that firms use various political strategies to prevent issues from becoming salient (Bonardi & Keim, 2005). Other work about contingencies emphasizes a "political marketplace" of both demand- and supply-side competition around the focal issue (Hillman & Keim, 1995), arguing that firms are likely to enjoy political strategy effectiveness when demand-side competition is low and many suppliers fill the supply-side (Bonardi et al., 2006; Kingsley et al., 2012). However, despite the low salience of most issues which would suggest political strategies to be effective in achieving favorable policies, some empirical analyses demonstrate that corporate political strategies may be only marginally effective overall (Ansolabehere et al., 2003) or even harmful to the focal firm's performance (Hadani & Schuler, 2013). Thus, existing evidence provides a limited explanation of the conditions under which the various corporate political activities benefit the firm.

However, differences in policy outcomes among the U.S. states present a perplexing problem: we observe marked differences in firms' ability to achieve favorable policy across the United States holding constant the political activity (in

this case, campaign contributions), the characteristics of the issue and the political marketplace. The central question of this paper is: What explains the variance in the effectiveness of a firm's campaign contributions, holding the policy issue constant across states?

The purpose of this paper is to introduce a novel contingency to the literature examining corporate political activity effectiveness. I argue that variation in the institutional design of state legislatures constrains the effectiveness of a firm's political activities: while more professional legislatures allow firms to transact with legislators through campaign contributions, less professional legislatures respond minimally to campaign contributions. This insight contributes in an important way to CPA theory: the firm's ability to be successful relies on the rules that constrain the supply-side policymakers in political markets, the firm's political exchange partner. Thus, the returns to corporate political activities depend not only on characteristics of the issue and the political marketplace, but also on the institutions that constrain suppliers of policy.

The empirical context for this study is the healthcare industry following the Affordable Care Act (ACA). One component of the ACA was to replace the federal "Disproportionate Share Hospital" program that reimbursed hospitals for "uncompensated care" with an expansion of the government insurance Medicaid program. However, the Supreme Court in *National Federation of Independent Business (NFIB) v. Sebelius* (2012) overturned the ACA's requirement that states expand Medicaid, effectively making the expansion optional for individual states.

Thus, passage of the ACA removed an important revenue source for hospitals and the subsequent ruling in *NFIB v. Sebelius* (2012) generated an exogenous shock to the healthcare industry: at once, hospitals in every state found themselves in need of a single state-level policy (Medicaid expansion). This in-common need resulted in a cascade of state-level contests to determine whether each state would expand its Medicaid program. These contests, which scholars of corporate political activity (see Hillman, Keim, & Schuler, 2004) might refer to as political markets (Hillman & Keim, 1995), provide an opportunity to examine the efficacy of corporate (hospital) political activities across the states. In this paper, I examine one such activity: campaign contributions from hospitals to state-level elected officials in each state.

2.2. Theory and Hypotheses

2.2.1. Extant Models of Campaign Contribution Effectiveness

Campaign contributions represent transactions in a "political marketplace" (Hillman & Keim, 1995: 199) in which policymakers supply favorable policy and firms (along with other interest groups) demand favorable policy. The simplified prediction from this model is that contributions are positively related to the provision of favorable policy for the firm. The logical extension of these models is that essentially *any* policy is available to the highest bidder, and we should observe exorbitant sums of campaign contributions, equal to the marginal value of these favorable policies. While there is some evidence of financial benefits from corporate political activities, particularly in international contexts (Claessens, Feijen, &

Laeven, 2008; Fisman, 2001), the empirical evidence available in the U.S. seems to

show that these activities are at best marginally effective (Ansolabehere et al., 2003;

Lord, 2000b), or even negatively associated with firm performance (Hadani &

Schuler, 2013).

In this paper, I attempt to develop a deeper understanding of why campaign

contributions might vary in their effectiveness of achieving favorable policy. To do

so, I briefly explore the incentives that drive legislator behavior on the supply-side

of the political marketplace. Extant research on corporate political activity (Hillman

et al., 2004) relies heavily on positive political theory, which models the behavior of

policymakers who act in their own self-interest (Buchanan, 1999; Buchanan &

Tullock, 1962; Downs, 1957b), including a high motivation to be re-elected (Fenno,

1978). These self-interested individuals attempt to maximize their own utility,

which is primarily a function of reelection. For example, in-depth case studies of

members of Congress provide compelling evidence that reelection-seeking behavior

is a primary time commitment for these legislators (Fenno, 1978).

The theoretical foundation linking corporate political activities to favorable

policy (and ultimately firm performance) was developed in Keim and Zeithaml's

(1986) early application of positive political theory to the management literature.

Keim and Zeithaml (1986) predict that campaign contributions will be effective with

non-salient issues because they afford the legislator discretion to exchange policy

support for campaign contributions (Keim & Zeithaml, 1986). Voters tend to be

rationally agnostic to issues that are non-salient to them. When such agnosticism

exists, as it does for the overwhelming majority of issues (Keim & Zeithaml, 1986),

the legislator exercises significant discretion in voting. Despite legal restrictions

prohibiting explicit quid pro quo exchanges,[5] field experiments in Congress

demonstrate that elected officials provide preferential access to individuals or firms

which offer campaign contributions (Kalla & Broockman, 2015). Firms are likely to

use this access to transfer information about the policy, attempting to persuade the

legislator about its merits (de Figueiredo & Richter, 2014). While access is not likely

to alter the position of elected officials who oppose the policy (because the issue is

salient to their voters), it may garner support from policymakers who were

previously neutral to it.

The Keim and Zeithaml (1986) model of corporate political activity

effectiveness is an issue-centric model: it predicts that contributions will be

effective only when voter preferences on the issue are aligned with the firm's

preferences or voters are agnostic to the policy issue. However, this issue-centric

approach relies on a crucial assumption that legislators know the median voter

position and the relative salience of various policy issues, which I call "the voter

preference assumption." In practice, the assumption that legislators are capable of

gathering this information has some face validity in Congress. First, as noted earlier,

Congressmen (including Senators), devote a majority of their time and attention to

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[5] See U.S. Code Title 18, Chapter 11, section 201 for the relevant federal statute. The National Conference of State Legislatures maintains a list of relevant state laws online at:
http://www.ncsl.org/research/ethics/50-state-chart-criminal-penalties-for-public-corr.aspx

reelection-seeking (Fenno, 1978). Second, Congressmen are provided with a large staff tasked primarily with collecting information about voter preferences. Particularly over time, these career reelection-seekers become highly cognizant of every salient issue in their district and are hyper-aware of the median voter position on those issues. Thus, it is plausible that in some circumstances, an issue-centric model is likely to accurately predict campaign contribution efficacy.

2.2.2. Campaign Contributions as Information

For legislators, the biggest impediment to reelection is information asymmetry. Legislators need to know their voters' preferences (including salience), and voters need to know about legislators' voting records. Thus, in order to achieve reelection, legislators constantly seek (1) information about their voters' preferences and (2) campaign funds to be used in disseminating their own voting records. For firms seeking favorable policy, information asymmetry plays a similar role. Firms do not know whether the legislator exercises discretion, and thus are not able to assess whether their contributions will be effective. Rather than contributing up to the full value of the policy they seek, firms are likely to discount the amount of contributions they provide according to the perceived risk that the legislator will not transact in the policy market. Legislators know that in order to receive funds in the future, the probability of obtaining a policy for the firm must be nonzero, i.e., firms will stop contributing if they learn over time that they can never receive favorable policy. As a result, policymakers transact in the political marketplace

whenever they are able to do so. For the firm, each contribution is an investment with associated risk (Snyder, 1990, 1992).

In legislators' search for information about voters' preferences (including salience), they use many different means. One of these means is events: they host and attend rallies and community events to communicate directly with voters. Another means is public information, such as polling data (Butler & Nickerson, 2011). A related source of public information is election and voting data. Legislators may infer information based on the partisan preferences of their constituents, which may differ among parts of the district or over time. Still another means is through the collection of correspondence from voters: letters, phone calls, and emails can be aggregated and used to provide the relevant information (Carter, 1999). A final means is the involvement of firms and other interested parties, whose support may signal information about preferences and salience.

The Keim and Zeithaml (1986) model assumes that firms engage in the political process (through contributions, etc.) where legislators have previously obtained all the relevant information about salience and voter preference on a given policy issue. If the legislator has successfully determined preferences and salience, this voter preference assumption holds. However, in cases where other information gathering methods have proven inadequate, the voter preference assumption fails and campaign contributions become part of the information gathering process rather than simply a transaction. In these cases, a firm's campaign contribution provides the access necessary for the firm to signal that, at least to the firm, the

issue is salient. However, the contribution itself does not provide information about preferences of the legislator's median voter. Thus, the awareness of salience absent any indication of broader voter preferences forces the legislator to search for additional information before supporting the proposed policy.

Despite the long-run nonnegative returns to contributions that theory predicts will occur (Hillman & Keim, 1995; Keim & Zeithaml, 1986), it is difficult for firms to achieve favorable policy through campaign contributions on a particular issue. In particular, whereas the value of campaign contributions in securing favorable policy largely results when the voter preference assumption holds, campaign contributions are likely to be ineffective or counterproductive when the voter preference assumption fails. In the absence of clear signals about median voter policy preferences, legislators are likely to give precedence to the status quo over novel policy (Baumgartner, Berry, Hojnacki, Kimball, & Leech, 2009). Campaign contributions are likely to have a perverse outcome if the voter preference assumption fails because of the information conveyed: while access allows the firm to conveys its own preferences on the issue, the firm's interest signals that the issue is salient for at least a set of actors (including the firm).

2.2.3. Campaign Contributions in State Legislatures

There are many reasons for which the voter preference assumption may fail for a given legislator. In Congress, freshmen legislators with inexperienced staff have had little opportunity to accumulate knowledge about voter preferences. Similarly, the median voter's preferences might shift when district boundaries are

revised or after significant social events (Margalit, 2013). A much more systematic circumstance in which the voter preference assumption fails is under certain institutional designs such as providing no staff for state legislators, which have the (likely) unintended consequence of limiting legislators' ability to collect information. Significant institutional heterogeneity exists among state legislatures.

Only a fraction of campaign contributions flow to Congress, as compared with state legislatures. In 2014, campaign contributions to members of Congress totaled just over $578 million. In contrast, that same year saw $1.62 billion in contributions to state-level candidates.[6] The proceeding analysis will show that the voter preference assumption fails systematically in these state legislatures, which account for nearly three quarters of all campaign contributions in the U.S. In particular, three state-level institutional characteristics are likely to affect the knowledge that legislators have available about voter preferences: legislative professionalism, dominant party strength, and legislative district size.

Members of Congress are full-time legislators, which means they are full-time reelection seekers (Mayhew, 1974). They operate in a legislative session that runs throughout the year and are well-compensated, which allows them to devote their full attention to supporting policies that maximize their reelection prospects. These efforts are supported by very large staff offices located in both Washington D.C. as well as their home states, which tend to give incumbents an advantage in elections

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[6] According to data from the *National Institute on Money in State Politics* and the author's independent analysis.

(King, 1991). These offices support the members' reelection efforts by continually processing and responding to constituent requests and interacting with constituents in town hall and similar events. Together with the member's full time-attention, these large staffs allow the member of Congress to carefully and systematically acquire information about voters' preferences and issue salience (Mayhew, 1974). In short, the voter preference assumption holds for members of Congress because they are professional reelection seekers with the resources necessary to accomplish that task.

In contrast with the extensive information-gathering capabilities of members of Congress are the notably more limited resources of the median state legislator to gather such reelection-relevant information. The median state legislature is composed of part-time legislators with limited staff, low salaries, and short legislative sessions in which to both navigate the complex policymaking process and collect information about citizen preferences (Berry et al., 2000; Maestas, 2000; Squire, 2007). Together, these three factors makeup the construct of legislative professionalism.

There is a wide degree of variation among the states with regards to legislative professionalism, yet even the most professional state legislators' resources pale in comparison to members of Congress. For example, the median legislator's salary is $23,400, whereas Congressional salary is $174,000. Similarly, the median state legislature meets for 71 days each year, whereas Congress meets throughout the entire year. Finally, the median legislator has access to only 3 staff

members, whereas the average member of Congress has access to 40 staff members.

Current measures of the construct of legislative professionalism reduce these

factors into a single index, with Congress as the baseline. Even the most professional

legislature, New York, lags far behind its Congressional counterpart. These

comparisons are included below as Table 2-1. A striking feature of legislative

professionalism is the variance between states. While some state legislators come

closer to approximating the information-gathering capabilities of members of

Congress, others could not be more different (such as New Mexico, which does not

pay any annual salary to legislators). Thus, while it is true that all state legislators'

information-gathering capabilities are limited as compared with members of

Congress, some are far more limited than others.

Table 2-1. Legislative Professionalism: Comparing State Legislators to Members of Congress

	Low	**Median**	**High**	**Congress**
Salary[7]	$0	$23,400	$90,562	$174,000
Session Length	30 Days	71 Days	261 Days	261 Days
Staff/ Legislator	.35	3.27	17.5	39.92
Professionalism (Squire, 2007)	.031	.165	.606	1

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[7] State data are taken from *NCSL* at: http://www.ncsl.org/research/about-state-legislatures/full-and-part-time-legislatures.aspx; Federal data are taken from
Brookings at: https://www.brookings.edu/wp-content/uploads/2016/06/Vital-Statistics-Chapter-5-Congressional-Staff-and-Operating-Expenses_UPDATE.pdf

The effects of these institutional characteristics on legislators' ability to gather information are borne out in multiple ways. The personal and financial demands on citizen legislators (non-professional legislators) can be high; many also maintain full-time careers in addition to their service in the legislature, which often requires that they step away from their career for several months each year (Powell, 2012). Additionally, in contrast with members of Congress who typically maintain residences in Washington D.C. and their home districts, citizen legislators must commute to the state capital or stay in hotels for extended periods of time. Thus, service in a citizen legislature has the dual effect of increasing the time demands on the legislator as well as increasing the demands on their personal, work, and family lives. Furthermore, without professional staff members with expertise and dedicated time (Romzek & Utter, 1997), legislators must gather reelection information unaided. This task is formidable, as the legislator faces a short legislative session in which to move legislation through the complex legislative process. Thus, part-time state legislators spend relatively little time focused on constituent-related information-gathering (Maestas, 2003).

In review, as compared with members of Congress, state legislators operate with limited attention to and information about the policy preferences of their constituents, which is the primary contributor to their reelection goals (Downs, 1957a; Keim & Zeithaml, 1986). However, Mooney (1991) shows that legislators do not make decisions without information; rather, they seek the information when it is lacking, from their colleagues and then from firms and other interested parties. Because state legislators have limited capability to gather this information they

pursue "…a 'satisficing' strategy in searching for information… they are likely to begin with the easiest, most accessible information and search sequentially for that which requires more effort… once they feel they are *well enough informed* [emphasis added] for a given decision, they stop their search" (Mooney, 1991: 446).

Firms in the healthcare industry (particularly hospitals) responding to the Affordable Care Act faced state legislators lacking knowledge about their voters. After participating in the federal process that produced the Affordable Care Act, hospitals were forced to turn their political activities toward state legislatures, particularly after the unexpected Supreme Court ruling in *NFIB vs. Sebelius* made Medicaid expansion optional for each state. This event prompted hospitals to target state legislatures with their political activities, where the voter preference assumption failed. The campaign contributions from hospitals likely provided access to state legislators, allowing them to express support for Medicaid expansion. However, as with other issues, contributions from these groups also raised the specter of salience of Medicaid expansion without providing useful information about the median voter preference on the issue. Thus, as contributions from hospitals increased, legislators gained increasing information about the salience of the issue but lacked information on median voter preference. As a result, contributions likely increased the amount of search required by citizen legislators regarding Medicaid expansion:

> *Hypothesis 1a: Campaign contributions from hospitals reduced the hazard of Medicaid expansion.*

Consistent with this hypothesis, among states with more professional legislatures, campaign contributions should operate as if the voter preference assumption holds: the hospital should be more likely to use the campaign contributions to persuade legislators who are aware of voter preferences and know that they have discretion on the issue. This hypothesis is predicated on the assertion that, on average, state legislators have limited knowledge of voter preferences due to the citizen nature of the legislature in which they serve. Thus, the delaying effects of campaign contributions should be diminished in legislatures that support legislators' information-gathering efforts. As depicted in Table 1, substantial variation exists among the states in the various institutional characteristics that contribute to legislators' information-gathering capabilities. The dual effects from a large staff and a singular time priority combine to increase the legislator's ability to gather and accumulate information about voter preferences in the district. In the case of hospitals seeking Medicaid expansion, the delay in Medicaid expansion created by hospitals' campaign contributions is likely to reverse in more professional legislatures, meaning that campaign contributions speed up Medicaid expansion in these states:

> *Hypothesis 1b: Legislative professionalism moderates the relationship between hospitals' campaign contributions and Medicaid expansion such that the interaction increases the hazard of Medicaid expansion.*

2.2.4. Information in the Environment

To the extent that any institutional characteristic providing reelection-relevant information to legislators positively moderates the relationship presented in Hypothesis 1, our confidence in the underlying information-based mechanism increases. This section identifies two additional characteristics: district size and partisan control.

