Business Strategy Review, 1997, Volume 8 Issue 4, pp 17-25

The European Business Lobby

David Coen

Lobbying is a familiar if not always welcome reality in politics and many now recognise that companies have a legitimate role to play in the public policy process. But how firms set about exerting influence - and what works best - is still something of a mystery. In particular, few empirical studies have examined how firms have tackled the fast-changing Brussels maze. Based on interviews and a survey, this article outlines how firms have come to play a prominent role in the European Union's policy process and how their approach to influencing EU policy has developed. It then analyzes which methods they think are most effective - and most cost-effective. The author concludes by assessing the extent to which building strategic alliances with rival firms and public interest groups facilitates their own direct lobbying at the European Commission forums, and vice-versa.

Business lobbying is omnipresent in most modern economies. However, the unobtrusive nature of much of this activity restricts our understanding of business behaviour and influence. Most studies of business representation have tended to focus on visible lobbying by declining industries or overt specialised political action by interest associations. Such approaches neglect the political reality of generalised direct lobbying by business and fail to recognise the increasing professionalism of "political affairs" executives. What is more, recent studies have attempted to explain political action of big business at the European level in terms of existing national public policy systems: they have often failed to capture the institutional intricacies of the European supranational political system.

The gradual transfer of regulatory functions to European Union (EU) institutions and the establishment of the single market have all contributed to the Europeanisation of business politics. Yet few could have envisaged the rapid development of the firms' political finesse or the important role they would play in the formation of European institutions and the integration process. Firms have already had a big impact on the European public policy process, both as individual lobbyists and as mediators between the EU institutions and member states. Yet there is only a rudimentary understanding of how they use different political channels in the EU, the relative cost of this action and its effectiveness.

This article tries to describe and analyze how firms lobby in the EU: how their behaviour has developed, how they behave now and the indicators we can draw from this for the future. The analysis is rooted in a survey, completed in March 1994, of political representation by Europe's top 200 firms. Between 1993 and 1997, interviews were conducted with officials at the European Commission (the Commission), the European Parliament (EP) and European industry-based Federations. These interviews provided the qualitative background to the analysis of the evolution of the public policy relationship between the firm and the EU. Assessment of the firms' allocation of political resources and their lobbying efficiency is based on a series of interviews with 50 directors responsible for "government" and/ or "European affairs" and 94 survey replies. Using this empirical evidence, the article pursues the idea that European multinationals have developed sophisticated political affairs "functions" that are capable of resulting in strategic decisions. The concluding section of the article includes a discussion of how political "games" have affected the development of EU political channels, EU institutions and the EU integration process.

The Changing Business Lobby in Europe

Establishment of the European lobby

During the 1970s and early 1980s the Commission made numerous attempts to foster a form of European corporatism. The reasoning behind this was a desire to create a European identity and "interest elite" that would work in parallel with the member states. However, despite recognition of the value of a structured system of consultation, the reality was a less formalised and pluralist policy-making system (Streeck and Schmitter 1991). In this formative period, the national perspective dominated business, not least because of the veto powers of individual countries in the Council of Ministers. At this stage, firms had little incentive to alter their traditional lobbying methods within their own countries: they could normally rely on unfavourable European policy being blocked by well-briefed national ministers. The national focus was reinforced by the recognition that national lobbying strategies avoided compromises at the European level and ensured the "lowest common denominator" style of policy making by the Commission (Grant 1993). However, while this approach represented a low-cost lobbying option for individual firms, its reactive and often destructive nature meant that business contributed little to the European policy debate.

Although Europe failed to usurp the national authorities' position as the primary political locus for industrial representation, the nation-state/business relationship was coming under pressure from globalisation (Schmidt 1993). Big business was successfully playing the two political markets against each other, having outgrown the national market before European institutions had the regulatory power to govern businesses within the EU area. Therefore, for a brief period in the late 1970s and early 1980s, firms were able to exert a high level of political autonomy at the national and international level, raising the agenda of deregulation at home and the creation of a single market in Europe (Sandholtz and Zysman 1989). The agenda-setting strength of the firm in this period was most visibly demonstrated by the European Round Table (ERT) single market initiatives. Fortuitously for business interests, the Commission was receptive to these market-led initiatives, regarding business as a natural countervailing force to the governments of the member states. However, this window of opportunity for big business political autonomy was to be short-lived.

