

# Government and Cronyism

## A Reply to Chalmers's Comment

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# EXCHANGES

## GOVERNMENT AND CRONYISM: A REPLY TO CHALMERS'S COMMENT

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Our recent article (Klein, Holmes, Foss, Terjesen, & Pepe, 2022) argued that critics of capitalism in the management literature often confound capitalism with cronyism, a system in which firms succeed or fail based on political ties rather than market-based outcomes such as innovation, customer satisfaction, and efficiency. Our article also noted that more activist government creates more opportunities for cronyism, which is antithetical to capitalism.

A comment on our article (Chalmers, 2022: 1050) stated that it provided both “normative and technical” critiques of our argument (we assume that “technical” means “descriptive” or “positive”) and stated that one of its principal aims was to introduce new “ideological perspectives” (p. 1050) to the literature. Notably, the comment did not differentiate the normative and ideological critiques from the technical ones. It further maintained that “cronyism cannot be separated from capitalism” (p. 1050), and it called for expanding the role of the state “to be more instrumental in coordinating some areas of economic activity” (p. 1054).

In this response, we note that the comment’s argument rests on the following three assumptions that are often debated in the scholarly literature: (a)

government policy reflects society’s will (Chalmers, 2022: 1052), (b) cronyism and capitalism cannot be distinguished conceptually (p. 1050), and (c) a more expansive state is a more effective state (p. 1053). After discussing these assumptions and the scholarly debates surrounding them, we present a future research agenda to examine these issues on positive and technical grounds (not normative and ideological grounds). In particular, we call for novel management theory and empirical research to disentangle the antecedents of public policy, the impacts of managers’ and public officials’ value systems on firm behavior and the prevalence of cronyism, and the many trade-offs related to the size and scope of the state.

Before getting into the details, we wish to thank Chalmers for engaging with our work and contributing to the conversation about capitalism and cronyism. In addition, we wish to reiterate three points from our original article that distinguish it from the comment in important ways.

First, discussions of capitalism often involve normative or ideological debates about the *appropriate* roles and responsibilities of business, markets, and the state. As stated in our original article, “our focus is not debates about capitalism that are rooted fundamentally in different normative views” but conceptual issues about capitalism and cronyism that lie at

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“the descriptive core of management theory” (Klein et al., 2022: 13). Neither our original paper nor this response advocate ideologically for any set of institutions that governments *should or should not* adopt. The relationship between government institutions and the potential for cronyism has been examined elsewhere (Coyne & Hall, 2019; Persson, 2002), as have the ways that countries’ values, norms, priorities, and histories shape the institutions that they develop (Hall & Thelen, 2009; Holmes, Miller, Hitt, & Salmador, 2013). By highlighting the assumptions that underlie the comment’s critiques and arguments and continuing to avoid the normative in favor of the positive, we hope to add more clarity to the literature on cronyism and capitalism.

Second, we suggested that cronyism exists when “business success hinges on relationships with government officials who can provide resources, regulatory exemptions, and other benefits that are unavailable to less politically connected individuals and firms” (Klein et al., 2022: 7). Because we argued that “the hallmark of cronyism is the distribution of privileges to politically favored firms” (Klein et al., 2022: 13), we also contended that firms’ participation in the political process does not itself constitute cronyism. For many reasons, which we describe in detail below, we stand by our original claim that the *potential for cronyism* often is a direct function of the state’s level of involvement in the economy. However, *the actual manifestations of cronyism* depend on many additional factors, including individual differences, organizational policies, and informal and formal institutions that encourage or discourage individuals and firms from seeking or receiving advantages based on their political ties (Misangyi, Weaver, & Elms, 2008). Importantly, our original paper and this response intentionally limit the treatment of cronyism to the context of business–government relations because we believe it is important to distinguish cronyism from the plethora of other constructs that represent inter-firm or personal relationships such as social capital or collusion among private actors.

Third, capitalism manifests differently across countries, as our references to the “varieties of capitalism” literature in the original article illustrated (Whitley, 1999; Witt & Redding, 2009). Some versions envision more reliance on free markets and more limited state intervention, as in the classical liberal treatments evident in the work of scholars such as Schumpeter (1942), Hayek (1948), Mises (1949), and Friedman (1962). Others allow for more substantial state intervention to coordinate markets and economic activity (Hall & Soskice, 2001).