One institutional factor affecting information available to legislators is the number of persons represented in the legislative district, the *legislative district size*. Legislative district size is a function of two factors: the population in a given state and the number of legislators in the legislative chamber. These two factors vary independently across states, which results in an enormous amount of variation in legislative district size. The smallest legislative districts are located in the New Hampshire House of Representatives, where each of the 400 legislators represent just over 3,000 people. In contrast, the largest legislative districts are Senate districts in California, where each of the forty Senators represented nearly one million people in 2010.[8] Large legislative districts tend to include whole or multiple cities. The economics of local news outlets mean that these cities are much more likely to be represented in public opinion polls than are small subdivisions; i.e., a poll might conclude that voters in city X prefer one policy to another. These polls are much less likely to include detailed information about subdivisions within a city or

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[8] Descriptive statistics about legislative districts are compiled by NCSL and made available online at http://www.ncsl.org/research/about-state-legislatures/2010-constituents-per-state-legislative-district.aspx

very small cities. Thus, publicly available data, such as opinion polls, are more likely to provide reliable information about voter preferences in large legislative districts than they are in small legislative districts.

Similarly, when a firm conveys its preferences to a legislator, the legislator may infer that those preferences are held by members of the firm, broadly speaking, including its employees (Lord, 2003). In a large legislative district, it is more likely that those employees live within the district; thus, the firm may infer preferences about the voters in its districts based on the firm's preferences. In contrast, the legislator representing a small district has less assurance; the firm's employees could easily live in a neighboring district. As a result, the firm's political activities in a large legislative district are much more likely to convey information about median voter preferences in a large district than in a small district.

Hospitals seeking Medicaid expansion confront these realities. In larger legislative districts, the median voter preference on the issue is more likely to be revealed by public opinion polls. Similarly, legislators representing the hospital can infer voter support for expansion based on the hospital's support. In contrast, legislators in smaller legislative districts have no such assurance; despite evidence of the policy's salience from the hospitals' participation, the legislator remains ignorant of the median voter preference. Thus, the delay in Medicaid expansion that results from campaign contributions is likely to reverse as legislative district size increases:

Hypothesis 2a: Legislative district size moderates the relationship between campaign contributions from hospitals and Medicaid expansion such that the interaction increases the hazard of Medicaid expansion.

A final institutional characteristic affecting information availability for legislators relates to the partisan makeup of the legislature. Political parties can serve as heuristics for voters and legislators, filling the gap when either side lacks information about the other's preferences (Rahn, 1993). A single voter is represented by multiple individuals; for example, a state House member, a State Senator, and the Governor all represent the same individual; thus, that individual's policy preferences influence the median voter position for all three of these officials. When a legislator's voters have uniformly elected officials from the same party, these legislators may infer some degree of consensus in the policy preferences of the median voter in the district, and that consensus will likely center close to the party's stated position on the issue. In this way, situations of unified government, in which the same party controls the House, Senate, and Governor's office, are likely to overcome the failure of the voter preference assumption in the average state legislature, as compared with divided governments of any form. Hospitals seeking Medicaid expansion under unified governments enjoy this benefit and are therefore more likely to enjoy success with their campaign contributions:

Hypothesis 2b: Unified government moderates the relationship between campaign contributions from hospitals and Medicaid expansion such that the interaction increases the hazard of Medicaid expansion.

2.3. Methods

2.3.1. Data

The data for this study are drawn from multiple sources, including the *Kaiser Commission on Medicaid and the Uninsured,* the *National Institute on Money in State Politics*, the *National Conference of State Legislatures (NCSL)*, and the *U.S. Census Bureau*. These data cover six calendar years (2010—2015) following passage of the ACA. Because the dependent variable occurs in a given year at the state-level, all variables that are not inherently state-level are aggregated at the state-year level. All states are represented in the dataset. The primary dependent variable in this study is *Medicaid Expansion*, which is a dichotomous variable that takes the value of 1 if a state expands Medicaid coverage to all individual below 133% of the federal poverty level in any given year. This coding scheme facilitates use of a duration model, where 1 is an indicator of the "event" used in duration analysis. These data were collected from the annual report of the *Kaiser Commission on Medicaid and the Uninsured*, which tracks state-by-state policy changes related to Medicaid.

The primary independent variable in this study, *Campaign Contributions from Hospitals and Employees*, is the sum of all contributions from hospitals, hospital associations, and their employees to state level political candidates in a given state-year. Campaign contribution data were obtained from the *National Institute on Money in State Politics* (www.followthemoney.org). Relying on campaign finance filing reports, the *Institute* categorizes the source of these contributions into "individual" meaning that the contributor is either an individual employee within

the industry or "non-individual" meaning the contributor is the organization, its

PAC, or an industry association. My analyses (described below) include both types

of contributors in order to accommodate the likelihood of individual hospital

executives contributing as part of the hospital's overall contribution strategy (Lord,

2000a). Contribution summary statistics, as well as correlations with other

variables, are included as Table 2-2.

The predicted *contributions* variable (described below) is interacted with

three different state-level institutional characteristics. *Legislative professionalism* is

an index used by political scientists that is constructed using the ratio of staff to

legislators, legislative session length, and legislator salary (Squire, 2007, 2012).

Large legislative districts is a dichotomous variable that takes the value of 1 for the

twenty-five states with the largest average legislative district size. Finally, *Unified*

government is a dichotomous indicator that takes the value of 1 when the same

political party controls both chambers of the legislature and the Governor's office.

Unified government and *Large legislative districts* were obtained from the bipartisan

NCSL. All but *Unified government* are time-invariant.

In my analyses, I include several relevant control variables. Time invariant

controls include *Federal Funds as % of State Budget,* which is the portion of the

state's revenue that comes from the federal government. This variable accounts for

the possibility that some states may be more inclined to rely on federal programs

like Medicaid than others. The *% of Urban Residents in 2010* and the *Poverty Rate in*

2010 of each state account for the state's need for Medicaid expansion, as

individuals in rural areas and in poverty are more likely to be underinsured. All of

these variables are taken from the U.S. Census Bureau.

Table 2-2. Pairwise Correlations

	Mean	S. Dev.	1	2	3	4	5	6	7
1. Medicaid Expansion	0.1	0.30							
2. Contributions: Hospitals	412120	880063	-0.07						
3. Legislative Professionalism	0.19	0.12	0.09	0.32					
4. Non Term-limited	0.67	0.47	0.01	-0.09	-0.19				
5. Large Legislative Districts	0.35	0.48	0.01	0.33	0.58	-0.12			
6. Unified Government	0.62	0.49	-0.02	0.1	0.03	0.16	0.07		
7. Federal % of State Budget	0.22	0.05	-0.12	-0.08	-0.34	-0.08	-0.27	0.05	
8. % of Urban Residents	73.59	14.44	0.08	0.24	0.5	0.01	0.4	0.06	-0.57
9. Poverty Rate in 2010	14.26	3.04	-0.08	0.15	0.01	-0.23	0.1	0.1	0.58
10. Count of State Legislators	147.66	59.70	0	0.09	0.04	0.21	0.1	-0.03	0.13
11. State Health Index	0.08	0.52	0.07	-0.1	0.05	0.21	-0.03	-0.07	-0.49
12. Republican Control	0.47	0.50	-0.12	-0.02	-0.18	-0.08	0.06	0.37	0.32
13. Contributions: Health N-P	123459	1200000	0.13	0.46	0.24	-0.13	0.09	0.04	-0.09
14. Contributions: Cons. N-P	583205	1890000	0.04	0.47	0.23	-0.08	0.25	0.01	-0.12
15. Prior Adopting Neighbor	0.43	0.50	0.05	-0.1	0.05	-0.04	-0.03	-0.04	-0.12
16. Contribution Limits	1.64	0.66	0	0.02	0	0.04	0.14	-0.07	-0.2
17. Population in 2010	6020000	6650000	0	0.55	0.72	-0.14	0.68	0.13	-0.21
18. Medicaid Eligibility Index	180.02	54.38	0.06	0.06	0.33	0.09	0.08	-0.07	-0.21

	8	9	10	11	12	13	14	15	16	17
1. Medicaid Expansion										
2. Contributions: Hospitals										
3. Legislative Professionalism										
4. Non Term-limited										
5. Large Legislative Districts										
6. Unified Government										
7. Federal % of State Budget										
8. % of Urban Residents										
9. Poverty Rate in 2010	-0.25									
10. Count of State Legislators	-0.19	-0.09								
11. State Health Index	0.24	-0.8	0.07							
12. Republican Control	-0.22	0.28	0.1	-0.33						
13. Contributions: Health N-P	0.12	0.03	-0.03	0.03	-0.06					
14. Contributions: Cons. N-P	0.13	0.04	0.08	-0.06	0	0.43				
15. Prior Adopting Neighbor	0.11	-0.15	-0.12	0.14	-0.01	-0.02	-0.07			
16. Contribution Limits	0.08	-0.11	-0.08	0.11	0.11	-0.04	0.16	0.15		
17. Population in 2010	0.45	0.18	0.17	-0.09	0.01	0.36	0.35	-0.08	-0.02	
18. Medicaid Eligibility Index	0.17	-0.35	0.23	0.48	-0.41	0.11	-0.06	-0.01	-0.15	0.14

Time-varying controls include *State Health Index,* a multifactor ranking taken from the United Health Foundation's annual "American's Health Rankings" report. This variable accounts for the possibility that voters in healthy states will be less likely to demand expanded healthcare coverage. *Republican Control of Both Chambers* is a dichotomous indicator that takes the value of 1 when both chambers of government are controlled by the Republican party. This variable, taken from *NCSL*, accounts for partisan disposition toward Medicaid expansion. *Contributions from Health Policy Non-profits* and *Contributions from Conservative Non-profits* are compiled similarly to the primary independent variable and are taken from the *National Institute on Money in State Politics.* These variables account for the possibility that hospitals face competition on the demand-side of the market for Medicaid expansion. Finally, *Prior Adopting Neighbor* is a dichotomous indicator that takes the value of 1 when any of the state's bordering neighbors has adopted Medicaid expansion in any previous year. This variable accounts for the possibility of policy diffusion across states (Karch, 2007; Rogers, 2003) and was constructed from the neighboring border states identified by Holmes (1998).

Two variables are used as instruments in the analysis. *Count of State Legislators* is the total number of legislators in the state, which affects overall demand for campaign contributions (Powell, 2012) but is unlikely to be related to the passage of any particular policy. This variable is collected from *NCSL*. Similarly, *Contribution Limits* is a categorical variable that takes advantage of differences in campaign finance laws across the states. In contrast with the federal government's PAC-related requirements limiting direct corporate spending, many states allow

direct campaign spending from the corporate treasury. This variable is constructed with three distinct categories: 1) corporate contributions are prohibited; 2) corporate contributions are allowed but limited, and 3) corporate contributions are unlimited. These contribution limits are likely to decrease the ease through which hospitals may contribute to campaigns, but are not likely to be tied to any particular policy outcome.

2.3.2. Analyses

This paper benefits from the shock of the ACA's passage and the exogenous subsequent Supreme Court ruling which together prompted hospitals in ever state to consider Medicaid expansion. Because of the ACA, hospitals across the United States sought the same policy in every state at approximately the same time. Without a specific deadline for states to act, each year presents a new opportunity for the states to expand their Medicaid programs. The passage of time is a unique characteristic of policy adoption among the states; states tend to adopt policy consistent with other diffusion models (Karch, 2007; Rogers, 2003). To account for this time-based element of adoption, I employ a "survival" or "hazard" model, the Cox Proportional Hazards model (Box-Steffensmeier & Jones, 2004). The hazard rate is:

$$h_i(t) = h_0(t)\, e^{\beta' x}$$

In this paper, $h_i(t)$ is the hazard rate for the ith state, $h_0(t)$ is the baseline hazard rate of adoption, and $\beta' x$ is the vector of covariates included in the

regression, including time varying and time invariant independent variables and controls, where the unique characteristic of including time variant covariates is that they must be interacted with *time to event* in the model (Box-Steffensmeier & Jones, 2004).

Coefficient estimates on the vector of covariates should be interpreted as increasing or decreasing the hazard of Medicaid expansion. Because the interpretation of hazard rates becomes increasingly difficult with time varying covariates and continuous independent variables, I present coefficient estimates rather than the hazard rates (which are all close to one) in my analyses.

The state of Nebraska is a special case because it has a unicameral, non-partisan legislature. Political scientists who study subnational politics often exclude it from their analyses for this reason. While I included it in the primary analyses presented below, I reran all models with Nebraska excluded. The results remain substantially unchanged; directionality remains the same, the coefficient estimates are nearly identical, and significance levels are unaffected. I conclude that including Nebraska in my analyses does not substantially alter my findings.

Another potential concern with the analysis is the choice of start date. The Affordable Care Act required states to adopt the policy any time between 2010 and 2014; however, in 2012, the Supreme Court ruled that the expansion was optional for states to adopt. Thus, it was possible to adopt the policy as early as 2010, but not truly and exogenously a state-level choice until 2012. I perform two analyses: the

primary analyses beginning in 2010 and a sub-sample analysis limiting the data to

2012 and forward. My results are robust to this sub-sample analysis.

2.3.3. Endogeneity Corrections

This paper suffers from the endogeneity threat of an omitted variable. It is

possible that partisan policy preferences in a given state drive both contributions

(the independent variable) as well as Medicaid expansion (the dependent variable).

For example, it is likely that hospitals in Republican-controlled states will anticipate

a more difficult fight and thus will contribute more money in states where the

likelihood of expansion is lower.

I use two separate approaches to address this endogeneity threat. The

simplest approach to address an omitted variable is to include the variable in the

model. In this case, I would include a measure of the policy preferences of either the

legislators in the state or the median voter in the state, which should be identical

(Downs, 1957a). However, because no such measure about this specific policy issue

exists, I must use a crude proxy, which is *Republican Control* of both chambers of the

legislatures. Assuming that Republicans tend to oppose Medicaid expansion, this

indicator roughly approximates average policy preferences that are opposed to

Medicaid expansion.

However, particularly because the proxy is crude, I employ an additional

correction to address endogeneity. A particularly useful tool for addressing the

omitted variable bias is the use of a two-stage instrumental variable regression. The

first stage regression includes all covariates in addition to one or more instruments that clearly predict the independent variable but not the dependent variable of interest in the second stage regression. The *predicted* values of the independent variable of interest ("P-hat") are then used in the second-stage regression in place of the original independent variable. The two-stage least squares (2SLS) approach is traditionally used when the second-stage regression is a simple OLS regression. However, recent efforts by medical research methodologists have demonstrated the value and validity of using the two-stage procedure to address endogeneity in event history analysis (MacKenzie, Tosteson, Morden, Stukel, & O'Malley, 2014). Thus, the results presented below rely on a two-stage event history analysis. The first-stage regression results are presented as Model 1 in Table 2-3.

2.4. Results

The primary independent variable of the study is *Predicted Contributions from Hospitals ("P-hat")*. The coefficient estimates for my Cox regression analyses are presented in Table 2-3. Model 1 includes control variables only. The strongest and most consistent effect among the control variables is the surprising negative and significant effect of *Prior Adopting Neighbor*. In Model 2, the coefficient is both negative and significant (β=-0.223, p<0.05). Results are similar in the full Model 7 (β=-0.285, p<0.01).