The boom in European interest group activity

In 1987 the Single European Agreement (SEA) changed the economic boundaries of the firm, and the nature of the political "goods" available at the European level. Firms' first moves to European representation had tended to be through the industry Federations, but these were found to be slow and cumbersome in their workings and representative of the lowest common denominator policy-making procedure (Butt Phillip 1991, Grant 1991). Hence, the start of the single market programme, the Federations' credibility as representatives of business had been severely damaged in the eyes of both business and the Commission.

This was one reason why, between 1985 and 1993, over 200 large firms chose to develop direct lobbying capabilities in Brussels. At the same time the legislative boom encouraged the Commission to open its doors to more lobbyists (Mazey and Richardson 1993). This new openness was a recognition by the Commission that it no longer had the resources to deal with the expansion of legislation without the active participation of technical experts (Gardner 1991).

Even more significantly, the SEA removed the need for unanimity on single market measures at the Council of Ministers. The loss of their veto rights by member states increased the risk for business of unfavourable policy outcomes at the end of a long policy process and forced firms to recognise that lobbying the Council of Ministers was too little too late. In this new environment - and despite the cost of establishing European representation - large firms felt forced to develop proactive and individual European lobbying strategies.

It was not only firms that were attracted to Brussels and by 1992 the Commission estimated that more than 3,000 public and economic lobbies were active there

(OJ 93/C63/02). Faced with this increasingly crowded political market, multiple access points, and a growing number of European issue areas, firms had to develop a high degree of political sophistication. In this complex environment, 84% of the firms surveyed for the study reported that the most successful lobbyists were those able to establish "goodwill" with the relevant "heads of unit" and "Director Generals" of Commission Directorates. In a political market where numerous countervailing interests were trying to influence an open political system, greatest weight was given to those actors who were prepared to establish a "European identity" through European alliances with rival firms and/or solidaristic links with societal interests.

It became apparent that large firms that wished to exert a direct influence in the European public policy system would have to marshal a greater number of skills than merely monitoring the progress of European directives and presenting occasional positions to the Commission. Successful lobbying of the Commission meant establishing an organisational capability to co-ordinate potential ad hoc political alliances and to develop and reinforce existing political channels. To achieve *direct* lobbying, the most effective means of establishing reputation was to develop a broad political profile across a number of issues and to participate in the creation of *collective* political "goods". Accordingly, the cost of "identity building" would be discounted against better access to company-specific goods via access to other Commission forums. Some large firms were able to establish themselves as political "insiders" through a process of regular and broad-based political activity. It was these firms which benefited most from the gradual "closing down" of the Commission in the face of interest overload in the 1990s.

Forum politics: institutionalising the EU/business relationship

With the explosion in lobbying in the late 1980s and the reduction in its need for information as the quantity of new legislation fell, the Commission began to resent the "access overload". It sought to restrict entry to those actors it felt were its natural partners (OJ 93/C63/02). Under these conditions, large firms became integral players in policy formation, participating either individually, or collectively through new loose cross-border business alliances. The European Round Table (ERT) technical committees provided the foundation for many of these new specialised *industrial* forums, and the establishment of formal *Commission* forums, which included many of the ERT committee members, suggested the development of an inner core of policy makers. The forum initiative was reinforced by the success of the American Chamber of Commerce: drawing on its US lobbying experience, this began to provide quick and detailed information to the Commission's working groups. While the industry forums pursued collective interests, they generally had a more focused agenda-setting role than the European Federations, and benefited greatly from being the sum of like-minded firms. Examples are the Maritime Forum, the Transport Network Round Table, the Automobile Workshop, the Steel Panel, and the IT and Telecommunication superhighway groups.

The ERT also set a precedent for "high politics" forums with Commissioners. These raised the questions of enlargement, the environment, US/European trade relations, and research and development. On the demand side, these high politics forums represent a need by the Commissioners to create some form of alliance with industry and an alternative channel into domestic political systems. The most visible high politics forums have been the Bangemann group, which brought together eighteen leading European industrialists to formulate the European Telecommunication policy agenda (see page 13), and the Christophersen forum on Energy and Transport. But most Commissioners have some industrial grouping based around an issue. On the supply side, the Bangemann and Christophersen forums demonstrated that in addition to proposing a number of board policy initiatives at the Essen 1994 summit, firms could at a later date use the formal recognition that such negotiations provided to promote company-specific issues. In other words, collective access could be used to promote individual access.