Realistically, most modern economies contain a mixture of free markets and state intervention (Agarwal & Holmes, 2019). For instance, managing the economy through the control of state-owned enterprises is common in China (Ignatius, 2021; Yiu, Hoskisson, Bruton, & Lu, 2014), and influencing outcomes through government contracts (e.g., for defense spending, which spills over into other sectors such as aeronautics and real estate) is common in the United States (Berrios, 2006; Dreier, Mollenkopf, & Swanstrom, 2014). That said, the views expressed in our original article and in the comment reflect different assumptions about markets and states that remain subject to debate.

## UNDERLYING ASSUMPTIONS

### Assumption 1: On the Relationship between Government Policy and Society’s Will

Chalmers’s (2022: 1052) comment assumed that government “policies ... are typically a democratic expression of society’s will” and that a smaller state weakens the scope for “democratic collective action” (p. 1050). This view aligns with the tradition of public interest theory, which assumes that “markets often fail” and “governments are benign and capable of correcting these market failures” (Bozeman, 2007; Johnston, 2017; Shleifer, 2005: 440).

The comment stated explicitly that this viewpoint was based on “collectivist” ideology (Chalmers, 2022: 1050). The accompanying assumption that the state is the embodiment of the collective will dates back to at least Rousseau (1762), who argued that the “general will” should override individual interests. A related idea is that the public interest overrules individual ones. Academically, such ideas are evident in utilitarian philosophy and in notions of “social welfare functions” (i.e., how “society” weighs and orders different alternative outcomes), as described by Bergson (1938).

However, many scholars have questioned the assumption that public policy is a true reflection of “society’s will.” From a theoretical perspective, Arrow’s (1950) impossibility theorem states that when voters have three or more alternatives, there is no voting system capable of transforming their ranked preferences into a ranking that is complete (i.e., all alternatives are ranked) and transitive (e.g., if *A* is larger than *B*, and *B* is larger than *C*, then *A* is larger than *C*). In other words, the theorem suggests that a clear rank order of preferred alternatives cannot be determined if there are more than two alternatives and if the system requires adherence to fair

voting principles. Because actual policy options usually involve more than just two alternatives, Arrow's theorem and its extensions by social choice theorists imply that individual preferences cannot be aggregated into a "social welfare function" (Gaertner, 2009; Sen, 1970).

Moreover, from a practical perspective, operationalizing the social welfare function is problematic for many reasons. Although Bergson's (1954) treatment of the social welfare function is more nuanced (Igersheim, 2019; Samuelson, 1977), and Arrow himself was comfortable with social welfare maximization in his later work (Fleurbaey & Mongin, 2005; Igersheim, 2019; Suzumura, 2005), modern welfare economics often relies on abstract concepts of social welfare functions, axiomatic reasoning, and optimization models that do not correspond to specific, feasible political alternatives. Though they might be methodologically rich, the insights produced by this research would often be difficult to implement in practice.

For example, voting and majority rule are the most obvious options for assessing "society's will" in practice. Conceivably, the problems identified by Arrow could be handled by ordering alternatives into binary pairs upon which voting could be used. However, such ordering is infeasible in most cases, given the number and variety of policy choices and outcomes available. Voting also requires individuals to choose between the options they are given, even if they do not prefer such options in the abstract. In U.S. presidential elections, for example, political independents are the largest block of voters, yet their choices in the general election are constrained to candidates chosen by political parties (Holmes & Nickerson, 2023). Some societal members may also choose not to vote if they do not like the available choices or believe that their votes will not affect the outcome, as might have occurred among some prospective voters in the Brexit referendum (Lynskey, 2017). Lastly, individuals may cast votes to promote their narrow self-interests instead of what they believe to be in society's interests (Gibbard, 1973). Thus, there are several reasons to question the assumption that public policies are a "democratic expression of society's will" (Chalmers, 2022: 1052), even in established democracies.

Alternatively, one could imagine a social welfare function enacted by a dictator who represents benevolence or majority rule. In this regard, considering the challenges described above, some social welfare theorists have acknowledged that policymakers' views of the common good (which are informed by their own ethical judgments) might need to be imposed on the

populace to promote "social welfare" (Samuelson, 1947; Suzumura, 2005), presumably by using the state's power of coercion and monopoly on the use of force (Buchholz & Rosenthal, 2004; Weber, 1958). Anecdotally, the practical reality of several modern dictatorships raises numerous empirical questions about whether dictators understand, respect, pursue, and are capable of implementing policies that reflect the majority's preferences. Further, even public policies favored by the majority might not be aligned with social welfare. Many policies that enjoy (or once enjoyed) majority support can be viewed as harmful or morally wrong, such as those that legalize(d) the persecution of political, ethnic, or religious minorities.