In Hypothesis 1a, I argue that hospitals' campaign contributions will be negatively related to the hazard of Medicaid expansion. The coefficient on *Predicted*

Hospital Contributions is negative but not significant in Model 3 (β=-0.00, p>0.1), however, it becomes significant in the full Model 7 (β=-0.00, p<0.01) that accounts for various institutional characteristics. While the coefficient on this variable is small, it represents the percentage change in the hazard of Medicaid expansion for *every dollar* contributed. Hypothesis 1a is supported.

Each of the moderating hypotheses tests whether environment-level factors overcome the knowledge deficit for state legislators, allowing them to transact in the political marketplace. Hypothesis 1b argues that in more professional legislatures, campaign contributions will increase the hazard of Medicaid expansion. This interaction is tested in Model 4 and the full Model 7. The coefficient on the *Legislative Professionalism* interaction with *Predicted Contributions from Hospitals* is positive and significant in both models (β=0.00, p<0.01). This result is consistent with my prediction. As professionalism increases, the delaying effect of contributions appears to be reversed and hospitals' contributions in these highly professionalized legislatures are more likely to obtain Medicaid expansion. Hypothesis 1b is supported.

Hypothesis 2a argues that in *Large legislative districts,* campaign contributions will increase the hazard of Medicaid expansion. The interaction hypothesis is tested in Model 5 and the full Model 7. The coefficient on the Large *legislative districts* interaction is not statistically different from zero in either model (β=0.00, p>0.1; β=-0.00, p>0.1, respectively). Hypothesis 2a is not supported.

Hypothesis 2b argues that under *Unified government,* campaign contributions will increase the hazard of Medicaid expansion. The hypothesis is tested in Models 6 and 7. The coefficient on the *Unified government* interaction with *Contributions from hospitals* is positive and significant in Model 6 (β=0.00, $p<0.05$), and remains significant in the full model 7 (β=0.00, $p<0.05$). Hypothesis 2b is supported.

My findings demonstrate that campaign contributions from hospitals during the years following the Affordable Care Act were negatively related to the hazard of Medicaid expansion. The interaction tests generally support the thesis related to state legislators' limited information: as this information limitation is overcome, firms are able to transact in policy markets with state legislators.

Table 2-3. Coefficients on the Hazard of Medicaid Expansion, Instrumented Cox Model

VARIABLES	(1) Hospitals' Contrib.	(2) Expand Med.	(3) Expand Med.	(4) Expand Med.	(5) Expand Med.	(6) Expand Med.	(7) Expand Med.
Time Invariant Covariates (2-7)							
Federal Funds as % of State Budget	1.249e+06	-5.838	-5.206	-6.633	-5.693	-6.151	-5.957
	(1.0e+06)	(5.003)	(4.838)	(5.646)	(5.601)	(5.043)	(5.633)
% of Urban Residents in 2010	6,987**	-0.00039	0.0152	0.0245	0.0161	0.0125	0.0286
	(3,142)	(0.0144)	(0.0180)	(0.0184)	(0.0211)	(0.0187)	(0.0210)
Poverty Rate in 2010	23,226	-0.0728	-0.00353	-0.0327	0.0262	-0.00958	-0.0763
	(19,105)	(0.102)	(0.120)	(0.124)	(0.132)	(0.121)	(0.119)
Time Varying Covariates (2-7)							
State Health Index	-78,284	-0.101	-0.0846	-0.159	-0.0729	-0.0712	-0.174
	(100,868)	(0.157)	(0.152)	(0.148)	(0.150)	(0.165)	(0.156)
GOP Legislature	-126,925	-0.179	-0.190	-0.224**	-0.199	-0.200*	-0.229*
	(81,465)	(0.120)	(0.116)	(0.104)	(0.124)	(0.121)	(0.123)
Contributions from Health Policy Non-profits	0.224	0.00	0.00*	-0.00	-0.00	0.00	-0.00
	(0.179)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Contributions from Conservative Non-profits	0.109*	0.00	0.00*	0.00	0.00	0.00	0.00
	(0.0607)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Prior Adopting Neighbor	-44,898	-0.223**	-0.24***	-0.30***	-0.24***	-0.212**	-0.29***
	(74,731)	(0.0916)	(0.0894)	(0.0929)	(0.0911)	(0.0951)	(0.104)
Legislative Professionalism 2009	459155			-1.694			-2.287**
	(649345)			(1.061)			(1.120)
Large Legislative Districts	365512***				-0.332		0.339
	(118,775)				(0.309)		(0.333)
Unified Government	103,582					-0.188	-0.214
	(72,633)					(0.124)	(0.134)
Corporate Contributions Limited	142,002*						
	(75,307)						
Corporate Contributions Unlimited	331005*						
	(175358)						
Count of State Legislators	1,326**						
	(537.3)						
Predicted Hospitals' Contributions (P-hat)			-0.00	-0.00***	-0.00	-0.00***	-0.00***
			(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
P-hat X Legislative Professionalism 2009				0.00***			0.00***
				(0.00)			(0.00)
P-hat X Large Legislative Districts					0.00		-0.00
					(0.00)		(0.00)
P-hat X Unified Government						0.00**	0.00**
						(0.00)	(0.00)
Constant	-1.266e+06***						
	(469740)						
Observations	300	300	300	300	300	300	300
R-squared	0.420						

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

2.5. Discussion

For firms to transact in policy markets, supply-side legislators must have information about their constituents' policy preferences. Absent this information, campaign contributions are likely to provoke search, *delaying* rather than accelerating adoption of the policy the firm seeks. Institutional characteristics that vary systematically across state legislatures directly impact the availability of information. The implication of these findings for firms engaging in political strategies is that the effectiveness of a given political strategy (particularly campaign contributions, which are tested here) is contingent on the institutional environment in which those strategies occur. In the context of hospital contributions around Medicaid expansion, I find support for the argument that the average level of campaign contributions in a given state *decreased* the hazard of Medicaid expansion in any given year. However, hospitals' contributions *increased* the hazard of Medicaid expansion in professional legislatures and under unified governments, both of which overcome the knowledge limitations of the average state legislator. Assuming that conditions of issue salience and voter preference are favorable (Keim & Zeithaml, 1986), firms that engage in CPA across multiple institutional contexts will find that campaign contributions are more effective with more professional legislators and under united government.

These findings have implications for the firm's nonmarket strategy. I extend the institutional economics perspective that the firm's nonmarket strategy will be effective only insofar as it is compatible with the institutional environment (Ahuja &

Yayavaram, 2011; Dorobantu, Kaul, & Zelner, 2017; North, 1990; Peng, Wang, & Jiang, 2008) by showing that the effectiveness of the firm's strategy may also be contingent on the institutional constraints on the focal firm's exchange partners (in this case, state legislators in policy markets). While I have shown that campaign contributions are relatively less effective in citizen legislatures, it is likely that other nonmarket strategies, such as coalition building, that convey more information will be relatively more effective in these institutional environments. Thus, my findings suggest that the choice of a particular political strategy is not only contingent on the issue characteristics (Keim & Zeithaml, 1986), but also on the institutional design constraining supply-side policymakers.

This paper also contributes to the subnational politics literature. Whereas prior research has identified the role of both institutional characteristics and interest group activity on policy adoption (e.g., Lax & Phillips, 2012), I demonstrate the importance of examining their interaction. Similarly, this work extends Powell's (2012) findings that various state-level institutional characteristics enhance the *perceived* "influence of campaign contributions in state legislatures." Whereas Powell finds that state legislators in more professional legislatures perceive that their colleagues are more likely to be influenced by campaign contributions, I demonstrate that these perceptions may be well-founded, at least in the context of Medicaid expansion.

One clear trend emerges from the findings in this paper: the institutional differences among the states and between state legislatures and Congress are

nontrivial. These nontrivial differences suggest that a particular corporate political strategy which is very effective in one context may be much less effective in another context, even within the seemingly homogeneous U.S. These differences have largely been assumed away in the literature, despite having implications for positive political theory and empirical CPA research. Applications of positive political theory, which assume political markets, have emphasized the "attractiveness of political markets" which generally are predicted to affect a firm's decision to enter that market (Bonardi, Hillman, & Keim, 2005). The arguments presented here suggest that characteristics of a particular market may not only affect the decision to enter, but may also affect the returns to entering, holding the initial decision constant. Thus, future work must move past the decision to enter in order to examine the effectiveness of the strategy after having made the decision. These efforts are likely to contribute to growing efforts to explain the contradictory findings on the performance returns to CPA (Hadani & Schuler, 2013; Lux et al., 2011). The findings in this paper suggest that the immediate returns to CPA – favorable policy – are contingent on the institutional context in which they occur, holding constant the issue type. As a result, prior efforts to meta-analyze the relationship between CPA and performance (e.g., Lux et al., 2011) may have failed to account for relevant characteristics between studies. Similarly, empirical efforts to aggregate total contributions from a particular firm may be inappropriate, as contributions at the state level appear to behave fundamentally differently from those at the federal level (except, perhaps, in highly professionalized state legislatures).

2.5.1. Limitations and Future Research

Contributions are only one of a broader set of strategies. It is possible that contributions themselves are relatively ineffective in a particular state, but they may be a vital part of the overall political strategy. For example, the firm may use the contribution to gain access and then use that access to represent the position of multiple stakeholders. Campaign contributions may be ineffective primarily because they overcome the legislator's lack of knowledge related to issue salience but not related to median voter preference. Thus, political strategies that reveal information about a broad support base for the firm's policy position are likely to be much more effective with legislators that lack information. Broadly speaking, coalition building, whether horizontal or vertical (Kingsley et al., 2012), is likely to inherently provide this type of information to the legislator by demonstrating a median position on the issue. Future work in state legislatures is likely to find this strategy to be an important component of the firm's corporate political strategy.

The unique characteristics of the policy issue studied here are both beneficial and problematic. This study emphasized a policy issue that is both highly partisan in nature and well-publicized. Prior research has concluded that partisan issues represent unattractive policy markets (Kingsley et al., 2012); however, this paper should serve as a conservative test of the theory because campaign contributions are likely to play an even larger role in issues that are less partisan than this one. Similarly, because of the highly visible nature of the Affordable Care Act, the Medicaid expansion issue was generally well-known; however, this too should

represent a conservative test of the theory. If we can observe the effects of a knowledge deficit on even a well-known issue, then the effects should be even more pronounced on a more obscure issue.

This study examined only three institutional differences between states, with an emphasis on legislative professionalism. Many other difference could potentially affect the returns to corporate political activities, including the margins of control in each state and the power of leadership in each legislative chamber (Powell, 2012). Future research should examine these and other institutional differences that may affect the returns to CPA.

This study also invites future research on the implications of these institutional variations on the behavior of policy demanders. In particular, there are likely two fruitful avenues of future research. First, whereas this study finds that campaign contributions are less effective in citizen legislatures, it is unclear whether a similar effect will exist on other types of CPA such as lobbying. It is possible that firms increase their lobbying expenditures or other political activities to compensate for contributions' relative ineffectiveness. In this way, other types of CPA might be substitutes for, rather than complements to, CPA. Second, this study invites future work that is conducted at the firm level, examining the link between firm-level contributions and firm level outcomes, such as performance. This difficult empirical challenge will require careful attention to firm behavior between and within individual states.

2.5.2. Conclusion

Even within the United States, which is often treated as a homogenous institutional context, the analyses of this paper suggest that institutional variations matter in the study of corporate political activity. In particular, varying degrees of legislative professionalism and partisan control alter the effectiveness of campaign contributions, particularly in the context of hospital contributions to obtain Medicaid expansion. These insights are consistent with, but represent an enhancement to, the emerging institutions-based view of strategy (Ahuja & Yayavaram, 2011; Peng et al., 2008). Whereas prior work in this field has emphasized international institutional variation, this paper emphasizes the role of sub-national institutional variation. This sub-national variation is likely to represent a constraint on the efficacy of the focal firm's non-market strategy. More importantly, future efforts to understand the financial returns to CPA must explicitly incorporate these institutional differences.

Chapter 3

Effective Coalition Composition as a Nonmarket Strategy: Vertical and Horizontal Coalitions in the Healthcare Sector

3.1.1. Abstract

In this paper, I develop a novel empirical approach to identify the membership of two types of coalitions: vertical, comprised of the focal firm's supply chain, and horizontal, which include ideological interest groups, local governments, and individuals not affiliated with the focal firm's industry. My approach infers a coalition from the set of organizations which publicly support a bill in a legislative committee hearing. I argue that these two coalitions convey different types of information for lawmakers: vertical coalitions tend to provide more technical information, whereas horizontal coalitions tend to provide more political information. Using data from state legislative committee hearing testimonies by hospitals and their coalitions on Medicaid expansion following the Affordable Care Act, I show that horizontal coalition support increases the likelihood of favorable policy adoption. Horizontal coalition support has the strongest effect in citizen legislatures, where demand for political information is highest.

In the corporate political activity (CPA) literature (Hillman et al., 2004), there is increasing interest in the political strategy of coalition building, which "involves efforts by the corporation to find other groups of voters who may share common political interests on a particular legislative issue" (Keim & Zeithaml, 1986: 830). One active focus among scholars interested in coalitions has been that of trade associations, with an emphasis on the role that these collectives play in the policymaking process (Barnett, 2012; Rajwani et al., 2015). A focus on firms rather than associations has led other scholars to conceptualize the ideal composition of coalitions, with an interest in understanding with whom firms partner in order to effectively achieve favorable policy. For example, Kingsley, Vanden Bergh, and Bonardi (2012) elucidate a distinction between vertical and horizontal (the former including organizations in the focal firm's supply chain, and the latter including all other organizations) and predicts that firms will choose to develop one or the other according to the basis of opposition to the focal policy. Their work is consistent with earlier efforts predicting the effectiveness of coalitions over other strategies such as campaign contributions according to characteristics of the focal policy issue (Bonardi & Keim, 2005; Keim & Zeithaml, 1986). Overall, scholars predict that coalitions generally tend to be an effective political strategy for salient policy issues (Bonardi & Keim, 2005; Keim & Zeithaml, 1986), and both horizontal and vertical coalitions are needed when the firm faces ideologically-based opposition to their preferred policy (Kingsley et al., 2012: 59).

This important conceptual work has lacked empirical examination, perhaps in part due to the difficulty of observing coalition formation and behavior. In

particular, it is difficult to examine the firm's coalition-building efforts because these activities tend to occur behind closed doors. Even an in-depth qualitative approach within a firm to observe this process would fail to capture the two-sided nature of most policy issues, preventing the researcher from assessing the effectiveness of such activities. Thus, we have little scientific, empirical evidence about the behavior or effectiveness of coalitions. This lack is particularly troubling given that we observe significant differences across the states in firms' abilities to obtain a particular favorable policy, even holding the characteristics of that policy issue (and its opposition) constant. These situations frequently occur when firms compete in multiple political jurisdictions (such as local, state, or national governments) for the same policy (Patnaik, 2015). In short, current research provides neither empirical evidence of effective coalition composition nor theoretical guidance for the firm in deciding with whom to develop a coalition, particularly as it moves between the many political jurisdictions in which it operates.

The dual purposes of this paper are to develop a theory of the conditions under which vertical and horizontal coalitions will be most effective and to develop a novel empirical approach for testing coalition effectiveness. Policymakers, who are the firm's exchange partners in political markets (Hillman & Keim, 1995), have different needs depending on the institutional context from which they legislate. Drawing on related research in political science, I argue that vertical coalitions are inherently suited to providing technical information, whereas horizontal coalitions are inherently suited to providing political information (Guston et al., 1997; Maisel, 1981; Rahn, 1993; Sabatier & Whiteman, 1985). I rely on the unique empirical

context of hospital political activity in state legislatures following the Affordable Care Act of 2010 which (in concert with the Supreme Court ruling in *N.F.I.B. v. Sebelius*) spurred hospitals to seek Medicaid expansion in every state simultaneously. I develop a novel dataset of state-level coalitions in the healthcare sector using legislative committee hearing testimony as a proxy for participation in the coalition. To measure the effectiveness of coalition-building activities, I examine whether the focal bill advanced in the committee, which is the most proximate political outcome of the activity. Finally, using the institutional characteristic of legislative professionalism as a measure of the degree to which legislators rely on technical or political information from interest groups, I show that vertical coalitions have a relatively uniform effect across the states but horizontal coalitions are most effective in citizen legislatures, where legislators are most likely to seek the political information provided by these coalitions.