Meanwhile, some European Federations managed to increase their effectiveness, which involved radical restructuring of their membership and decision-making. The most important of these changes was the increased direct participation of firms in the formation of Federation policy (McLaughlin et al 1993). The most visible outcome of the restructuring was an increase in direct representation by multinationals of Federation positions at the Commission, while, within the Federations, big debates occurred on the role of large companies and the constituent national associations. For example, the 2000 Report by the European

Chemical Industry Council envisaged an inverse hierarchy for business interest representation, with large European companies co-ordinating and feeding a pan-European perspective back into the national market via the national associations.

Thus, although *large* firms have established their credibility as policy actors in the EU, whether *all* firms who participate can attain favoured access is open to debate. Rather, in the current less active legislative phase, the Commission can afford to be more selective in according access and has moved towards "consensus through forums". This is a more focused and elitist structure than the traditional corporatist arrangements of the 1970s or the direct overload lobbying of the late 1980s. Rather, it is possible to see the current "elite pluralism" as a system where access is generally restricted to a few policy players, for whom membership is competitive and strategically advisable, but not compulsory or enforceable. Support for this view is to be found in the observed success of some European Federations in maintaining and creating direct firm membership, not only by the provision of collective benefits and internal selective benefits, but by the creation of insider status for firms' direct lobbying of the Commission. The ability of firms to achieve benefits for themselves in the long run from ad hoc collective arrangements means that business politics in the EU in the 1990s is even more complex than suggested by analysis of the EU's multiple-layered public policy process.

What Kind of Lobbying Works Best?

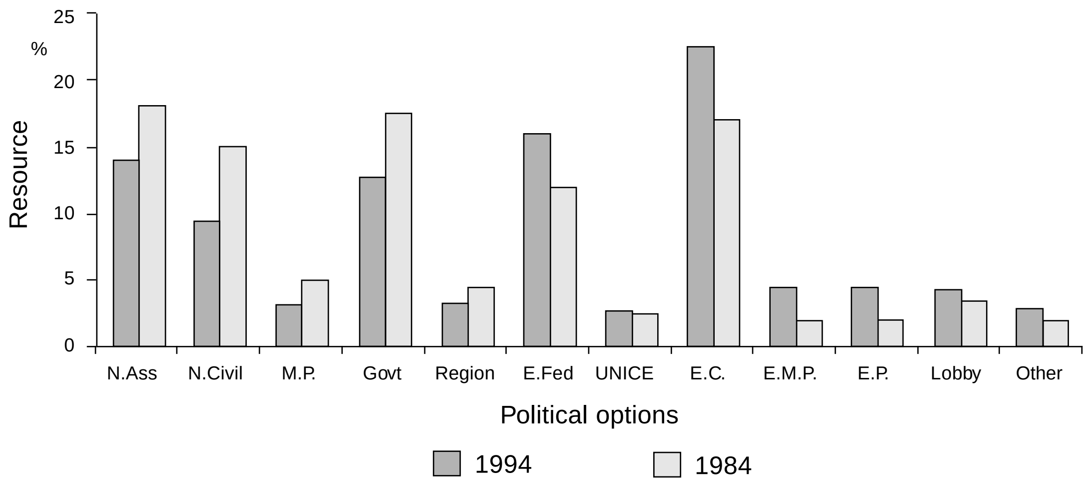
The history of EU lobbying shows that it is in a constant state of flux. To understand how firms may react to future changes in their institutional and regulatory environment, it is important to identify the lobbying methods that firms prefer, to assess the perceived costs and effectiveness of each method and to explore the impact of firms' general budget constraints. Current lobbying behaviour will help us understand how firms are likely to behave in future, including how existing Commission-oriented methods will shift to other arenas like the European Parliament (EP).

The data presented here are based primarily on the preferences recorded in a 1994 survey of "European affairs" directors. Figure 1 shows the lobbying pattern for large firms seeking to influence the European policy process and represents the mean average of the 54 firms who replied to the question: "How would you allocate 100 units of political resources between the channels listed below to influence the European Community today and ten years ago?" The percentage data therefore represents firms' revealed preference for various political channels, as opposed to their actual expenditure. Such data has the advantage of not having to be adjusted for company size, currency or time and permits aggregation and confidentiality.