In short, although the social welfare function may have normative appeal to some, there are practical and empirical realities that make it difficult to measure and utilize as an instrument of government policy.<sup>1</sup> The implication is that the concept of "society's will" as an operational construct is at best ambiguous and nebulous. As Schumpeter (1942) emphasized, individuals and groups rarely agree on what constitutes the common good given the variety of outcomes that are possible and the heterogeneity among people's perceptions of, preferences for, and valuations of those outcomes. And even if the common good could be defined, people usually disagree on the urgency and type of actions deemed necessary to achieve it (Cochran, 1974; Sorauf, 1957).

Public choice theory, which originated at about the same time as social choice theory, speaks to this issue and further challenges the assumed linkage between government actions and society's will. This literature models politics as an exchange between self-interested individuals (e.g., voters, lobbyists, politicians, and administrators). Politicians are viewed as entrepreneurs who prioritize their reelection and continued influence and who, in turn, often favor policy proposals aimed at maximizing the votes they receive and bolstering their reelection

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<sup>1</sup> As Coase (1964: 195) put it, "contemplation of an optimal system may provide techniques of analysis that would otherwise have been missed and, in certain special cases, it may go far to providing a solution. But in general its influence has been pernicious. It has directed [our] attention away from the main question, which is how alternative arrangements will actually work in practice ... It is no accident that in the literature ... we find a category 'market failure' but no category 'government failure.' Until we realize that we are choosing between social arrangements which are all more or less failures, we are not likely to make much headway."

prospects (Buchanan & Tullock, 1962). Similarly, lobbyists are paid to represent special interests, state bureaucrats often seek to increase the size of their agencies or budgets (Niskanen, 1975), and regulators often cater to the priorities of the firms they ostensibly regulate (Mackay, Miller, & Yandel, 1987). For example, lobbyists provide information to public officials to shape legislation and policy enforcement, to preserve or solidify the commitment of their clients' supporters, or to counter the influence of other lobbyists with competing objectives (Lowery, 2007).

Critics of public choice theory have claimed that it (a) distinguishes too sharply between market and state resource allocation while overlooking hybrid arrangements such as public–private partnerships (Fotos, 2015); and (b) neglects power differences, including heterogeneous power among public officials, corporations, and other interest groups (Lehner, 1983). These criticisms have largely amplified, rather than mitigated, the concern that one cannot equate the outcomes of political processes with the general will. On the first point, firms can be expected to try to obtain and leverage political influence to gain access to lucrative public–private partnerships (Luo & Kaul, 2019). Horizontal rivals, their vertical partners, and the stakeholders of such firms might, in turn, be disadvantaged when they lack access to such special government–business relationships (Brown, 2022). On the second point, the power differences among public officials and interest groups do indeed shape public policies in important ways (Olson, 1965; Zinn, 2003). As a result, the most well-organized, well-funded interest groups often are more capable of shaping policy than are more dispersed groups (such as “the taxpayers” or “the electorate”). Thus, the issues of public–private partnerships and power differentials among groups provide additional reasons to believe that public policy depends on many factors other than “society’s will” or “public choice.”

Our original article referenced the large body of literature on regulatory capture, which further suggests that special interests leverage their influence to promote public policies that serve their own purposes (Stigler, 1971). Of course, the phenomenon of cronyism predates the modern regulatory state (Newman, 2021; Novak, 2013)—the potential for private interests to influence and corrupt government has been a theme in philosophy and political discourse since at least Plato’s time. For this reason, policymakers often attempt to mitigate the potential for cronyism when designing government institutions (Novak, 2013). Nonetheless, the 20th-century emergence of the regulatory state greatly increased the potential

gains from cronyism (both for firms seeking to influence policy as well as for the public officials willing to supply it in exchange for financial or other rewards) (Dreier et al., 2014; Holmes & Nickerson, 2023).

Indeed, firms’ dependence on government is one of the strongest empirical predictors of corporate political activity (Hillman, Keim, & Schuler, 2004; Sutton, Devine, Lamont, & Holmes, 2021), and such dependence naturally increases with the size and scope of government and its intervention in more sectors of the economy (Agarwal & Holmes, 2019; Holmes, Zahra, Hoskisson, DeGhetto, & Sutton, 2016). More generally, there is considerable evidence from a variety of intellectual traditions and countries that special interests try, and often succeed, at shaping public policy toward their own preferences (Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2002; Lux, Crook, & Woehr, 2011). In fact, meta-analyses have revealed that success depends in part on competition from other special interests with different preferences (Hadani, Bonardi, & Dahan, 2017), which is another reason to doubt that public policy reflects “society’s will.”