In this paper, I contribute to the CPA literature in three important ways. First, I contribute to current theory on the effectiveness of coalition building activities in forwarding legislation. I show that the effectiveness of these coalition-building strategies is contingent on institutional characteristics, even holding constant the characteristics of the policy issue. Second, I provide one of the first large-sample empirical examinations of the two types of coalition-building strategies, developing a novel approach to the empirical examination of coalitions. This effort allows me to answer the question, "under what conditions are vertical and horizontal coalitions most successful in achieving the firm's policy objectives?" Finally, my work adds to three increasingly popular topics in the corporate political activity literature

emphasizing the returns to corporate political activities (e.g., Claessens, Feijen, & Laeven, 2008; Hadani & Schuler, 2013; Lux, Crook, & Woehr, 2011), the institutional factors that affect these returns (e.g., Choi, Jia, & Lu, 2015; Dorobantu, Kaul, & Zelner, 2017), and the link between the firm's stakeholder management and corporate political activity, with coalition building conceptualized as an important form of stakeholder management (e.g., Henisz et al., 2014).

3.2. Theory and Hypothesess

3.2.1. Coalition Building

3.2.1.1. Demand Side

Firms engage in political activities with the intent to secure favorable policies. Coalition building is only one of a handful of common corporate political activities, such as campaign contributions (Ansolabehere et al., 2003; Kalla & Broockman, 2015; Powell, 2012; Snyder, 1992; Stratmann, 1992, 1995), lobbying (Austen-Smith, 1993; Baumgartner et al., 2009; de Figueiredo & Richter, 2014), constituency building (Lord, 2000a), and advocacy advertising (Cutler & Muehling, 1989; Middleton, 1991; Pfau et al., 2002; Salmon, Reid, Pokrywczynski, & Willett, 1985). A generally-held perspective in the CPA literature is that a market for favorable policy exists in which firms demand favorable policy, legislators may supply that policy, and the currency of exchange is resources, including information (Hillman & Keim, 1995). There is significant evidence that the various corporate political activities are related to each other, with campaign contributions generally

facilitating lobbying activities (Kalla & Broockman, 2015) and high correlations among all the activities (Hadani & Schuler, 2013; Schuler et al., 2002). While some research tends to emphasize campaign contributions (de Figueiredo & Edwards, 2007; Snyder, 1990) and lobbying (de Figueiredo & Richter, 2014; de Figueiredo & Silverman, 2006; de Figueiredo & Tiller, 2001), scholars' attention has recently turned to coalition building (Kingsley et al., 2012).

The broad phenomenon of firms collaborating with each other and other organizations to achieve their policy goals, which is called coalition building when a firm attempts to organize these collaborations, has interested scholars for more than half a century. The result of a firm's coalition building efforts is direct political activity, such as lobbying, by other members of the coalition. The investigation of cooperation among multiple organizations to achieve some desired policy outcome has been a central theme of research grounded in collective action theory (Olson, 1965), though some scholars have relaxed the strong utility-maximizing assumptions central to it (e.g., Moe, 1988). Coalitions are an attractive political strategy for at least two reasons. First, coalitions may allow firms to spread the costs of providing information to legislators among multiple organizations, reducing the cost to any single organization (Olson, 1965). The second, and likely more important, reason is that coalitions may be successful where other activities fail (Keim & Zeithaml, 1986). This is because coalitions both generate support for a policy among previously neutral parties and increases legislators' awareness of that support.

Despite these benefits to coalition building, it is not without challenges. These challenges generally relate to the cost of organizing, which firms would prefer that other organizations incur (Olson, 1965). Trade associations, which are designed to overcome some of these collective action incentive problems, became the focus of early empirical work, despite arguments that political activities by individual, large firms may be more successful in achieving policy goals (Yoffie, 1988). Scholars have examined the organizational characteristics, such as organizational slack, that predict participation in trade associations (Lenway & Rehbein, 1991). Recently, scholars have called for an increase in trade association research, noting the important role they play linking firms to policymakers (Rajwani et al., 2015). While trade associations may be a driver of coalition formation, they are only a single participant and coalitions may be formed by any interested firm (Keim & Zeithaml, 1986).

When firms undertake to form coalitions, they seek to influence other organizations to engage in political activities. It is natural for the firm's coalition-building activities to be directed in the first place toward firms and organizations with whom it has recurring business-related contact. These firms and organizations tend to be primary stakeholders and participants in its supply-chain, such as employees (and their unions) and suppliers. Scholars refer to coalitions formed by these supply-chain participants as "vertical" coalitions (Kingsley et al., 2012). While these vertical coalitions are relatively easy to form because of the firm's existing business relationship with these organizations, vertical coalitions may be fraught with challenges when the focal policy benefits the focal firm at the expense of a

potential coalition participant. For example, right-to-work laws may benefit a firm at the expense of its employees.

Outside of its supply chain, the firm may also form coalitions with organizations that are outside of its supply chain. In some cases, these may include other firms, but they often include non-profit organizations, ideological interest groups, local government entities, or prominent citizens. Coalitions comprised of these members have been called "horizontal" coalitions. These horizontal coalitions may be costlier to form because the firm does not routinely interact with these organizations and thus cannot rely on established relationships to facilitate participation in the coalition. Despite these dichotomized labels, the set of coalition participants recruited by the firm may include both horizontal and vertical participants; however, it may be helpful to conceptualize a coalition as being comprised of these two parts, because the two parts are formed differently (as described previously) and may serve different functions. Kingsley et al. (2012) argue that the focal firm will engage either vertical coalitions or horizontal coalitions according to characteristics of the focal policy in the political market: policy issues emphasizing economic efficiency will result in vertical coalitions, while policy issues instigating rivalry based on ideology may motivate both horizontal and vertical coalitions.

While Kingsley et al. (2012) draw an important conceptual distinction between horizontal and vertical coalitions, their theoretical model remains untested and also fails to deliver a specific strategy (horizontal or vertical) for firms that face

ideologically-motivated opposition to their policy objectives. That is, under what conditions are horizontal coalitions or vertical coalitions most effective in achieving desired policy outcomes, particularly when ideologically-motivated opposition is held constant? The answer to this question is found in the supply side of political markets, where legislators seek various forms of information.

3.2.1.2. Supply Side

Political activities are intended to influence the outcomes of the policymaking process. Despite popular skepticism, firms cannot "buy votes" or "buy policies;" the influence process is more nuanced and subtle (Ansolabehere et al., 2003). Legislators have limited resources and limited attention to devote to myriad policy areas (Baumgartner et al., 2009; Hall & Deardorff, 2006). Scholars have noted the important role of information provision as an influence tactic because legislators tend to perpetually lack the information they need to effectively make decisions; for this reason, interest groups' lobbying activities have been referred to as a "legislative subsidy" (Hall & Deardorff, 2006). Political scientists have identified two distinct types of information that legislators seek: *technical information* about "the actual content of proposed legislative alternatives, the magnitude and causes of the problems they are designed to address, and their probable effects on society" and *political information* about "the likely impact of the legislation on reelection career prospects" (Sabatier & Whiteman, 1985: 397).

These two types of information have different value for policymakers. Positive political theorists, beginning with Downs (1957) and Buchanan and Tullock

(1962), hold that policymakers' decisions are foremost an act of self-interest, attempting to increase their likelihood of reelection. Political information, by definition, provides the type of information that facilitates these decisions. It includes information about the salience of a particular policy issue to the policymaker's constituents as well as the median preference of those constituents on the focal issue (Keim & Zeithaml, 1986). Thus, of the two types of information, political information directly facilitates the legislator's primary reelection goal and technical information does not. A direct implication of the positive political theory logic (Buchanan, 1999; Buchanan & Tullock, 1962) is that technical information occupies a decidedly secondary level of importance for legislators because it provides no information about reelection prospects. Technical information describes more generally the outcomes of a particular policy and is largely agnostic to the political effects of policy passage on the policymaker.

3.2.1.3. Demand Meets Supply

While both types of information are likely costly to acquire (Hall & Deardorff, 2006), expertise is required to generate technical information. Firms tend to be uniquely qualified to provide this technical information because they experience the effects of different policies and, as a matter of routine business practice, collect data that may be compiled to elucidate the effects of a policy proposal (at least in their own limited operating space) (Hall & Deardorff, 2006). Thus, the "moneyed interests" (Hall & Wayman, 1990: 797), firms, are particularly well-suited to providing this technical information to legislators. An overwhelming amount of

evidence suggests that firms attempt to gain access to policymakers (Hansen, 1991; Kalla & Broockman, 2015), strategically use the access to sway policymaker opinion (Hall & Deardorff, 2006; Hall & Wayman, 1990; Stratmann, 1995, 1998), and ultimately experience significant success in affecting policy outcomes (Gilens & Page, 2014). While campaign contributions may provide resources needed to acquire political information, the firm's direct provision of information through lobbying activities, etc. tends to be technical in nature. This success of providing technical information is particularly evident in Congress where Members have sufficient political information.

Comprised of a set of firms with relevant expertise, vertical coalitions are particularly well-suited to providing technical information to policymakers. By definition, technical information emphasizes the effects of a given policy on a particular industry and its stakeholders. Vertical coalition members can credibly provide such information because they routinely operate in the affected area and may even collect relevant data through the course of their business operations. Finally, beyond the focal firm's ability to provide this technical information, a vertical coalition may be able to provide a nuanced set of technical details to policymakers, as the effects of a given policy on multiple related stakeholders are identified. In contrast with this technical information is political information. Except in the rare case of firms whose primary business activities are to aggregate public opinion (such as polling firms or newspaper agencies), vertical coalitions provide relatively little information about the policy's effects on the policymaker's reelection prospects. Vertical coalitions are able to provide information about their own policy

preferences, but such efforts reveal little additional information about a broad set of the voting constituency. This assertion is particularly likely when the focal policy favors an entire industry rather than particular organizations within the industry. This is because when the policy benefits (nearly) all members of the industry, all members are likely to share a common preference, meaning that as the coalition increases in size, few additional preferences are revealed. Thus, except for policies that benefit one supply-chain member at the expense of another, vertical coalitions provide relatively little information on the median voter preference and median issue salience of the policy issue among the policymakers' constituents.

Horizontal coalitions are characterized by membership outside the firm's supply chain, including primarily other interest groups without a financial interest in the firm.[9] A prime example of a horizontal coalition participant would be a nonprofit organization dedicated to a social cause. In the case of Medicaid expansion, these coalition participants include organizations interested in social justice, poverty alleviation, and public health. However, horizontal coalition participants may also include private citizens with an interest in a particular policy, or other corporations without a direct relationship to the focal firm (or industry) but who nonetheless express an interest in the focal policy. Finally, horizontal

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[9] One of the outstanding questions in the literature is how to treat the focal firm's competitors. Some authors tend to include them in horizontal coalitions (Kingsley et al., 2012). However, this approach has both theoretical and practical problems. The first problem is that these firms do have a financial interest in the focal firm because they compete with it and because they are likely affected very similarly by public policies as the focal firm. There is also a robust literature on trade associations indicating that much political activity occurs by the industry as a whole. For these reasons and the practical reason that at the policy-level of analysis it is impossible to separate a focal firm from its competitors, I group all hospitals together, treating them as part of the vertical coalition.

coalitions may include community or government organizations, such as municipal

governments or state regulators. This broad nature of horizontal coalitions takes on

implications for the firm that are opposite those of vertical coalitions. First,

horizontal coalitions tend to be more costly to build for the firm because they do not

involve stakeholders with a recurrent business relationship. This means that firms

must engage in search to locate the stakeholders and may need to incentivize their

participation in the horizontal coalition. However, this characteristic of horizontal

coalitions directly implies that the financial interests of horizontal coalition

participants are unrelated. As a result, horizontal coalitions are likely to represent a

much broader set of interests than vertical coalitions and therefore provide a

significant amount of political information to policymakers. The expressed

preferences of a broad set of interests around a focal policy allow the policymaker to

infer a median voter preference from the interests represented in the coalition. In

contrast, this disparate set of groups and individuals is less likely to contribute

technical information, as some of these organizations and individuals do not

routinely gather these data as a part of their business operations.[10] Overall, then,

vertical and horizontal coalitions have very different characteristics and serve

essentially opposite functions in the provision of information to legislators. Vertical

coalitions tend to be composed of members of the focal industry which will

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[10] There may be some exceptions to this claim; for example, a nonprofit organization dedicated to poverty alleviation may collect relevant data as part of the organization's routine activities. Thus, the argument made here is that on average, vertical coalitions are better at providing technical information and horizontal coalitions are better at providing political information. Both types of coalitions provide both types of information, to some degree.

experience the financial effects of a particular policy and can provide technical

information about the effects of that policy. Horizontal coalitions tend to be

composed of a diverse set of interests and stakeholders and are therefore better

suited to providing political information, representing (or projecting) the median

voter position on a policy issue, which is the primary information used by legislators

to obtain and seek reelection.

3.2.2. Coalition Building in State Legislatures

The basic premise of coalition building research is that larger coalitions

provide larger amounts of information, which in turn mean more influence in

obtaining favorable policy. Each participant provides a unique piece of information,

such that the aggregate information supplied increases as the coalition grows.

Coalitions also work in the opposite: a large coalition opposing a policy will likely

inhibit passage, particularly given policymakers' bias in favor of the status quo

(Baumgartner et al., 2009). Furthermore, as noted by Baumgartner et al. (2009),

coalitions tend to exist on both sides of every issue, such that only coalition support

net of coalition opposition is likely to affect policy outcomes.[11]

In the case of horizontal coalitions, each organization provides (political)

information about its own preferences – whether in favor or against the focal policy.

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[11] Social scientists have long known that individuals experience gains and losses asymmetrically (Kahneman & Tversky, 1979); thus, it is possible that constituents (or firms) will be more likely to express their opposition to a policy than their support. However, for the purposes of my analysis, I assume that individuals (or firms) who choose to incur the costs of participation in politics will reside on both sides of the issue.

In practice then, legislators accrue additional political information with each additional organization identifying itself as supporting or opposing a policy. The legislator uses a simple calculus: among a broad set of constituents, how large is support for the policy relative to the opposition? Where this net support is strongest, legislators are most likely to vote in favor of legislation. In contrast, where net support is low (or negative, meaning net opposition), legislators will be more likely to vote against the legislation. Thus:

> *Hypothesis 1: As net horizontal coalition support increases, legislative support increases.*

The typical state legislature in the United States is not a "mini-Congress;" its configuration and characteristics behave in fundamentally different ways (Hamm, Hedlund, & Miller, 2014). Scholars of subnational politics have identified three characteristics in particular that together affect the influence of interest group activity (Powell, 2012, 2013): legislative compensation, session length, and staff size. Unlike many other institutional differences that are idiosyncratic, these three characteristics can be measured, compared between states in a valid and reliable way, and are collapsed into a single index called "legislative professionalism" (Squire, 1993, 2007, 2012). Legislative professionalism is defined as "the capacity of both individual members and the organization as a whole to generate and digest information in the policymaking process" (Squire, 2007: 211). Importantly, highly professional legislatures (with the United States Congress being an archetypal professional legislature) use this capacity to generate most political and some

technical information. Citizen legislatures, at the other end of the legislative professionalism continuum, lack this capacity to generate such information.

In contrast with professional legislators, citizen legislators do not have the resources to compile even the electorally-crucial political information. This being the highest priority for any legislator, citizen legislators will likely seek political information from external sources such as firms before seeking technical information. In practice, this means that citizen legislators will be more interested in "who" supports a particular policy than in "why" they support that policy. I noted an example of this phenomenon during my observation of a floor debate in the Utah Legislature (which is a citizen legislature). Consider the *entire presentation* made by Senator Henderson on S.B. 250, *Food Truck Licensing and Regulation*, which passed with a vote of 23 to 1 and received no debate:

> This bill provides reciprocity for licensing for health and safety inspections and streamlines some of the regulations and burdens and fees that food trucks have to tiptoe around and wade through in order to operate in the state of Utah. *There has been significant buy-in from all the parties involved. I have worked very, very closely on the language and specific ideas and concepts in the bill with the League of Cities and Towns, with the Association of Counties, with the Food Truck League, with the Restaurant Association, with the departments of Health, and also with the fire marshals* and I am open to any questions. [Emphasis added.]