Although it masks some variance in allocation across countries, sectors and issues, Figure 1

Figure 1

Allocation of Company Resources



demonstrates that large firms have adopted multiple lobbying strategies when seeking to influence the European policy process (for more detail, see Coen 1997 forthcoming). More specifically, figure 1 demonstrates that over the ten-year period 1984 to 1994, the locus of political activity shifted away from national and towards European institutional channels. A parallel trend was the general tendency of firms to favour individual representation at the national government (Govt), Ministry (N.Civil), European Parliament (EP, and EMP) and European Commission (EC) as opposed to using intermediaries such as lobbyists (lobby) or national associations (N.Ass). The favoured political channel was to lobby the Commission directly, with about a quarter of the significance of all political activity attributed to this.

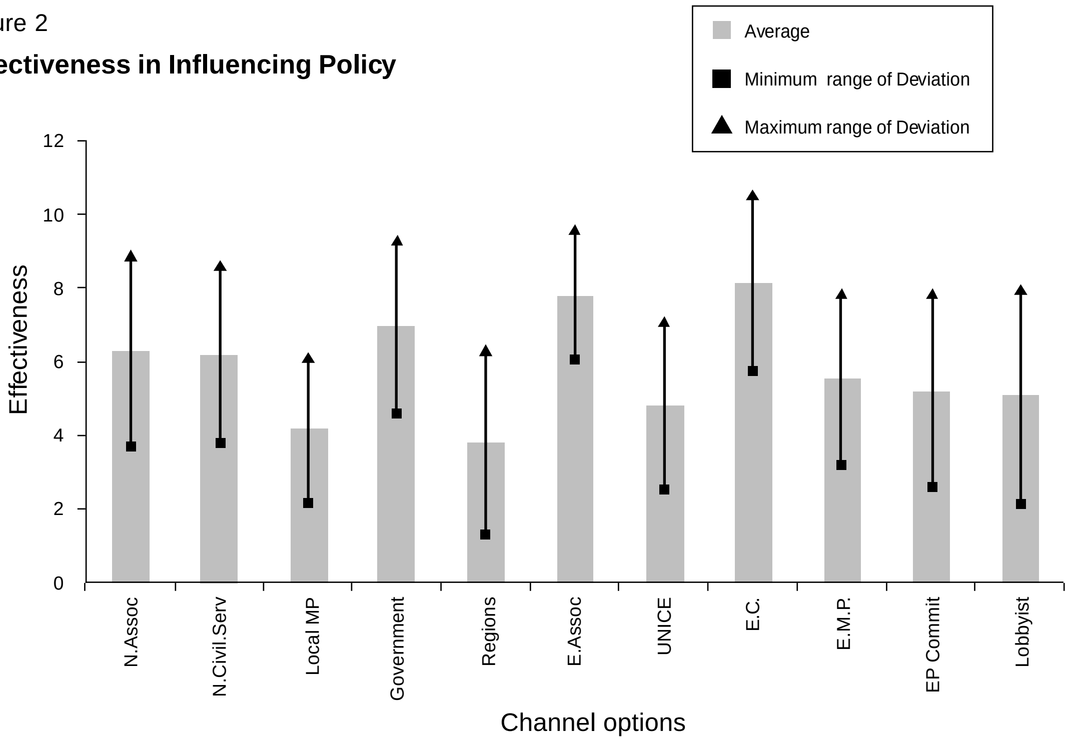
This perception that direct lobbying of the Commission was regarded as the best means of influencing the European policy process is reinforced by the responses from the 70 firms who expressed a belief that they had some form of direct entry at the Commission. Not surprisingly, therefore, figure 2 confirms that the highest effectiveness rankings were attributed to lobbying the Commission. Effectiveness was defined as the ability of the political channel to influence the European policy in the interests of the firm. The scale ran from 10 (most effective) to 1 (least). Scoring effectiveness in this way provides a relative ranking of political channels and avoids the risk of underestimating a channel's worth because of institutional inertia, risk/uncertainty, cost and access difficulties.

Although the Commission is considered open and accessible, a firm's effectiveness in influencing policy directly continues to be determined by its ability to establish a positive reputation in the European political process: by the extent to which it can establish its reputation as a provider of reliable, sector-specific, and pan-European information. Most European firms achieve insider status from the extent of their cross-border production or size. But occasionally some firms may find themselves insiders on specific Commissioner forums due to sympathetic political leanings. Consequently, the level of access expected and provided can vary markedly for firms across sectors, Directorates, and policy areas. With such political uncertainty, it is logical and responsible political behaviour to develop a mix of political channels.