In short, the comment on our original article was based at least partly on collectivist ideology, and it made an explicit assumption that government policy reflects society’s will. We have presented several theoretical, practical, and empirical reasons to question that assumption. Conversely, management research on stakeholder theory (Freeman & Phillips, 2002), resource dependence theory (Pfeffer & Salancik, 1978), upper echelons theory (Wowak, Busenbark, & Hambrick, 2022), and the resource-based view (Barney, 2018) has suggested that societal members can express their will by choosing whether and how much to do business with firms that engage in particular behaviors, including corporate social responsibility, political activism, or cronyism. In other words, each of these literatures has indicated that free and open markets allow individuals and groups to express their will through the products and services they choose to consume, the businesses for which they choose to work, the investments they choose to make, and so on. Absent advantages achieved through political ties, firms must be more responsive to the demands of shareholders, employees, customers, suppliers, and other stakeholders who provide the essential resources that firms require (Holmes, Waldman, Siegel, & Pepe, 2022). Therefore, and as examined further in the following sections, governments and markets rely on different mechanisms through which societal members’ preferences influence economic outcomes.

## Assumption 2: On the Distinctiveness of Cronyism and Capitalism

The comment also assumed that capitalism and cronyism cannot be “separated conceptually,” that “you cannot, in practice, have one without the other,” and that “corruption and self-interest would appear to be innate human qualities” (Chalmers, 2022: 1050). It also stated that our association of cronyism with “government–business relations” (p. 1052) is too narrow because we did not include various forms of collusion among private actors in our treatment of cronyism.

First, our exclusion of collusion in the private sector from the definition of cronyism was intentional. Our focus was the business–government interface. Markets function within, and are constrained by, institutions such as norms, culture, and laws which establish the rules of the game and which can mitigate anticompetitive or unethical behaviors (Holmes et al., 2013; North, 1990). However, we believe that the cronyism construct becomes less specific and useful when expanded to include additional behaviors, such as collusion through nepotism, which raise ethical or legal questions. Because governments exercise sovereign authority and have the power to allocate a country’s *public* resources to some private actors (but not others) based on their own preferences and discretion, business–government ties warrant special consideration and should be examined separately from other forms of social influence that occur in the private sector.

From this base, our article sought to clarify the theoretical mechanisms that explain how (business–government) cronyism emerges and how it may be limited. While acknowledging the demand for cronyism by private actors, we urged management scholars not to neglect the supply of cronyism by government officials. In other words, cronyism in the public sphere cannot be understood without analyzing the government institutions that create opportunities for firms to secure advantages through political ties (Coyne & Hall, 2019; Holmes et al., 2016).

Clarifying the meaning and source of cronyism is important for several reasons. First, if self-interest is an innate human quality, then the self-interest assumption outlined in the comment could apply to both private sector (e.g., managers) and public sector (e.g., politicians) actors (as is assumed in public choice theory). This argument follows from an assumption of symmetry in basic motivations between the private and the public sphere. For example, Krueger (1990: 13) questioned why scholars

have “ever been comfortable with the simultaneous beliefs that individuals in the private sector act in their self-interest and that individuals in the public sector are motivated by a Benthamite vision of social justice.” Likewise, Wolf (1979: 150) argued that public officials’ behavior is influenced as much by their private goals as their public responsibilities. Examples of such private interests include public officials’ loyalty to their respective parties (rather than the public) (Gehl & Porter, 2020), tendency to favor policies that preserve or boost funding for their specific agencies (Schuck, 2015), and resistance to otherwise desirable public policies that do not benefit their political or career aspirations (Bardhan, 2016).

Public choice scholars have been explicit that this assumption about the inherent self-interest of private sector and public sector workers is an empirical question (Buchanan & Tullock, 1962). For example, self-selection into certain professions could produce different distributions of self-versus other-regarding values across the private and public sectors. Still, much empirical research has confirmed the basic predictions of public choice theory in a variety of policy settings, such as occupational licensing (Plemmons & Timmons, 2020), start-up entry barriers (Djankov et al., 2002), discriminatory laws (Magness, 2020), and international trade sanctions (Kaempfer & Lowenberg, 1988). This research has suggested that government policy tends to protect and promote the interests of powerful actors rather than “society” at large. We take no position on whether such practices yield net benefits. Our point in the original article was simply that securing advantages through political ties is inconsistent with the classic treatments of capitalism that envision private exchange through markets and limited stated interference. Conflating cronyism and capitalism reduces construct clarity, which hinders discussion among scholars with different viewpoints and makes it difficult to interpret contradictory empirical results (Suddaby, 2010).