In this example, 59 of the 106 words used to garner support for the bill provided *political* information about *who* supported the bill. The other 47 words provided an ambiguous description of the bill essentially devoid of technical information about the specific effects of the bill. Furthermore, despite an invitation for questions, the Senator's colleagues appeared indifferent to further technical

information and voted overwhelmingly in support of the bill based on the political information presented to them. As this example illustrates, citizen legislators are likely to highly value the political information contained in horizontal coalitions:

> *Hypothesis 2: Legislative professionalism moderates the relationship between net horizontal coalition support and legislative support such that the relationship is stronger in citizen legislatures.*

In the case of vertical coalitions, each organization provides (technical) information about the expected effects of a policy on itself. In practice, legislators accrue additional information as the number of organizations increases. For example, if a hospital, nurses association, and pharmaceutical company all provided information about a focal policy, the legislator could learn about the expected effects of that policy on each of these three groups. This technical information allows firms to strategically provide information that supports the firm's policy position. Whereas legislators lack this information, the firm's information subsidy may affect the legislator's perceptions of the desirability of the policy (Hall & Deardorff, 2006), and ultimately increase their likelihood of supporting the policy. While the technical information provided by increasingly large vertical coalitions may provide useful information to legislators, it is likely to be most effective after legislators have obtained sufficient political information. Though valuable to legislators, the technical information provided by vertical coalitions may be less valuable in the absence of political information. Nevertheless, each additional organization's support implicitly conveys a small amount of political information, representing the

preferences of a narrow set of constituents. Overall then, as the vertical coalition support (relative to vertical coalition opposition) increases, we should expect legislators to vote in favor of the policy. Thus:

Hypothesis 3: As net vertical coalition support increases, legislative support increases.

The effect of legislative professionalism on vertical coalitions is less clear-cut because of two countervailing forces. On the one hand, citizen legislators are likely to seek more technical information than their professional colleagues. On the other hand, citizen legislators are likely to prioritize the collection of political information and then may collect technical information as capacity permits. It is unclear which of these forces is stronger. If the former, vertical coalitions are likely to be strongest in citizen legislatures where the legislators experience the greatest information deficit. If the latter, vertical coalitions are likely to be stronger in professional legislatures, where legislators are likely to value external technical information because legislative institutions have already allowed them to acquire sufficient political information. In the former case, citizen legislators will be open to influence by copious technical arguments in favor of the policy. In the latter case, citizen legislators will largely ignore copious technical information because their limited capacity to process information will require the prioritization of political information. Thus, I present competing hypotheses:

Hypothesis 4a: Legislative professionalism moderates the relationship between net vertical coalition support and legislative support such that the relationship is stronger in citizen legislatures.

Hypothesis 4b: Legislative professionalism moderates the relationship between net vertical coalition support and legislative support such that the relationship is weaker in citizen legislatures.

3.3. Methods

3.3.1. Empirical Context

The empirical context for this study is state-level political activity in the healthcare sector from 2010 through 2016. Hospitals faced a daunting reality following passage of the Patient Protection and Affordable Care Act (ACA) in 2010: the federal program known as "DSH" that partially reimbursed them for uncompensated care to low-income individuals was set to expire. This program provided the primary reimbursement for hospitals' uncompensated care expenses: an amount averaging about 6% of total annual expenses[12]. For comparison, similar expenses compensated through private insurance and self-pay amount to only 33% of a hospital's average total annual expenses. Fortunately for hospitals, the jointly-run government insurance (between states and the federal government) known as

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[12] According to analysis by the American Hospital Association, available online at
https://www.aha.org/2017-12-11-trendwatch-chartbook-chapter-4-trends-hospital-financing

Medicaid was intended to expand to cover these low-income individuals, more than replacing the DSH program. However, the exogenous Supreme Court ruling in *N.F.I.B. v. Sebelius (2012)* held that states were not obligated to adopt the expanded Medicaid program. Thus, beginning in 2010 and accelerating in 2012, hospitals began an intense political campaign in state legislatures across the United States with a primary purpose of securing Medicaid expansion. This campaign became an essential activity for hospitals across the country, desperate to receive revenue for this 6% of uncompensated expenses. This campaign was not easy, particularly in states controlled by the Republican party. Leaders in these states tended to oppose Medicaid expansion either because of an ideological opposition to increased government spending and decreased state control or because of political opposition to Democratic President Obama's policy agenda. However, despite this ideological opposition, failure to expand Medicaid was not a foregone conclusion. The law was designed to be funded almost entirely by the federal government, providing an opportunity for states to provide a service to their citizens with marginal effects on state budgets.

This context is an ideal context to study the CPA of coalition building for at least three reasons. The first is that the sequence of events highlighted above allows me to examine the political activities of hospitals in state legislatures across the country during a relatively small window on a single policy issue, effectively holding constant the characteristics of that issue. The second reason is that the ideological opposition present on this issue is precisely appropriate for this study, as prior theoretical work on coalition building has argued that firms are likely to employ

both vertical and horizontal coalitions when ideological opposition is present

(Kingsley et al., 2012). Thus, findings in this context will demonstrate the relative

value of each coalition type even when current theory predicts that both will occur

and are necessary. Third, this context allows me to examine a policy issue that is

clearly linked to hospitals' financial performance, where a state's adoption of

Medicaid expansion equals on average a revenue source covering six percent of

hospitals' annual expenses. By choosing an issue so closely aligned with financial

performance, this approach allows me to focus my empirical analysis on a focal

policy while generalizing my findings to "nonmarket strategy [financial]

performance" (Bonardi et al., 2006: 1209) for firms. This approach is advantageous

because of the empirical difficulty linking corporate political activities with firm

performance (Lux et al., 2011).

Coalition building is inherently difficult to observe. I conducted some

qualitative fieldwork to supplement my quantitative analysis, including

conversations with multiple lobbyists and legislators, and observation of multiple

committee hearings and Senate floor debates of the 2017 Utah legislative session.

During my fieldwork associated with this project, one lobbyist told me that most of

his work is done in private meetings before he gets to the Capitol; indeed, for every

issue there is a set of relevant stakeholders that he reaches out to before

approaching elected officials. The Chairman of one standing committee in the Utah

Legislature told me that support from relevant stakeholders is "absolutely essential"

and that, "you have to work with the industry to get things done." This process of

building support for a policy with other stakeholders is the essence of coalition

building; I observed traces of it repeatedly during my observation of both formal

and informal interactions during the legislative session. One particularly interesting

example was a table in the (only) cafeteria on Utah's Capitol Hill, where I observed

representatives from multiple healthcare-related interest groups eating breakfast

together on a daily basis, discussing the day's policy issues. My observation of

committee hearings provided even more poignant examples. In one case, I observed

an individual prior to a committee meeting who appeared to be coaching several

individuals in preparation for their testimonies: "Are you ready?" he asked, to which

one responded, "Yes, I memorized every line." In another case, a bill sponsor stated

that, "We worked together bringing the stakeholders together for a year and a half

[on this bill]." Another bill sponsor testified that, "This bill is supported by [a long

list of organizations] and it is a consensus bill." Note that the sponsor's idea of

consensus applied to firms and interest groups (rather than policymakers): the

result was unanimous, bipartisan support from the committee members.

How can scholars observe, in a systematic way, this inherently difficult-to-

observe phenomenon? In this project, I have reasoned that what is more important

than the behind-the-scenes activities are those that are visible to the policymaker:

who shows up to express their support? While it is likely that groups express

support or opposition outside of a committee hearing, committee hearings are an

economical method for doing so for multiple reasons. The first is that these hearings

are open to the public, and thus do not require a campaign contribution to secure

access. Second, the firm can reach multiple legislators with a single visit. These

testimonies are not without costs: expressing support for a bill at a legislative

committee hearing demonstrates that the issue is salient to the focal organization because of the costliness of appearing to testify, demonstrates the organization's position on the bill, and may provide an opportunity for the organization to provide technical information about the bill's effects. However, it is common for organizations to say little more in their testimonies than "we support this bill." Overall, regardless of whether the set of testimonies was coordinated before the meeting, it is the set of testimonies that the policymaker can use to analyze support or opposition for the bill, particularly when the opportunity to vote arrives at the end of the hearing. In essence, the set of testimonies *is* the coalition of support observed by the policymaker. Thus, I use testimony before a legislative committee as a proxy for an organization's (or individual's) participation in the coalition supporting or opposing the policy.

This approach of using legislative committee testimony as a proxy for coalition participation has one other desirable trait. The process of policymaking is exceptionally complex and fraught with multiple veto points (Macher & Mayo, 2015), making policy change exceptionally difficult (Baumgartner et al., 2009). By treating legislative testimony as the proxy for coalition building, we can observe the most proximate outcome of that activity: whether the bill advances out of committee. This decision is made by vote and usually occurs immediately following legislative testimony; thus, we can observe the immediate effects of a particular coalition on the bill's progress toward eventually becoming policy and benefitting the firm.

3.3.2. Data

This study relies on a novel, hand-collected and coded dataset of testimonies before state legislative committee hearings on the policy issue of Medicaid expansion from 2010 through 2016. The process used to construct this dataset consisted of five stages. The process began by identifying all Medicaid-related bills at the state-level and coding the makeup of coalitions testifying in committee hearings. Each of the stages is described in greater detail below, and all stages are summarized as Figure 3-1.

The goal of the first stage was to create a list of Medicaid-related bills across the states from 2010 through 2016. While some partial lists of Medicaid expansion bills exist, such as the resource developed by the *National Conference of State Legislatures* (NCSL) tracking these bills in 2014,[13] a comprehensive list across this period does not exist.[14] Thus, I have constructed a comprehensive list using the *LexisNexis State Capital Bill Tracking* database. After trial and error (with the NCSL resource as a guide), I found that searching for "Medicaid expansion" excluded too many bills because some bills use terms like "expand" or "increase eligibility." Thus, I concluded that I would need to capture all "Medicaid" related bills and then manually code them to identify Medicaid expansion bills. I performed searches beginning in 2009 (to capture bills filed in 2009 but heard in 2010) through 2016

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[13] See http://www.ncsl.org/research/health/new-health-reform-database.aspx

[14] My search included other data sources including the Pew Foundation, the Council of State Governments, and personal conversations with *NCSL* analysts.

for the term "Medicaid" in each state (a total of 400 separate searches) and then

compiled this list of bills by state. Overall, I identified 32,221 Medicaid-related bills

in this stage. This method allowed me to create a comprehensive list of Medicaid-

related bills in the United States during this time period.

Figure 3-1. Identifying Coalition Support for Medicaid Expansion Bills: Data Funnel[15]
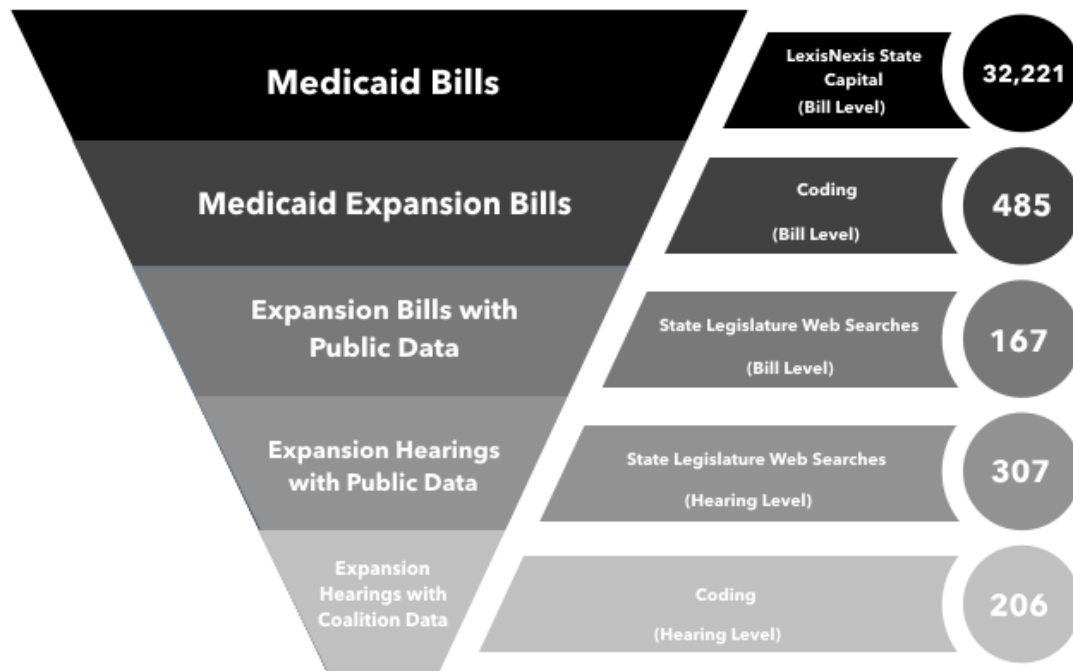
The purpose of the second stage was to narrow the list of Medicaid bills to

those related to Medicaid expansion. The expanded Medicaid program authorized in

the ACA was intended to provide government insurance to all individual at or below

138% of the poverty level. I developed the following coding rules to identify

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[15] Level of analysis indicated in parentheses. The top three stages in the funnel were performed at the bill-level of analysis. The remaining two stages moved to the hearing-level of analysis, with approximately 1.84 hearings per bill. For this reason, there are more hearings (n=206) than the total number of Expansion Bills with public data (n=167).

Medicaid expansion bills based on their title and description as supplied by

LexisNexis: (1) The bill expands Medicaid coverage to all individuals below 138% of

the poverty level, or (2) The bill expands Medicaid, but some individuals below

138% of the poverty level remain uninsured under the proposal (either because the

percentage is lower than 138 or because the bill targets some groups and excludes

others). This coding scheme allows me to capture both full Medicaid expansion as

well as compromise bills that adopted a portion of the program but not all of it. After

double-coding bills from three states with a research assistant and reaching

agreement on all codes, the research assistant proceeded to code bills in the

remaining states. In total, this coding process identified 485 bills regarding Medicaid

expansion meeting either of these two criteria.

Having identified the population of Medicaid expansion bills during this

period, the next stages of data collection were intended to identify bills for which

data on legislative hearings could be obtained because some states do not record or

release legislative committee attendance. More specifically, the purpose of the third

and fourth stages was to identify (1) all of the Medicaid expansion bills for which

committee-level data were publicly available (including committee hearing outcome

and testimonies for or against the bill), and (2) to obtain these data for each

committee hearing. To accomplish this task, my research assistant performed bill-

by-bill searches in each state legislature's website. The data obtained in this stage

were idiosyncratic to the state; in some cases, video or audio records were available.

In other cases, transcripts or summaries were available. These data, including a list

of the names and represented organizations were then recorded, including the

disposition of each organization (for or against the bill). In total, this effort identified

167 bills with a total of 307 committee hearings with at least partial data in the 24

states depicted in Figure 3-2. On average, each bill received 1.84 committee

hearings.