If *direct* lobbying is the most effective means of influencing policy, direct political channels can improve access via good political management of

Figure 2

Effectiveness in Influencing Policy



secondary *collective* channels. The most common means of establishing an element of trust between bureaucrat and firm was to foster European credentials. As one cabinet member of the European Commission noted, “Lobbying is effective when a climate of trust has been created. This is not only the first step, but it is also far more important than the tool or method” (Burston-Marsteller 1991, p22). Notwithstanding the relative decline in influence of the industry Federations, this strategic diversification of lobbying in the past 10 years was most visibly illustrated by the gradual increase in use of these European Federations.

This new growth in European collective action, while explained in part by market integration, can also be attributed to the growth of individual lobbying and the consequent feelings of “overload” in the Commission, and the legislative activity of the Commission. Given that most firms based in Brussels have limited political budgets, it is logical to assume that they prioritise political issues between core strategy and secondary issues. In periods of high legislative activity, firms are willing to share out the burden of political representation to collective groupings and professional lobbyists.

Moreover, many of the firms in direct membership Federations believe that collective action provides the natural forum to allocate and distribute core issue policies amongst themselves. The result is that Federations are able to monitor a greater number of issue areas, with a greater level of expertise, and firms gain more political coverage at lower cost. Such a federation model works well in the highly segregated product markets of the chemical, pharmaceutical and oil industries or in sectors where there has been a tradition of cartels and sub-market leaders.

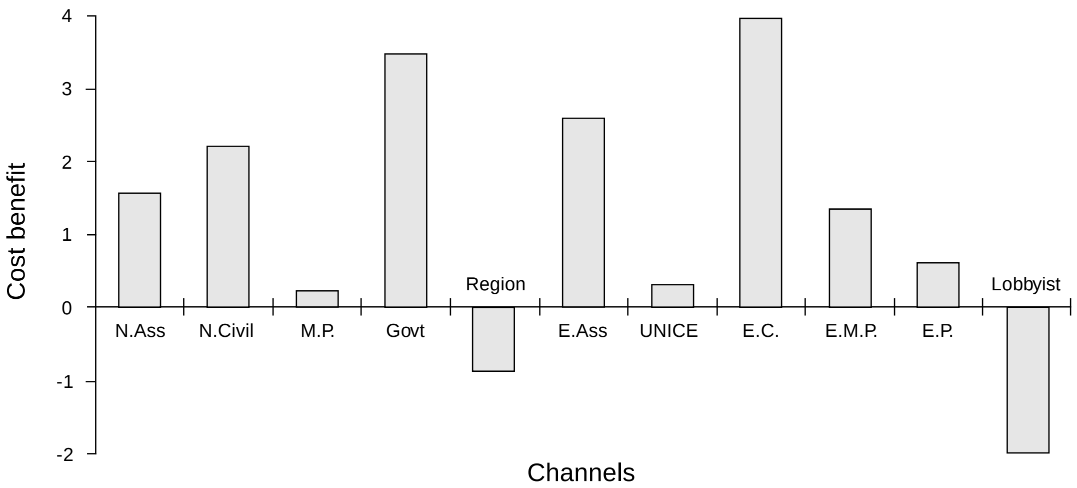
In distilling a trend from the effectiveness data collected for this study, it is possible to argue that the utilisation and ranking of political channels is ultimately determined by how focused and close channels are to the regulators and legislators. There is a distinction between *loud* lobbying and *effective* lobbying. For example, a European Member of Parliament’s high profile press campaign or the position papers of the European Social Committee, while clearly visible to the public, are often only marginal to the technical decision makers’ considerations in the European Commission.

However, it is important to emphasise the complementary nature of political channels and the increasing ability of firms to discount the costs of participation in one channel against improved access in another. Some political channels or business alliances may be utilised, not for the collective good they directly create, but for the improved access they provide for individual lobbying. It is important not to neglect the issue of which secondary channels provide positive “externalities of access” and the degree to which cost considerations determine the large firms’ behaviour.

Figure 3 attempts to capture a cost/effectiveness analysis of the different channels. It was constructed

Figure 3

Relative Cost Benefit



by deducting the cost scores from the effectiveness scores. (In the questionnaire, firms were asked to rank each channel not only in terms of effectiveness - see figure 2 - but also in terms of cost, where 1 was the cheapest and 10 the most expensive.) Figure 2 shows that the Commission is regarded as the most effective channel. Figure 3 illustrates that it is also perceived as the "best value" channel and that hired lobbyists are regarded as relatively poor value for money.