In any event, it does not follow that self-interest inevitably leads to cronyism. Although individuals’ pursuits of their self-interests facilitate the functioning of markets (Phan, Siegel, & Wright, 2016), not all who pursue their own interests will engage in corruption. The presence of government regulations that are common in capitalist systems (e.g., contract and property rights enforcement) do indeed create the potential for cronyism (Coyne & Hall, 2019). As such, the *potential* for cronyism might arise endogenously from even the most basic regulations that are commonplace in the industrialized world. However, our original article emphasized that some countries have lower instances

of cronyism despite higher levels of government regulation and state intervention, which might partially reflect differences in the institutions and prevalent value systems that exist in different countries. More specifically, numerous external factors—including the rule of law and social norms—help to constrain behaviors like corruption, which represents self-interest seeking with malice or disregard for others (Holmes et al., 2013; Rodriguez, Uhlenbruck, & Eden, 2005). Likewise, the literature on prosocial values has suggested that some managers are motivated by factors such as altruism and compassion (Grant, 2007) and do not favor practices like corruption and other forms of malicious opportunism (Holmes et al., 2022).

In short, some of the differences between the perspectives in our original article and in the comment reflect different treatments of the cronyism construct, different assumptions about the consistency (or lack thereof) in the values of businesspeople versus public officials, and different assumptions about the links between such values and subsequent behavior. A lack of construct clarity about cronyism and capitalism muddles the debate among scholars who hold different viewpoints, although both our original article and the comment recognized that cronyism often emerges alongside capitalism (e.g., we differentiated more strongly between exchanges that occur between business and governments and exchanges that occur in free and open markets between private actors). In turn, we think that when government institutions exert greater control over markets and intervene in them more, the potential for cronyism tends to increase.

### **Assumption 3: On the Size and Scope of the State**

The comment stated that greater government involvement is needed “to solve macrolevel grand challenges” (Chalmers, 2022: 1050) and that countries should “administer a course of steroids to power more coordination of private sector activity” (p. 1053). These arguments reflect an implicit assumption that the current size and scope of governments are too small and that more government control over the private sector would solve society’s purported challenges.

Firms and free markets are also needed to solve such problems (Luo & Kaul, 2019). However, the comment’s arguments seemed to advocate for a version of industrial planning in which the public sector targets firms and industry sectors that are thought to yield high social impact, like the “moonshots” promoted in Mazzucato’s (2021) work. The comment conceded

the downsides of such targeted approaches—such as crowding out and various costs of public administration—but went on to argue that “proper governance and investment in the upskilling of public institutions ... can be deployed to mitigate the worst excesses of cronyism” (Chalmers, 2022: 1054).

This argument rests on several assumptions about state actors’ incentives, competence, and supervision to (a) identify the most pressing problems in society and (b) design effective solutions to them. Both issues have often been ignored in much of the research that has called for expanding state-led industrial policy (Karlson, Sandström, & Wennberg, 2019; Wennberg & Sandström, 2022). On the first point, the comment suggested that the state should stimulate the “early stages of renewable energy industries” (Chalmers, 2022: 1053) and discourage “unproductive finance, insurance, and real estate activities that currently hamper innovation in the real economy” (p. 1054). However, others have argued that the renewable energy sector is rife with rent-seeking, corruption, and other manifestations of cronyism (Helm, 2010; Jenkins, 2013). Similarly, discerning “society’s will” about what activities to prioritize—given differences in individual and group preferences, distributed authority across public officials at different levels and in different agencies, and powerful special interests—is a challenging if not impossible undertaking (as discussed above).