Figure 3-2. Final Sample of Medicaid Expansion Hearings
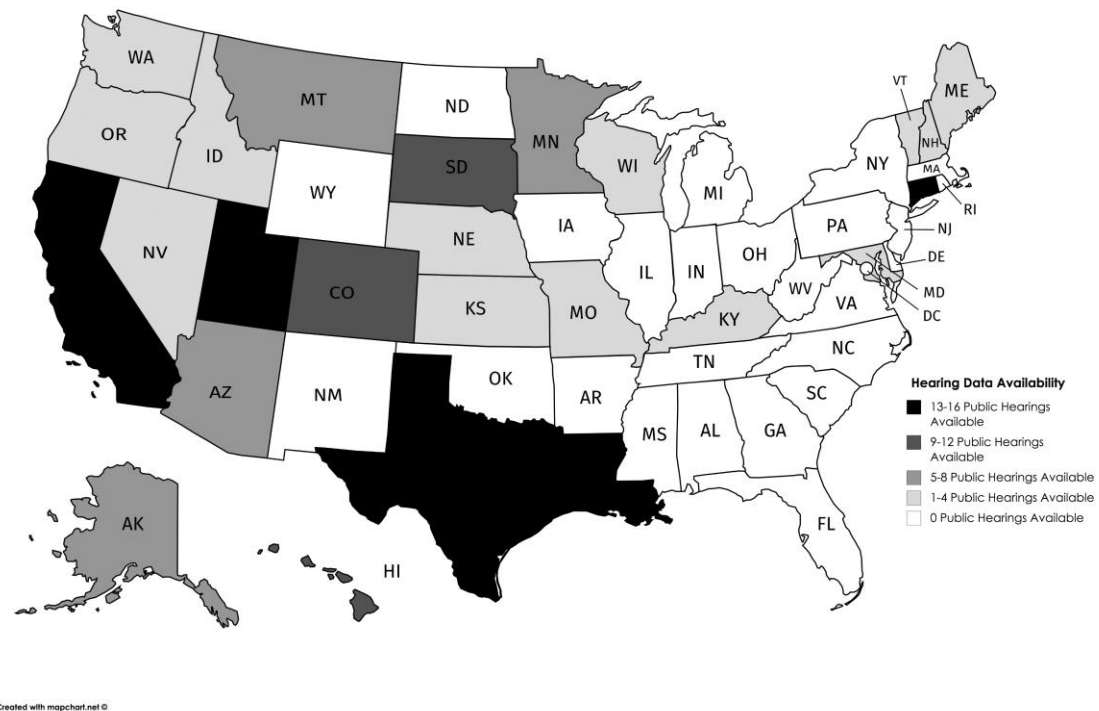
3.3.3. Operationalization

The purpose of the final stage was to code the raw data into the outcome

variable (whether the bill advanced or not) and coalition membership (the degree to

which the coalitions were horizontal or vertical). We coded a bill as advancing if it

received a majority of votes in the committee, received a "favorable

recommendation," or if we could find evidence that it moved out of committee even

if we could not locate a vote. We also coded the participants into their respective

stakeholder group vis-à-vis hospitals. To accomplish this task, I developed the coding rules for each coalition or stakeholder groups depicted in Table 3-1. Where possible, we used the name of the organization for categorizing each group. If the name was ambiguous, we performed internet searches to understand the organization prior to categorizing it. My research assistant and I separately coded all variables for about twenty hearings and reached agreement on all variables and hearings. She coded the remainder of the hearings. To further assess interrater reliability, I double-coded the entire outcome variable, which is dichotomous and therefore amenable to calculating Cohen's Kappa, the standard measure of interrater agreement; our agreement was 95%, with a Kappa value of 0.91, which is considered exceptionally high. Overall, after removing hearings for which some data were missing (such as an unclear outcome of the bill in committee), 206 hearings remained as the final sample for analysis.

This study is limited to bills supporting either partial or full Medicaid expansion. During the process of data collection, several bills and resolutions taking an oppositional approach to Medicaid expansion where identified; however, these bills were excluded from analysis primarily because of the largely symbolic nature of many of these bills. Many were resolutions instead of bills and did not have the full force of law but rather took ideological positions on the issue of Medicaid expansion. They also represented a relatively small proportion (about 5%) of the total bills identified. Because of these issues, they were excluded from my analyses.

**Table 3-1. Definitions Used for Coding Independent Variables**

Variable	Coding Rules
Primary Analysis	
Bill Advances	1 = The bill progressed out of committee.; 0 = All others.
Net Horizontal Support	A count of the total testifying interest groups (organization, individual, government) in favor of the bill (including "assist presentation" and "for") minus the testifying interest groups against this bill. Count one individual representing two organizations as two. Exclude testimonies "to" the bill.
Net Vertical Support	A count of the total testifying healthcare organizations (hospitals, physicians, nurses, pharmaceutical, insurance, etc.) in favor of the bill (including "assist presentation" and "for") minus the testifying healthcare organizations (hospitals, physicians, nurses, pharmaceutical, insurance) against this bill. Count one individual representing two organizations as two. Exclude testimonies "to" the bill. Include industry associations such as the Hospital Association.
Supplementary Analysis	
Net Hospital Support	A count of the total testifying hospitals and health centers in favor of the bill (including "assist presentation" and "for") minus the testifying hospitals and health centers against this bill. Count one individual representing two organizations as two. Exclude testimonies "to" the bill. Include industry associations such as the Hospital Association.
Net Employee Support	A count of the total testifying doctors and nurses in favor of the bill (including "assist presentation" and "for") minus the testifying doctors and nurses against this bill. Count one individual representing two organizations as two. Exclude testimonies "to" the bill. Include industry associations such as the Medical Association.
Net Customer Support	A count of the total testifying Insurance companies in favor of the bill (including "assist presentation" and "for") minus the testifying Insurance companies against this bill. Count one individual representing two organizations as two. Exclude testimonies "to" the bill. Include industry associations such as the Insurance Association.
Net Supplier Support	A count of the total testifying pharmaceutical and medical device companies in favor of the bill (including "assist presentation" and "for") minus the testifying pharmaceutical and medical device companies against this bill. Count one individual representing two organizations as two. Exclude testimonies "to" the bill. Include industry associations such as the Pharmaceutical Association.
Net Community Support	A count of the total testifying non-hospital local (city or county) governments in favor of the bill (including "assist presentation" and "for") minus the testifying non-hospital local governments against this bill. Count one individual representing two organizations as two. Exclude testimonies "to" the bill. Include industry associations such as the League of Cities and Towns.
Net Interest Group Patient Support	A count of the total testifying ideological interest groups in favor of the bill (including "assist presentation" and "for") minus the testifying patient-focused interest groups against this bill. Count one individual representing two organizations as two. Exclude testimonies "to" the bill.
Net Regulator Support	A count of the total testifying state-level governments entities or actors in favor of the bill (including "assist presentation" and "for") minus the testifying governments entities or actors against this bill. Count one individual representing two organizations as two. Exclude testimonies "to" the bill.
Net Individual Support	A count of the total individuals not representing organizations in favor of the bill (including "assist presentation" and "for") minus the testifying individuals not representing organizations against this bill. Exclude testimonies "to" the bill.

This study relies on four variables of interest. The dependent variable is intended to proxy for success or effectiveness of coalition building and is a measure

of legislative support. To measure this construct, I examine the most proximate

concrete evidence of effectiveness in the context of my study: whether the *bill*

advances out of committee. This variable was obtained and coded as described

above. The two independent variables in my analysis are *net horizontal support* and

net vertical support. We used the coding rules depicted in Table 1 to obtain these

variables. *Net horizontal support* is "A count of the total testifying interest groups

(organization, individual, government) in favor of the bill minus the testifying

interest groups against this bill." In contrast, *net vertical support* included "A count

of the total testifying healthcare organizations (hospitals, physicians, nurses,

pharmaceutical, insurance, etc.) in favor of the bill minus the testifying healthcare

organizations (hospitals, physicians, nurses, pharmaceutical companies, and

insurance companies) against this bill… [and should] include Industry Associations

such as the Hospital Association." Consistent with theory, most organizations should

be identified as either part of a horizontal or vertical coalition. However, in this

context, one organization does not fit neatly into a single category: government-run

hospitals, which are both hospitals (vertical) and government agencies (horizontal).

Thus, these categories were treated as mutually exclusive with one exception:

government-run hospitals were treated as part of both the horizontal and vertical

coalition. The fourth variable of interest, *legislative professionalism*, is an index that

compares the legislative staff, compensation, and session length in each state to the

U.S. Congress, with values between 0 and 1 (Squire, 2007). Overall, horizontal

coalitions tended to be larger than vertical coalitions, with an average net horizontal

support of 7.13 and an average net vertical support of 3.06. Histograms depicting

the frequency of small and large coalitions is depicted below as Figure 3-3.

Figure 3-3. Coalition Size by Coalition Type and Legislative Professionalism[16]
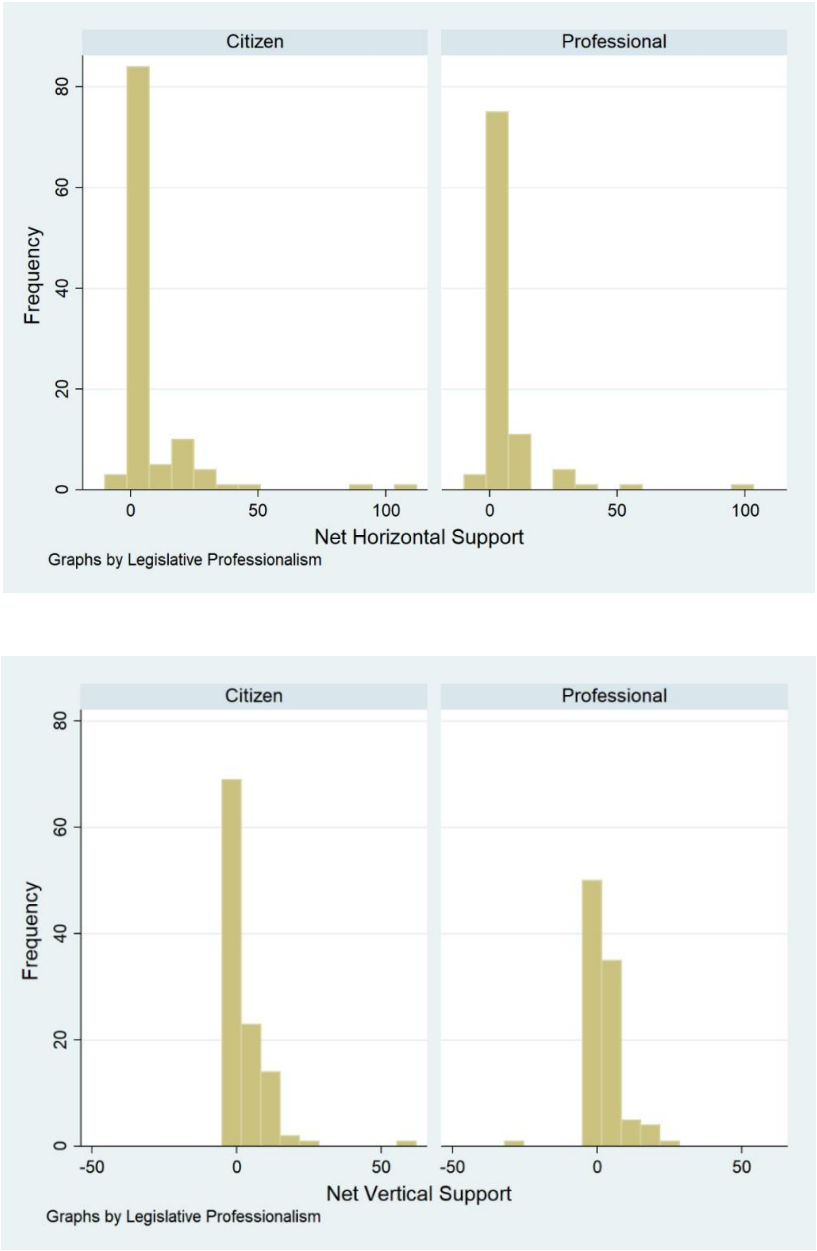
This study relies on multiple control variables. First, I include a dichotomous indicator for *rules committee* and *budget committee* because hearings in these committees tend to behave differently than hearings in standing committees. *Hearing requirement* takes the value of 1 for states in which each bill is required to receive a legislative hearing, as identified by NCSL at http://www.ncsl.org/documents/legismgt/ILP/04Tab4Pt5.pdf. This control accounts for a selection effect that some bills might be less likely to pass if they are required to be heard. *Republican governor* is a dichotomous indicator that takes the value of 1 during state-years in which the Governor is a registered Republican, according to the NCSL at http://www.ncsl.org/research/about-state-legislatures/partisan-composition.aspx. This control accounts for the probability of ideological opposition to Medicaid expansion. This same resource was used to establish an indicator for *unified government*, which takes the value of 1 when both houses of the legislature and the Governor are members of the same political party. Unified government is known to facilitate policy change. *South* is a dichotomous indicator that takes the value of 1 for the following states: Virginia, North Carolina, Tennessee, Arkansas, Georgia, Louisiana, Mississippi, South Carolina, Texas, Alabama, Florida. These states have historically legislated differently from other states. *GOP presidential vote share 2008* is a measure of the relative partisan leanings of each state and is defined as the popular vote percentage (as a decimal) supporting the Republican President during the 2008 presidential election in that state. This variable was obtained from https://www.nytimes.com/elections/2008/results/president/votes.html.

Population is a count of the total number of individuals in the state according to the
2010 census, obtained from https://www.census.gov/programs-
surveys/popest/data/data-sets.2010.html. This control accounts for a greater
reliance on government insurance in more populous states. Term-limited state is a
dichotomous indicator for states that impose term limits on their legislators to
account for the possibility that legislators in these states accrue more information
over time. These data are obtained from the *NCSL*. I include two measures related to
the need for government insurance. *Income per capita* is calculated by the *State
Science and Technology Institute* at https://ssti.org/blog/useful-stats-capita-
personal-income-state-2010-2015. *Poverty rate in 2010* is taken from the U.S.
Census Bureau. Finally, to account for the firm-specific effects of participation by the
largest firm in the industry, I include an indicator for whether the *largest hospital* in
the state testified in favor of the bill. This list of largest hospitals is obtained from
the American Hospital Directory online at https://www.ahd.com/.

I employ two instrumental variables in my analysis. Variables can be used as
instruments if they (both theoretically and empirically) predict the endogenous
independent variable but do not predict the dependent variable. I reasoned that
coalitions draw on the existing organizations in the state, and therefore a larger
number of organizations in the state should be related to the possible size of the
coalition; however, we have no reason to believe that the total number of
organizations in a state itself should at all be related to a legislative committee vote
on a particular policy. I employed two measures in my analyses: *Number of Firms in
State* and *Number of Establishments in State*. The former is a count of the for-profit

legal entities in the state and the latter is a count of their physical locations. These data are provided by the U.S. Census Bureau at

https://www.census.gov/data/tables/2015/econ/susb/2015-susb-annual.html. They are highly correlated with each other but have independent, incremental predictive power.

Correlations among the dependent and independent variables, control variables, and instrumental variables are presented as Table 3-2.

3.3.4. Analysis

The primary outcome variable in this study is a dichotomous indicator for whether the Medicaid expansion *bill advances* to the next stage in the legislative process following the legislative committee hearing. With a dichotomous dependent variable, a probit regression is indicated, which models the probability of the outcome of interest (*bill advances*) occurring.

In my analysis, there is at least one particularly specific threat of endogeneity: that coalition participants, anticipating the outcome of a bill, will tend to form in stronger numbers either when the bill is less likely to advance or more likely to advance. The primary analysis in this paper relies on an instrumental variable probit regression to ameliorate the endogeneity threat. I implemented this analysis using the ivprobit command in Stata. As mentioned above, this analysis requires the use of instrumental variables. When implementing an ivprobit regression, the Wald test is used to determine whether endogeneity is likely present

(thus necessitating the two-stage regression). The chi^2 value was highly significant (p<.01) in many of the interacted and instrumented regressions, indicating that endogenity is likely present and is therefore appropriately accounted for using an instrumental variable probit regression. One challenge unique to my analysis is that the endogenous independent variables must be interacted with *legislative professionalism*, which is treated as an exogenous variable. In a situation such as this one, the interaction term is manually generated and included among the list of endogenous regressors. In my primary analysis, there are multiple endogenous regressors: *net horizontal support*, *net vertical support*, and the interaction term between *net vertical support* and *legislative professionalism*. With a list of multiple endogenous regressors predicted values for each are generated and then used in the analysis. Thus, I report the first-stage regressions used to develop a predicted value of each of these endogenous regressors in my primary analysis.