Whilst the decline of the hired lobbyist began with the realisation by large firms that they were capable of their own lower cost lobbying, the private lobbyist's position has also worsened with the green papers on open access and transparency in the European Union. The EU institutions have now made clear distinctions between representatives from business and/or non-profit making organisations and those that make representations for profit (OJ 93/C166/04). However, professional lobbyists will maintain a specialist niche as most firms "admit they are not as good at spotting market opportunities in proposed legislation or regulations whether EU or domestic as they are at responding to threats" (FT 1994). For this reason, hired lobbyists provide a complementary benefit to the "government affairs" divisions of firms, providing specialist information and continuous political monitoring. They do not, however, establish political "goodwill" or facilitate firms in the creation of "insider status" in Europe.

The research suggests that the take up of political channels is influenced by cost considerations and that firms are faced with an internal budget constraint. Moreover, the importance of cost grows with increases in the uncertainty of the political returns associated with a political channel. As a direct consequence of this uncertainty, the usage of channels in Europe has built up only slowly and has required large institutional and market changes to become decisive. Political change is particularly slow in periods of recession - when corporate affairs budgets are the first to be cut back. Whilst the establishment of the "government affairs" units has reduced some of the information transaction costs and facilitated an understanding of EU institutions, the constant evolution of many of the political institutions has inhibited the full adoption of all the available political channels.

A good example of this phenomenon was the slow transfer of political resources to the European Parliament (EP) after the Maastricht agreement. In the survey, 52 firms replied to the question: "Will the Maastricht Treaty alter your weighting of resources to the above channels? And, if yes, which channels will gain most from reallocation?" While 57% of firms believed that the EP would grow in legislative importance, 73% then asserted that they would maintain their existing budget allocation for the foreseeable future. This seeming inconsistency represents the difference between the objective thinking of the firm and the practical reality of the budget constraint. While the majority of firms interviewed were of the opinion that the EP would have an increased input into the public policy process, the reality is that, until a time when they have additional resources, most firms perceive the additional benefits of lobbying the EP to be less than the additional cost of participation. This reluctance to commit resources to lobbying the EP can be explained in terms of the ambiguous policy outcomes of high-cost lobbying at the EP Committee stage and the risk that the policies agreed at Committee will ultimately be compromised at the Strasbourg vote. Consequently, increased political lobbying of the EP is dependent upon additional funds being made available for political activity, rather than redistribution of current resources and the current perceptions of returns on different lobbying activities.

"The EU institutions have now made clear distinctions between representatives from business and/or non-profit making organisations and those that make representations for profit"

Significantly for lobbying, while political directors believed that new funds needed to be found if political opportunities were to be maximised, they also recognise that this was unlikely to occur until there was an upturn in the economy. As we saw earlier, firms were quick to allocate funds to the Commission during the legislative boom of the 1980s - but much of the take up of European lobbying could also be explained in terms of the increase in financial resources during the late 1980s economic boom. As one respondent noted "it was only after the allocation of the budget that the realisation of the full benefits of direct lobbying were made". This suggests that in times of recession most political affairs units are under budgetary pressure, and are therefore less politically innovative and more focused on core business areas.

In total, the data tend to suggest that the Maastricht agreement is unlikely to have any radical effect on business representation in the short run, and it is logical to assume that the Commission will continue to develop its relationship with business to reinforce its position in relation to nation states. Therefore, as far as business interests are concerned, the Commission is likely to maintain its pre-eminence in policy making over the European Parliament.

Conclusions

While the European Parliament attempts to establish a constituency with the *people* of Europe, the European Commission is contenting itself with developing a *business* constituency. As the Commission had increasingly demanded specialised technical expertise from firms, as opposed to the traditional representative liaison officers, it is not surprising that many firms decided to develop direct representation in Brussels to co-ordinate the increasing political activity. Increased political contact with the European institutions meant an improved understanding by firms of the information-gathering cost/benefit equation. Moreover, once the cost of location in Brussels has been absorbed by the company, extra economies of direct lobbying have been established and more sophisticated political games played.