On the second point, public officials (like all people) are limited by bounded rationality. Politicians and state agencies often lack the expertise to solve grand challenges or to decide on the optimum allocation of society’s resources, especially when they are insulated from market processes that incentivize efficiency and effectiveness (Bardhan, 2016; Kelman, 2007; Terjesen, 2022). For example, public officials often lack “ownership competence” because they are stewards of other peoples’ resources and rarely bear the full consequences of their decisions (Foss, Klein, Lien, Zellweger, & Zenger, 2021). Likewise, despite countless state-led efforts to address issues like poverty and racial inequalities, these and other social problems have persisted and often grown over the past several decades in the United States, which raises legitimate questions about the history and effectiveness of various forms of state intervention (Dreier et al., 2014; Enos, 2017). This analysis does not rest on value judgments about the more general role of government in society. The conditions under which the state or private sector is better equipped to identify and address various social issues is an empirical question that needs further research.

In this regard, our original article put forth the descriptive or positive argument that when economic activity is coordinated by the state, a small group of public officials—based on their personal preferences, financial incentives and nonfinancial objectives, and other subjective criteria—have more influence over the allocation of society's resources. This concentration of control can incentivize, and perhaps make it easier for, certain individuals or groups to gain access to such resources through corruption and other influence tactics aimed at public officials (e.g., cronyism). For example, workers, suppliers, and investors in the finance, insurance, and real estate sectors probably do not believe that they are “unproductive” or are not part of “the real economy.” If threatened, they could be expected to mobilize and try to affect public policy to benefit their chosen sectors—as they have for decades. This line of reasoning suggests that the purported “moonshots” mentioned above are not a counterexample to the cronyism-related challenges of industrial planning. Instead, they illustrate where things could go wrong.

## DISCUSSION

To recap, the comment's main critiques of our original article rested on assumptions about (a) the ability of government policy to reflect society's will, (b) the definitions and conceptual separability of cronyism and capitalism, and (c) the size and scope of the state. These assumptions continue to be debated by scholars in multiple disciplines, including management. Here, we discuss research opportunities related to these assumptions.

### **Future Research Opportunity 1: The Antecedents of Government Policy**

Our analysis drew on the public choice and social choice literatures to question the assumption that government policy is a true representation of “society's will.” There are many opportunities for future management research to examine this important issue. For example, the literatures on corporate political activity (Hillman et al., 2004) and political activism (Abramowitz & Saunders, 2008) have emphasized the disproportionate influence of well-financed and well-motivated special interests on public policy. To the extent that the resulting policies serve the narrow interests of these groups, and perhaps reduce the voice of other less politically

connected groups, we need a better understanding of the antecedents of public policy.

In some countries, campaign contributions are a major source of special interest influence (Sutton et al., 2021). Prohibiting groups from outside a focal district from donating to local political campaigns (and perhaps lobbying too), for example, might reduce this form of corporate influence on government policy (Holmes & Nickerson, 2023). In addition, some communities have enacted citizen assemblies—which are “dialogue-based instruments that can integrate citizen viewpoints into policymaking processes”—in an attempt to foster government policy (e.g., about climate change) and develop political institutions (e.g., election processes) that better reflect popular preferences (Devaney, Torney, Brereton, & Coleman, 2020: 141; Fournier, Van der Kolk, Carty, Blais, & Rose, 2011). At the firm level, shareholder resolutions that require more transparency in firms' political activities also may discourage certain forms of cronyism over time, especially if shareholders react negatively to such activities (Werner, 2017).

Moreover, Gehl and Porter (2020) argued that politicians often have more loyalty to their respective parties and the parties' national platforms than to their local constituencies. The ability to draw on party resources and campaign donations from outside the local district contributes to this situation, as do parliamentary procedures and other institutions that allow parties to control electoral and legislative processes (Hillman & Keim, 1995; Persson, 2002). Likewise, most industrialized countries have government agencies comprised of non-elected officials who implement public policy and who affect policy enforcement through “bureaucratic discretion” (Meadowcroft, 2014: 86). Often, voters have little direct control over these agencies.

Given the complexities of designing and executing government policies, management research can shed light on these issues, as well as offer workable solutions to mitigate the harmful impacts of cronyism. Here, management research can complement existing work in economics, political science, and public administration. For example, Levine and Forrence (1990) argued that both the public interest and regulatory capture literatures historically were “arbitrary or silent” (p. 168) about “the relationships among” (p. 170) the elected officials, unelected officials, lobbyists, party officials, business leaders, and other actors involved in policymaking, creating a black box problem. Conversely, management research on topics like networking and social capital, resource dependence, power, structure, leadership, political skill,



incentives, and other related issues can be used to examine how the complex interactions among political actors, special interests, and the broader electorate shape public policy and its implementation. Using transaction cost logic, for example, Luo and Kaul (2019) showed how information asymmetries, externalities, uncertainties, and incentives influence the nature of public sector responses to a variety of social issues that present different collective action challenges.