Table 3-2. Pairwise Correlations

	Mean	S.D.	Min	Max	1	2	3	4	5
1. Bill Advances	0.62	0.49	0	1					
2. Net Horizontal Support	7.13	14.87	-19	112	-0.14				
					(0.04)				
3. Net Vertical Support	3.06	6.67	-32	62	-0.16	0.7			
					(0.02)	(0.00)			
4. Leg. Professionalism	0.21	0.12	0.03	0.61	0.31	0.1	0.1		
					(0.00)	(0.11)	(0.12)		
5. Hearing Requirement	0.18	0.39	0	1	0.11	-0.13	-0.11	-0.31	
					(0.06)	(0.05)	(0.09)	(0.00)	
6. Republican Governor	0.6	0.49	0	1	-0.38	0.16	0.11	-0.19	-0.1
					(0.00)	(0.02)	(0.09)	(0.00)	(0.01)
7. Unified Government	0.71	0.45	0	1	0.05	0.06	0.07	0.04	-0.02
					(0.44)	(0.33)	(0.25)	(0.26)	(0.67)
8. South	0.3	0.46	0	1	-0.29	0.33	0.25	-0.22	-0.25
					(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
9. GOP Pres. Vote 2008	0.49	0.1	0.27	0.66	-0.53	0.08	0.03	-0.5	0.04
					(0.00)	(0.22)	(0.62)	(0.00)	(0.35)
10. Population	9270000	10400000	563626	37300000	0.23	0.24	0.29	0.74	-0.28
					(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
11. Income Per Capita	39932	5895	30783	57347	0.22	-0.08	-0.07	0.24	-0.08
					(0.00)	(0.21)	(0.26)	(0.00)	(0.03)
12. Number of Firms (IV)	181885	203380	16952	740303	0.27	0.22	0.27	0.76	-0.26
					(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
13. Number of Est.(IV)	228800	253242	20907	908120	0.26	0.23	0.28	0.74	-0.27
					(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
14. Largest Hospital	0.01	0.11	0	1	-0.11	0.19	0.41	-0.09	0.13
					(0.07)	(0.00)	(0.00)	(0.02)	(0.00)
15. Term Limited State	0.37	0.48	0	1	0.05	0.09	-0.01	0.33	0.23
					(0.41)	(0.19)	(0.87)	(0.00)	(0.00)
16. Poverty Rate in 2010	14.45	3.39	8.44	22.29	-0.19	0.26	0.17	-0.02	-0.18
					(0.00)	(0.00)	(0.01)	(0.58)	(0.00)

	6	7	8	9	10	11	12	13	14	15
1. Bill Advances										
2. Net Horizontal Support										
3. Net Vertical Support										
4. Leg. Professionalism										
5. Hearing Requirement										
6. Republican Governor										
7. Unified Government	0.1									
	(0.01)									
8. South	0.49	0.3								
	(0.00)	(0.00)								
9. GOP Pres. Vote 2008	0.51	0.02	0.39							
	(0.00)	(0.67)	(0.00)							
10. Population	0.08	0.18	0.27	-0.21						
	(0.03)	(0.00)	(0.00)	(0.00)						
11. Income Per Capita	-0.31	-0.28	-0.39	-0.4	0.03					
	(0.00)	(0.00)	(0.00)	(0.00)	(0.36)					
12. Number of Firms (IV)	0.05	0.17	0.24	-0.26	0.99	0.07				
	(0.20)	(0.00)	(0.00)	(0.00)	(0.00)	(0.06)				
13. Number of Est.(IV)	0.06	0.17	0.26	-0.24	0.99	0.06	1			
	(0.10)	(0.00)	(0.00)	(0.00)	(0.00)	(0.13)	(0.00)			
14. Largest Hospital	0.03	0.01	-0.07	0.08	-0.08	-0.03	-0.08	-0.08		
	(0.39)	(0.80)	(0.06)	(0.03)	(0.03)	(0.45)	(0.04)	(0.04)		
15. Term Limited State	-0.01	0	-0.1	-0.07	0.27	-0.2	0.32	0.31	0.03	
	(0.89)	(0.94)	(0.01)	(0.08)	(0.00)	(0.00)	(0.00)	(0.00)	(0.45)	
16. Poverty Rate in 2010	0.38	0.32	0.65	0.39	0.26	-0.79	0.21	0.23	-0.04	0.22
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.32)	(0.00)

P-values listed in parentheses.

3.4. Results

Somewhat surprisingly, the control variables in the primary analysis are mostly non-significant,[17] with a few important exceptions, as depicted in Table 3-3. In various models, three control variables stood out as significant. The coefficient on the indicator for states in the *south* is generally positive in the first-stage models and negative in the second-stage models, indicating that organizations build larger coalitions in the *south* but these coalitions tend to be less successful; this coefficient is significant in the first-stage Model 3 (β=4.766, p<0.1) and second-stage Model 4 (β=-3.33, p<0.01), which instruments *net horizontal support X professionalism*. This variable likely accounts for much of the partisan variance in my data, but *Republican governor* does become marginally significant in Model 7 (β=-0.60, p<0.10), the first stage model instrumenting *net vertical support X professionalism*. Finally, *largest hospital support* is positive and significant in every first-stage model (β=20.61, p<0.01; β=3.10, p<0.10; β=18.70, p<0.01; β=2.61, p<0.01;) and negative and significant in second-stage Models 2, 4, and 6 (β=-1.58, p<0.01; β=-1.88, p<0.01; β=-3.15, p<0.01), indicating that large coalitions form around the largest hospital's support, but this support may harm the bill's chances after accounting for the role of the coalition. Finally, the instrumental variables demonstrate an intriguing pattern:

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[17] Perhaps most surprising among these control variables, given the arguments presented in this paper, is *term limits*. One possible reason for this nonsignificant finding is the tendency for term limits to have countervailing effects on a legislator's incentives. For example, Powell (2012: 100) notes that "On the one hand, necessarily high turnover would mean that more legislators have reasonable prospects of attaining leadership; on the other hand, those positions could not be held for long."

the coefficient on *number of firms in state* is positive and significant while the coefficient on *number of establishments in state* is negative and significant in Models 1 (β=0.00, p<0.05; β=-0.00, p<0.10) and 3 (β=0.00, p<0.05; β=-0.00, p<0.05). The coefficients on the instruments are not significant in Model 5 and 7, indicating stronger predictive power for horizontal than vertical coalitions.

In the first hypothesis, I argue that horizontal coalition support will increase the probability that a favorable *bill advances*. This hypothesis is tested in Table 3-3, Models 2 and 4. The coefficient on *net horizontal support* is positive and highly significant in both models (β=0.07, p<0.01; β=0.11, p<0.01). Hypothesis 1 is supported. In hypothesis 2, I argue that the effect of *net horizontal support* will be stronger in less professional legislatures. This hypothesis is tested in Table 3-3, Model 4. The interaction term is negative and highly significant (β=-0.17, p<0.01). Hypothesis 2 is supported. This significant interaction effect is depicted in Figure 3-4. Overall, the interaction depicts a steeper relationship in citizen legislatures, indicating that large horizontal opposition has a greater deterring effect than in professional legislatures, and large horizontal support has a greater advancing effect than in professional legislatures. In hypothesis 3, I argue that vertical coalition support will increase the probability that a favorable bill advances. This hypothesis is tested in Models 6 and 8. The coefficient on *net vertical support* is positive and significant in Model 6 (β=0.16, p<0.05) but loses significance in Model 8 (β=0.07, p>.10). Hypothesis 3 receives mixed support. Finally, in hypothesis 4, I present competing arguments that this effect of *net vertical support* will either be strengthened or weakened in less professional legislatures. The coefficient in Model

8 on *net vertical support X professionalism* is positive but not significant (β=0.40, p>0.10). Though neither Hypothesis 4a or 4b is supported, these results suggest that both effects noted may be present and have countervailing, cancelling effects. Because the interaction term is not significant, I present only the main effect of *net vertical support* in Figure 3-5 below. Overall, these results suggest that horizontal coalitions are sensitive to legislative professionalism, but the effect on vertical coalitions is more ambiguous. In either case, net coalition size is an important driver of policy support.

Figure 3-4. The Effect of Horizontal Coalitions on Bills Advancing by Legislative Professionalism[18]
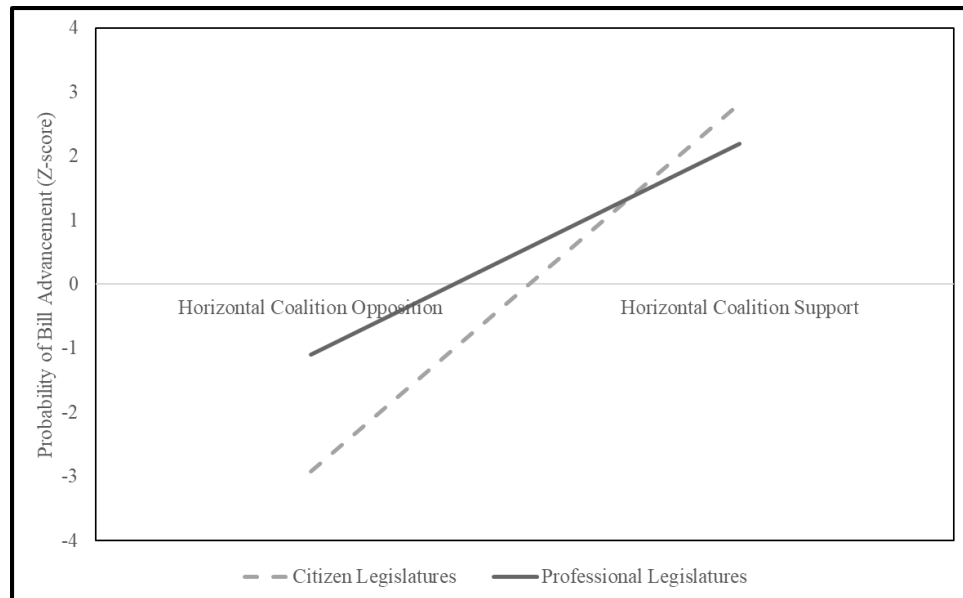

Table 3-3. Predictors of Medicaid Expansion Bills Advancing, Instrumented Probit Regressions

VARIABLES	(1) Net Horizontal Support	(2) Bill Advances	(3) Net Horizon. X Professionalism	(4) Bill Advances	(5) Net Vertical Support	(6) Bill Advances	(7) Net Vertical X Professionalism	(8) Bill Advances
Legislative Professionalism	-11.99	3.620	-1.790	3.734	-5.653	4.757	-0.737	1.825
	(27.77)	(4.263)	(10.10)	(2.535)	(12.05)	(6.128)	(3.534)	(3.204)
Republican Governor	-2.399	0.329	-1.706*	0.235	-0.798	0.318	-0.595*	0.347
	(2.525)	(0.234)	(0.934)	(0.213)	(1.145)	(0.278)	(0.333)	(0.246)
Unified Government	0.231	-0.135	1.017	0.00359	-0.605	-0.0191	0.210	-0.0856
	(2.474)	(0.250)	(0.898)	(0.221)	(1.055)	(0.351)	(0.313)	(0.317)
South	28.88***	-3.472	4.766*	-3.330***	7.432**	-3.249	1.671*	-1.730
	(7.561)	(2.290)	(2.715)	(0.885)	(3.160)	(3.759)	(0.957)	(1.437)
GOP Presidential Vote 2008	6.997	-2.352	5.719	-1.590	-3.115	-1.619	0.697	-0.851
	(12.94)	(2.233)	(4.702)	(1.296)	(5.531)	(4.159)	(1.638)	(2.106)
Population	9.35e-07	7.98e-08	1.28e-06	6.99e-08*	-4.69e-07	3.91e-08	3.69e-07	-2.10e-08
	(1.89e-06)	(9.97e-08)	(8.23e-07)	(4.01e-08)	(1.29e-06)	(1.76e-07)	(3.30e-07)	(6.74e-08)
Income Per Capita	-0.000204	3.66e-05	-6.14e-05	3.22e-05	-0.000122	4.08e-05	-2.51e-05	2.82e-05
	(0.000395)	(4.04e-05)	(0.000144)	(3.42e-05)	(0.000172)	(5.12e-05)	(5.05e-05)	(3.42e-05)
Largest Hospital Support	20.61***	-1.578***	3.096*	-1.883***	18.70***	-3.151***	2.605***	-2.469
	(5.144)	(0.458)	(1.874)	(0.437)	(2.213)	(1.063)	(0.654)	(1.503)
Term Limited State	3.791	-0.532	1.486	-0.500	-0.337	-0.288	0.0623	-0.103
	(5.324)	(0.521)	(1.932)	(0.442)	(2.265)	(0.802)	(0.673)	(0.456)
Poverty Rate in 2010	-0.834	0.0738	-0.365	0.0673	-0.517	0.102	-0.178	0.112
	(1.287)	(0.108)	(0.468)	(0.106)	(0.552)	(0.111)	(0.163)	(0.104)
Number of Firms	0.000579**		0.000207**		-1.29e-06		6.07e-05	
	(0.000287)		(0.000106)		(0.000139)		(3.82e-05)	
Number of Establishments	-0.000493*		-0.000212**		3.17e-05		-5.92e-05	
	(0.000277)		(0.000107)		(0.000153)		(3.97e-05)	
Net Horizontal Support		0.0712***		0.112***				
		(0.0153)		(0.0129)				
Horizontal Support X Professionalism				-0.172***				
				(0.0629)				
Net Vertical Support						0.157**		0.0705
						(0.0732)		(0.153)
Vertical Support X Professionalism								0.404
								(0.501)
CMTE. & HEARING INDICATORS	YES	YES	YES	YES	YES	YES	YES	YES
Constant	22.01	-2.425	5.106	-2.613	15.12	-3.390	3.095	-2.643
	(31.52)	(2.802)	(11.46)	(2.648)	(13.48)	(2.903)	(3.994)	(2.576)
Observations	206	206	206	206	206	206	206	206

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Figure 3-5. The Effect of Vertical Coalitions on Bills Advancing[19]
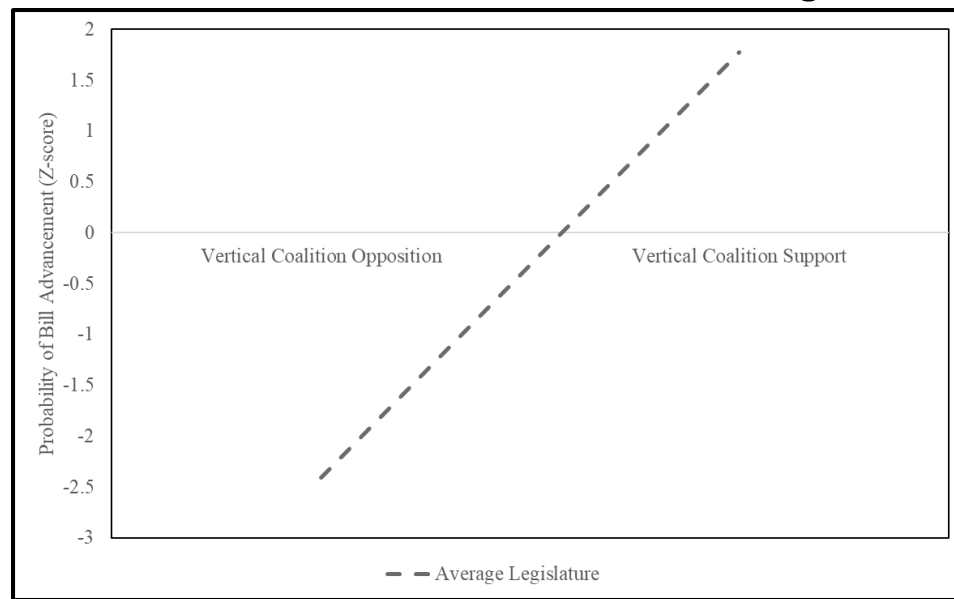
3.4.1. Supplementary Analysis

Because of the detailed nature of my data, I was able to identify the effects of individual stakeholder groups' participation in coalitions. To that end, I also coded legislative testimony by the following groups relative to a hospital's primary and secondary stakeholders (Freeman et al., 2007): hospitals (the focal firm), healthcare professionals (employees), insurance companies (customers), pharmaceutical companies (suppliers), local governments (community), patient-focused non-profits (interest groups), state government regulators (government), and individuals not clearly affiliated with any of these stakeholder groups. The coding definitions used for each are included above as part of Table 1. Each of these measures was interacted with *legislative professionalism* and also treated as an endogenous

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[19] The graph depicts values of net horizontal coalition support(opposition) at two standard deviations above and below its mean score, which is 3.06.

regressor; however, for brevity, only second-stage results are presented for the supplementary analysis.