It is apparent from the behavioural data presented here that the firm must make two distinct allocation decisions. The first involves the allocation of funds to the government affairs unit within the company. In most firms, the political affairs team must compete with other strategic divisions for resources, and, as a new division, must constantly prove its worth. The political affairs unit is held accountable for its actions and, to some extent, the amount of profit it can generate. Such constraints on budget and action demonstrate that even large multinationals have to be aware of political effectiveness. The most visible example of this budget constraint is the reluctance of many firms to increase expenditure on the European Parliament even in the light of Maastricht.

> ***"While the European Parliament attempts to establish a constituency with the*** **people** ***of Europe, the European Commission is contenting itself with developing a*** **business** ***constituency"***

The second allocation decision is the distribution of political funds between the various political channels. Here the data indicate that action is predominantly determined by the perception of influence and the establishment of "goodwill" for future influence. That is to say cost would appear to increase in importance when a channel has yet to establish its political credibility. Such behavioural rationales indicate that, as political actors, businesses are very sophisticated - they are able to discount short-run collective political activity against long-run direct access to the decision maker.

Within a framework of budget constraint and the ability to discount political action, more firms are becoming aware of the benefits of collective action to facilitate direct access to the European policy forums. Moreover, while much of this collective representation takes place via the traditional associations, we are increasingly seeing the establishment of European business forums and ad hoc alliances.

While improving the decision-making and informational flow at the institutional level, forum politics has also created a political market where firms can no longer allow rivals to establish sole access even to a forum providing collective benefits as this may cause them to lose out on individual lobbying at a later date. Accordingly, firms that had previously chosen to "free ride" on others' contributions to the European collective policy-making process were forced to reassess their political strategies and in some cases to incur higher lobbying costs to establish a European presence. Aware of this competitive market, the Commission has in some cases attempted to "pump prime" the EU public policy system by manipulation of access to its own forums in the hope of attracting a second wave of firms into the EU orbit. For example a German car manufacturer noted that if a rival producer was asked to participate in a forum, it would have to step up its own European activity in the same issue area, even if national channels were more effective.

The establishment of European forums, therefore, had implications for the Europeanisation of business politics, for the management functions of large European companies and for national policy-making systems. However, while the locus of political activity has clearly moved towards the European institutions, the business/ politics relationship would appear to be in a constant state of flux due to variations in the EU regulatory cycle, the nature of the market and the political sophistication of the firm.

References

Burston-Marsteller (1991) *Lobbying the EC: The Views of the Policy Makers,* Brussels Office.

Butt Phillip A (1991) *The Directory of Pressure Groups in the European Community'* Harlow: Longman.

Coen D (1997) The Evolution of the firm as a Political Actor in the European Union, *Journal of European Public Policy* 4:1:91-108.

Coen D (1997 forthcoming) *The Large Firm as a Political Actor in the European Union*, London: Routledge.

European Commission (1993) *An Open and Structured Dialogue between the Commission and Special Interest Groups*, Brussels, 93/c63/02.

European Commission (1993) *Transparency in the Community* 93/C166/04, Final 245, Brussels.

Financial Times (1994) How Companies Rate Lobbyists, 16 December.

Forum Europe (1993) *Talking to the EC: Consultation, Lobbying and Openness*, Brussels.

Gardner J (1991) *Effective Lobbying in the European Community*. Dordrecht: Kluwer.

Grant W (1993) "Pressure Groups and the European Community: An Overview", in the Mazey S and Richardson J eds: *Lobbying in the European Community*, Oxford University Press.

Grant W (1991) "DIY: The Government Relations Function of Large Companies" in Jordon, ed: *The Commercial Lobbyists*, London

Hirschman A (1970) *Exit, Voice, and Loyalty.* Harvard University Press.

Mazey S and Richardson J eds (1993) *Lobbying in the European Community*, Oxford University Press.

McLaughlin A, Jordon G and Maloney W (1993) Corporate Lobbying in the European Community, *Journal of Common Market Studies* 31:2:191-212.

Sandholtz W and Zysman J (1989) Recasting the European Bargain *World Politics* 42:95-128

Schmidt V (1993) The New World Order, Incorporated: The Rise of Business and the Decline of the Nation State, Working paper EUI. 95/5.

Streeck W and Schmitter P (1991) From National Corporatism to Transnational Pluralism *Politics and Society* 19:2:133-64

David Coen is a Research Fellow on the Regulation Initiative Research Programme at London Business School