### Future Research Opportunity 2: Value Systems

Our analysis suggested that managers vary in their propensities to engage in cronyism. One path forward is to focus more attention on managers' value systems since "values are internal moral codes or strongly held beliefs that influence individuals' preferences for particular goals or outcomes" (Holmes et al., 2022: 989; Rokeach, 1973). Upper echelons theory is perhaps the most influential management theory for studying the impact of executives' "experiences, values, and personalities" (Hambrick, 2007: 334) on their choices and behaviors. Thus far, there has been less direct examination of executives' values in contrast to a broader literature on executives' experiences and personalities. This lack of attention is important because values affect executives' perceptions and interpretations of the choices available to them. Put simply, executives may reject certain choices—such as the choice to engage in corruption—that are inconsistent with their values (Hambrick & Mason, 1984). Other than the work on CEO political affiliation and ideology (see Swigart, Anantharaman, Williamson, & Grandey, 2020), much of the empirical research on executives' value systems has been in the corporate social responsibility literature. This research has suggested that executives' (and other managers') value systems affect their priorities, treatment of stakeholders, and approach to ethics (Hafenbrädl & Waeger, 2017; Jiao, Harrison, Dyball, & Chen, 2017) and may affect their propensities to engage in corruption in particular (Eisenbeiß & Brodbeck, 2014; Shafer, Fukukawa, & Lee, 2007). For similar reasons, public officials' values likely influence their propensity to solicit or accept bribes, quid pro quo agreements related to campaign contributions, and other forms of cronyism.

The importance of individuals' value systems is also evident in the broader leadership literature. For instance, several papers in the *Academy of Management Perspectives* symposium on responsible leadership identified particular values that might enable

more responsible forms of leadership and reduce opportunistic behaviors, including bribery and corruption (Doh & Quigley, 2014; Stahl & Sully de Luque, 2014; Waldman & Balven, 2014). Related concepts at different levels of analysis—such as culture (Scholtens & Dam, 2007), social norms (Sanchez, Gomez, & Wated, 2008), and organizational climate (Campbell & Göritz, 2014)—also might predict the propensity for cronyism across managers, public officials, firms, and countries.

### Future Research Opportunity 3: Government Effectiveness

Management scholarship can also explore the efficacy of alternative government and governance arrangements. For example, prior research has explored the role of public policy in creating the U.S. land grant universities, the effects that state funding of NASA had on the development and growth of Silicon Valley and the semiconductor industry (Holmes et al., 2016), government policy to stimulate renewable energy and other technologies (Spencer, Murtha, & Lenway, 2005), and how public-private collaboration facilitated the buildup of U.S. military capability during World War II (McCullough, 1993). Importantly, each of these works also identified various political factors, including the potential for cronyism, that can (and often did) shape the implementation and ultimate efficiency and effectiveness of these policies. Understanding these political factors is critical because such policies often have spillover effects on other industry sectors and technologies, both positive and negative (Coyne & Hall, 2019; Hounshell, 2001).

However, just as cronyism comes in different forms, with different effects, there are many strategies and policies that might affect cronyism, its negative effects, and government effectiveness. Misangyi et al. (2008: 767) argued that a "complex dynamic of individual, organizational, and institutional" factors—including social norms, the private benefits obtained from corruption, and legal sanctions—shape the amount of cronyism that is accepted and practiced in different countries. Similarly, Helm (2006: 169) argued that "the design of regulation needs to take account of regulatory capture" but that we also need to understand "when, where, and how to regulate," rather than assume that all regulation is either good or bad.

Frequently, extant research in this area has cherry-picked examples of purportedly effective (e.g., Mazzucato, 2021) and ineffective (e.g., Schuck,

2015) government policy, or it has relied on blanket assumptions that are implicit yet debatable (e.g., Chalmers, 2022). Illustrative anecdotes and unstated assumptions can spark important debates and conversations while identifying new research questions for management scholars to consider. However, isolated examples and sweeping assumptions are in abundance already. We need a more concerted effort to produce stronger and more systematic management theory and empirical evidence to understand the factors that shape government effectiveness. For starters, we need construct clarity, including the recognition that business–government cronyism is different from collusion in the private sector.