In addition to the quantitative data collection described above, I have also made a considerable effort to collect supporting qualitative evidence, some of which has been included as anecdotes in this paper. This effort has included four components: (1) regular attendance at Senate and House Health & Human Services committee hearings of the Utah legislature during the 2017 legislative session, (2) regular attendance at "floor time" of the Utah Senate during the 2017 legislative session, (3) conversations with lobbyists and legislators, and (4) participation in healthcare-related webinars (primarily by *NCSL* and the *National Association of Community Health Centers*).

Which stakeholder groups drive the effects observed in my primary hypotheses? The results of my supplementary analysis are presented in Tables 3-4 and 3-5. Consistent with hypothesis 3, vertical coalition support should increase the probability of the bill advancing. The supplementary analysis associated with this hypothesis is presented in Table 3-4, Models 9, 11, and 13. Interestingly, the coefficient on *net hospital support* is positive and non-significant ($\beta=0.21$, $p>0.10$) while the coefficient on *net employee support* and *net customer support* is positive and significant ($\beta=0.55$, $p<0.01$; $\beta=1.42$, $p<0.10$), indicating that the effect observed in hypothesis 3 is not primarily due to hospitals. However, the interaction term *net hospital support* with *professionalism* is significant in Model 10 ($\beta=0.99$, $p<0.10$), indicating an incremental hospital effect in professional legislatures.

The supplementary results for individual stakeholder participants of horizontal coalitions are also interesting. Consistent with hypothesis 1, participation by members of this coalition should increase the probability of a bill advancing. I find support for this hypothesis in *net regulator support* (Model 20; β=1.27, p<0.05). However, the coefficient for ideology-based *net interest group support* is negative and significant (Model 17; β=-0.15, p<0.01). These results suggest that coalitions including government regulators are the most successful horizontal coalitions. Most of the interaction with legislative professionalism (cf. hypothesis 2) appears to be driven by *net regulator support*, with a negative and highly significant coefficient in more professional legislatures (Model 20; β=-8.96, p<0.01).

Table 3-4. Supplementary Analysis: Predictors of Medicaid Expansion Bills Advancing, Instrumented Probit Regressions

VARIABLES	(9) Bill Advances	(10) Bill Advances	(11) Bill Advances	(12) Bill Advances	(13) Bill Advances	(14) Bill Advances
Legislative Professionalism	5.630	2.371	2.471	4.628	7.569*	7.504
	(6.629)	(2.091)	(3.254)	(0)	(4.165)	(0)
Hearing Requirement	1.390	0.676*	0.581	1.097	1.220	1.791
	(1.709)	(0.373)	(0.667)	(0.680)	(1.292)	(6.080)
Republican Governor	0.334	0.361*	0.138	0.168	0.400	0.352
	(0.300)	(0.206)	(0.209)	(0.413)	(0.256)	(0.468)
Unified Government	-0.00796	0.0161	-0.152	-0.175	-0.0793	-0.251
	(0.437)	(0.237)	(0.209)	(0.383)	(0.316)	(1.309)
South	-4.020	-2.461***	-1.718	-2.904	-3.938	-4.433
	(4.337)	(0.721)	(1.439)	(2.078)	(3.109)	(14.40)
GOP Presidential Vote 2008	-2.180	-0.711	-1.448	-2.587	-1.630	-3.052
	(4.791)	(1.241)	(1.508)	(3.383)	(3.598)	(20.59)
Population	8.56e-08	-3.27e-09	-2.26e-08	6.01e-09	8.27e-08	1.09e-07
	(2.11e-07)	(3.40e-08)	(6.32e-08)	(8.24e-08)	(1.49e-07)	(7.97e-07)
Income Per Capita	5.14e-05	5.6e-05***	1.38e-05	2.83e-05	4.10e-05	7.96e-05
	(5.25e-05)	(1.50e-05)	(3.39e-05)	(4.82e-05)	(5.00e-05)	(0.000329)
Largest Hospital Support	-3.216*	-2.307**	-2.065***	-2.341**	-0.465	-0.278
	(1.846)	(1.144)	(0.421)	(1.014)	(0.474)	(1.088)
Term Limited State	-0.341	-0.205	-0.346	-0.620	-0.444	-1.021
	(0.931)	(0.324)	(0.435)	(0.508)	(0.687)	(4.394)
Poverty Rate in 2010	0.102	0.200***	0.0655	0.111	0.117	0.231
	(0.118)	(0.0469)	(0.102)	(0.122)	(0.120)	(0.364)
Net Hospital Support	0.205	0.00858				
	(0.152)	(0.150)				
Net Hospital Support X Professionalism		0.992*				
		(0.520)				
Net Employee Support			0.545***	0.556		
			(0.0420)	(0.523)		
Net Employee Support X Professionalism				0.166		
				(1.847)		
Net Customer Support					1.423*	-1.117
					(0.774)	(15.98)
Net Customer Support X Professionalism						7.358
						(32.16)
COMMITTEE INDICATORS	YES	YES	YES	YES	YES	YES
Constant	-3.793	-5.019	-1.249	-2.291	-3.962	-6.064
	(3.014)	(0)	(2.581)	(2.488)	(3.070)	(8.319)
Observations	206	206	206	206	206	206

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 3-5. Supplementary Analysis: Predictors of Medicaid Expansion Bills Advancing, Instrumented Probit Regressions

VARIABLES	(15) Bill Advance	(16) Bill Advance	(17) Bill Advance	(18) Bill Advance	(19) Bill Advance	(20) Bill Advance	(21) Bill Advance	(22) Bill Advance
Legislative Professionalism	7.765*	2.945	2.550	-5.358**	8.630	12.70	4.982	3.665
	(4.417)	(3.765)	(8.727)	(2.132)	(14.01)	(0)	(5.922)	(0)
Hearing Requirement	2.024*	0.855	0.845	-0.551	2.420*	0.234	1.567	1.323**
	(1.108)	(0.828)	(2.182)	(1.465)	(1.432)	(0.464)	(1.304)	(0.516)
Republican Governor	0.209	0.173	-0.0484	-0.362	0.408	0.0685	0.353	0.406
	(0.356)	(0.227)	(0.439)	(0.234)	(1.439)	(0.265)	(0.292)	(0.265)
Unified Government	-0.335	-0.230	-0.178	-0.507**	-0.216	0.229	-0.287	-0.330
	(0.352)	(0.231)	(0.344)	(0.234)	(1.159)	(0.236)	(0.320)	(0.265)
South	-3.623	-0.985	-1.377	1.687	-7.461	-0.696	-4.203	-3.481
	(4.154)	(1.751)	(6.119)	(3.818)	(9.049)	(1.385)	(3.163)	(2.300)
GOP Presidential Vote 2008	-4.146	-2.017	-2.235	-2.230	-5.45***	1.119	-3.739	-3.708
	(3.096)	(1.736)	(4.902)	(4.493)	(1.801)	(2.291)	(3.065)	(2.505)
Population	1.39e-07	2.79e-08	1.50e-07	1.09e-07	2.96e-07	-5.3e-08	1.53e-07	1.22e-07
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Income Per Capita	4.81e-05	2.08e-05	2.23e-05	-4.3e-05	6.56e-05	2.62e-07	4.72e-05	4.88e-05
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Largest Hospital Support	-1.809	-0.790	1.027	2.031**	-0.388	-0.00207	-1.126*	-0.790
	(1.168)	(1.397)	(0.861)	(0.845)	(0.964)	(0.516)	(0.589)	(0.923)
Term Limited State	-0.629	-0.289	-0.151	0.651	-0.866	-0.390	-0.650	-0.657
	(0.676)	(0.466)	(1.033)	(1.277)	(0.604)	(0.382)	(0.658)	(0.449)
Poverty Rate in 2010	0.0420	0.0445	-0.0195	-0.154	0.0306	0.112	0.0676	0.0909
	(0.126)	(0.105)	(0.129)	(0.131)	(0.306)	(0.111)	(0.118)	(0.107)
Net Community Support	0.257	-0.369						
	(0.502)	(0.642)						
Net Community Support X Professionalism		3.691*						
		(2.184)						
Net Interest Group Patient Support			-0.15***	-0.24***				
			(0.0555)	(0.0557)				
Net Interest Group X Professionalism				0.168				
				(0.162)				
Net Regulator Support					0.238	1.268**		
					(3.923)	(0.494)		
Net Regulator X Professionalism						-8.96***		
						(1.494)		
Net Individual Support							0.0608	0.0117
							(0.0862)	(0.148)
Net Individual Support X Professionalism								0.135
COMMITTEE INDICATORS	YES	YES	YES	YES	YES	YES	YES	YES
Constant	-2.253	-1.022	-0.0865	6.144**	-2.883	-3.519	-2.283	-2.279
	(3.302)	(2.736)	(4.006)	(2.745)	(14.38)	(2.725)	(3.204)	(2.649)
Observations	206	206	206	206	206	206	205	205

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

3.5. Discussion

Using a novel dataset of testimony before state legislative committees as a proxy for participation in a coalition, I show that horizontal coalitions and vertical coalitions respond differently to legislative characteristics. While both coalition types increase the likelihood of a favorable policy advancing, horizontal coalition support has a much stronger effect in less professional legislatures. Vertical coalitions appear to be unaffected by legislative professionalism.

My findings have significant implications for coalition building theory in the corporate political activity literature and practical implications for government affairs executives in multi-state or multinational firms. To the CPA literature, my arguments and results question the overemphasis in the literature on issue-specific characteristics as the primary determinant of CPA effectiveness (Bonardi & Keim, 2005; Keim & Zeithaml, 1986; Kingsley et al., 2012). While these issue-specific characteristics may be important, I show that institutional characteristics are also a crucial driver of CPA effectiveness. My study does this in two ways: first, by moving analysis to state legislatures (from Congress), where the characteristics of the typical state legislature are very different from the U.S. Congress, and second, by examining differences in legislative professionalism among the states. These findings also have important implications for theory about the *content* of corporate political activity. My arguments and accompanying results suggest that firms will be most successful in their political activities when they carefully evaluate the type of information that targeted legislators seek and then develop a set of political

strategies capable of delivering that information. These arguments augment the "legislative subsidy" idea (Hall & Deardorff, 2006) to allow for firms to strategically provide appropriate information, whether technical or political, to policymakers.

For government affairs executives, my results clearly show that all coalitions are not created equal; the composition is important, as are the conditions under which the coalition is used. Thus, employing a coalition-building strategy should *not* simply rely on building a large coalition; rather, in order to be most effective, the manager should carefully evaluate the institutional characteristics of the target legislature and develop a coalition comprised of a targeted set of stakeholders. In particular, firms that target citizen legislators will find greater success as they increase horizontal coalition support for their desired policy goals.

3.5.1. Future Research and Limitations

My findings invite a substantial body of future work on coalition building. I have developed a novel measure of coalition composition, which is the presence of an organization in a legislative committee hearing. This measure will not be useful in Congressional research, where testimony is invited, but may continue to be useful for future state-level research. This paper has taken only a first step in empirically examining the conditions under which each type of coalition is most effective. My supplementary analyses suggest some discrepancies in the effects of participants *within* horizontal or vertical coalitions. Future work may need to disentangle these discrepancies, perhaps even developing a new framework (beyond horizontal and vertical) that identifies successful coalitions.

My findings also invite future work on the content of the firm's political activities. What type of information does the firm convey, both intentionally and unintentionally? Is the firm strategic in conveying this information? My study has been agnostic to the strategic behavior of the firm, relying instead on the outcomes of the firm's behavior: the coalitions that actually form. These results invite future work examining the strategic behavior of firms by taking an "inside look" at the firm's coalition-building activities and comparing those activities in different institutional contexts.

Similarly, this paper invites future work examining the factors that drive policymakers to seek different kinds of information. For example, do new policymakers have a greater demand for political or technical information? Or does a state legislator's professional expertise (outside the legislature) decrease the need for technical information provided by third parties? These arguments also invite scholarship that examines local (municipal) policymakers, who may seek different types of information depending on their role or the institutions in which they work. Finally, policymakers include executive branch regulators as well as legislators. Whereas career regulators are likely more indifferent to political information, future work should investigate whether these policymakers rely on technical information to a greater degree.

The generalizability of this study is limited by several factors. Perhaps the biggest limitation is the tradeoff in studying bills advancing at the committee-level: this level of analysis forced me to aggregate some data, such as focusing on hospitals

as an industry rather than as individual firms. While I was able to partially ameliorate this limitation through the inclusion of a single control variable indicating the presence of the state's largest hospital, future work will need to disentangle the strategic behavior of an individual firm within the coalition. That is, in what ways can firms use coalitions while also obtaining some degree of firm-specific advantage?

Another limitation to the generalizability of this study may come from the context: this study is conducted on a policy issue in the healthcare sector in which vertical coalition participants almost universally stand to benefit from the policy. However, many policies benefit one member of the firm's supply chain at the expense of another (Shaffer, Quasney, & Grimm, 2000); in these circumstances, a unified vertical coalition certainly will not coalesce. Thus, future work must investigate vertical coalition building activities when pending policies invoke dissension among vertical coalitions. Additionally, in this context, the vertical coalition participants are very closely linked together and horizontal coalitions participants (such as ideological interest groups and local governments) may be well-organized and mobilized. Because of these characteristics, my analysis represents the selection of a polar type and may require future work to determine the generalizability of coalitions in other sectors of the economy.

Data limitations in this study are also present. One of these is the difference between total committee hearings and committee hearings for which public records exist, which is primarily a state-level function of the state legislature's decision to

make such records publicly available. Future work could overcome this limitation

through in-person contemporaneous observation but would be exceptionally costly

by requiring personal attendance at hearings. Another data limitation relates to the

challenge of obtaining data across the states on whether the bill is supported by an

institutionally-powerful legislator. Addressing this limitation might also allow

future researchers to develop a more nuanced dependent variable, disentangling

bills that fail by committee vote from bills that fail through committee inaction. This

study also suffers from the difficulty of selecting multiple instrumental variables;

the study would ideally have at least five instrumental variables to allow for a

traditional "full model" test of each coalition type, their interactions with legislative

professionalism, and an additional indicator for the net coalition size irrespective of

coalition type.

The sample size in this study limits the available power to add many

potentially useful control variables, such as the absolute number of testimonies

(which may be an indicator of legislators' attention toward the bill; see

Baumgartner et al., 2009), the state's propensity to adopt other federally-funded

programs (which may correlate with an underlying disposition toward Medicaid),

whether testifiers maintain a constant presence in a state's legislature (a sunk cost

to participation), or the degree of polarization in the legislature (which may interact

with the ideological nature of the policy; see Shor & McCarty, 2011).

A final limitation of this study relates to the practical difficulty of observing

the act of coalition building. I have essentially ignored this problem in my analysis,

instead focusing on the coalitions that end up forming regardless of the process that resulted in those coalitions. However, my results provide no insight into the breadth of collaboration among coalition participants or the process through which these coalitions are formed. This limitation will likely only be overcome by future field work embedded within multiple organizations.

3.5.2. Conclusion

There is renewed interest in the corporate political activity literature regarding the political strategy of coalition building. One of the emerging issues in this research is the question of coalition composition: who should participate in a coalition to most effectively achieve the firm's desired policy goals (Kingsley et al., 2012)? I show that effective coalition composition depends on institutional characteristics, beyond the policy issue characteristics that have been the subject of prior scholarly attention (Bonardi & Keim, 2005; Keim & Zeithaml, 1986; Kingsley et al., 2012). While both types of coalitions are effective in the typical state legislature, horizontal coalitions are most effective in citizen legislatures because they provide policymakers with political information. This research highlights the important role of political information provision played by the firm, beyond the provision of technical information that is assumed in much of the CPA literature. Government affairs executives are advised to carefully consider the information needs of targeted policymakers as they seek coalition partners to support their desired policy goals.

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