In our view, the field of management’s understanding of leadership incentives and monitoring, the delegation of authority under distributed knowledge, and the governance of complex multistakeholder agreements and similar private arrangements can be useful in analyzing the structure of government (e.g., federalism and divided sovereignty) and the management of public officials (e.g., performance evaluation and personnel selection). After all, early ideas about incentives, information, efficiency, and effectiveness in organizations came from reflection on societal challenges such as the viability of socialism (Foss & Klein, 2014).

Similarly, we need more research on institutional contexts that are more or less conducive to effective government policy, which would require more research outside the U.S. context (Ward, 1997). For instance, Hillman and Keim (1995) identified differences between parliamentary and presidential systems that influence the potential for different types of cronyism, and Holmes et al. (2013) speculated that totalitarian regimes might be more conducive to cronyism. In general, however, most of the research on public choice theory and related perspectives has been conducted within (or against the backdrop) of the U.S. context.

Likewise, management scholars are increasingly interested in Ostrom’s (2010) model of polycentric governance as a means to understand not only interfirm arrangements (such as networks, alliances, and ecosystems) (Batjargal, Hitt, Tsui, Arregle, Webb, & Miller, 2013) but also hybrid forms of organization that combine aspects of public and private sector governance (Luo & Kaul, 2019). Key insights from this work include the existence of government at multiple levels (e.g., local, state, and federal) and overlapping layers of government oversight (e.g., firms are regulated by multiple government agencies). In the United States, for example, firms have

discretion to operate in different geographic and regulatory jurisdictions, which can influence both their product market strategies (e.g., whether to offer raw materials that are subject to agriculture regulations versus finished products that are subject to consumer product regulations) (Tarko & Farrant, 2019) and their location decisions (as in the foreign direct investment literature) (Holmes et al., 2013). Similarly, although there has been a trend toward greater centralization of regulations in the U.S. federal government, the significant political polarization in the United States (Swigart et al., 2020; *The Economist*, 2022) coincides with sharp differences among the U.S. states on a variety of issues that are important to business. Examples include environmental protection, energy policy, pandemic-related lockdowns, insurance coverage for reproductive healthcare, diversity and inclusion, minimum wage laws, and the legitimacy or legality of environmental, social, and governance considerations in the investment strategies of public funds. Such policies are expected to influence managers’ decision-making, can be divisive among stakeholders, and can vary considerably not only across countries but also within them.

Moreover, various levels of government and government agencies often possess divergent interests and preferences (e.g., environmental and consumer protection agencies often have different goals), and policymakers must coordinate across agencies to implement public policy effectively. In this regard, Tarko and Farrant (2019: 142) argued that “recognizing the polycentric nature of different institutional systems” may provide more insight into the conditions under which public officials and regulatory agents are susceptible to influence by special interests, including large corporations and the social activists that often challenge them. Such nuance has often been lacking in management scholarship on the role of the state. Importantly, this oversight can lead to underspecified theory and empirical results because “the state” is not a singular entity.

Williamson (1999: 1088) argued that scholarly examination of “choices, always and everywhere, [have] to be made between feasible alternatives.” Thus, incorporating the institutional complexity identified by Ostrom (2010) is a key challenge for management research that seeks to understand the scale, scope, and effectiveness of government. In the context of the comment on our original article, for example, it is not sufficient to advocate that government should be expanded and given more power to coordinate private sector activity. Rather, scholars face the challenge of identifying the activities where

government is comparatively more effective and efficient (Luo & Kaul, 2019) given extant institutions, the difficulty and expense of altering such institutions fundamentally (Kelman, 2007), the propensity for cronyism, and other social and political factors that shape the status quo (Hitt, Holmes, & Arregle, 2021).

More management research on government effectiveness would also be timely. Recent evidence suggests that overall trust in government has fallen in industrialized countries, with over half of respondents actively distrusting government and less than a third of respondents in these countries actively trusting government (Edelman, 2022). In the United States, only one fifth of Americans say they trust the government to do what is right “just about always” (2%) or “most of the time” (19%) (Pew Research Center, 2023). In our view, management research on cronyism can help us understand the causes of and potential solutions for the declining trust in government.

## CONCLUSION

Our analysis suggests that the comment’s critique of our original article has strong normative undertones and relies on certain assumptions about the bases of government policy, human nature, and the promise of the state that generally are not supported by relevant research. It also views the cronyism construct more broadly than we do, which can confound “cronyism” with less controversial constructs such as social capital. In response, we have articulated key differences between the two articles and presented a future research agenda related to these differences. We hope that this series of articles facilitates more management research on cronyism, its causes and consequences, and public and business policy more generally.

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