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POLITICAL PLURALISM, PUBLIC POLICIES, AND ORGANIZATIONAL CHOICES: BANKING BRANCH EXPANSION IN INDIA, 1948–2003

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Data on the expansion of 94 commercial banks in India from 1948 to 2003 were analyzed to test the proposition that political pluralism—wherein competing parties control the state and national governments of a nation—can promote business expansion. The results confirm that such political pluralism reduces the power of either government to constrain business decision making but that pluralism might at times lead to unhealthy competition between parties, harming local expansion opportunities. The data show that, in India, banks selectively exploit political pluralism to guide their expansion decisions.

Corporate political activity is an active area of research examining how organizations pursue their interests in the public policy arena (see Hillman, Keim, and Schuler [2004] for a review). Studies in this area have observed that to ensure fair representation of their interests in public policy prescriptions, organizations persuade key agents of governments through efforts such as lobbying and forming coalitions (Baron, 1995; Hillman & Hitt, 1999). Studies also recognize that the choice and success of corporate political activity is a function of the configuration of the political institutions in a given context (Bonardi, Hillman, & Keim, 2005; Henisz & Zelner, 2003). Recent research in this tradition has emphasized that theories treating corporate political activity should take into consideration the fragmentation of government power among its many offices and bureaucracies (Holburn & Vanden Bergh, 2008; Ring, Bigley, D'Aunno, & Khanna, 2005), as fragmentation presents additional challenges to organizations pursuing their interests in the public policy arena (Holburn & Vanden Bergh, 2008).

When government power is fragmented, actors in each fragment can influence or exert formal authority over public policy decisions relating to allocation and distribution of resources, and in certain cases no central authority exists to reconcile conflicts of interests among actors (Ring et al., 2005: 313). Federal systems sometimes exemplify such fragmentation. Countries with a federal form of government are split into several subnational administrative regions (such as the states in the U.S.). In each subnational unit, the federal (or national) and the local governments share government power between them (Dixit & Londregan, 1998; Rodden, 2002). Both national and subnational policy makers influence the public policies of the subnational units (Riker, 1975), and political parties controlling different levels of government may exhibit competing policy preferences (Lijphart, 1996; Ring et al., 2005). Political scientists have observed that such disagreements between policy makers at the different levels of government often lead to a greater variation in public policy outcomes and socioeconomic growth among the subnational units (Gordin, 2004, 2006; Johansson, 2003; Khemani, 2002, 2003). For the purpose of this discussion, we define *political pluralism* as an institutional arrangement wherein the political orientations of national and subnational policy makers differ, in such a way that one political party may dominate the national gov-

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ernment while a political party with an ostensibly incompatible creed governs certain subnational units.

Political pluralism makes it more difficult for firms or other organizations to influence public policy or gain preferential treatment (Holburn & Vanden Bergh, 2008; Ingram & Rao, 2004), as agents endorsing competing prescriptions may thwart any such influencing attempt at another government level (Ingram & Rao, 2004; McCubbins & Schwartz, 1984; Weingast & Moran, 1983). Consider an example in India's auto industry. In 2006, Tata Motors planned to locate a major factory in West Bengal, a state controlled by the Communist Party of India Marxist (CPIM). Tata gained the full support of the CPIM but was unable to proceed because of opposition from a major coalition partner of the Indian National Congress (INC), which controlled the central government (Economist, 2008). This is an example of how gaining the support of one level of government can be insufficient when political pluralism obtains.

Tata Motors subsequently built their plant in Gujarat, another state with political pluralism, as it was ruled by the Bharatiya Janata Party (BJP), an archrival of the INC. However, neither the INC nor any of its allies in Gujarat opposed Tata's plan. Clearly, political competition under political pluralism can differ from one subnational unit to another, requiring organizations to assess a situation carefully as they pursue their interests.

This raises the question of how organizations should best pursue their interests under political pluralism. It is important in seeking an answer to first understand how governments behave under political pluralism and then to understand the possible organizational responses to such behavior. Positive political theory, a stream of research in political science, provides rich insights into the behavior of policy makers in fragmented governments and their influence over public policy (Macey, 1992; Riker & Ordeshook, 1973). A series of studies in management have drawn significant insights from positive political theory to explain organizational responses to government behavior in fragmented systems (Henisz & Delios, 2001; Holburn & Vanden Bergh, 2008; Vaaler, 2008). Following this lead, we designed this study to use insights from positive political theory to develop a theory linking government behavior under political pluralism to the strategic choices of organizations.

Our research had two parts, one explaining government behavior under political pluralism and the other explaining organizations' strategic responses. Political pluralism normally tends to check and balance the power of various government factions, thus protecting the interests of citizens and organizations, but in certain situations in which political competition is weak, political pluralism may have negative, albeit indirect, consequences for organizations. This study tested the proposition that organizations opportunistically expand their operations in locations where political pluralism prevails so as to benefit from the checks and balances it offers but at the same time avoid locations where political competition is curtailed. Organizations were presumed to differ in their propensity and capacity to do so. This theory was tested via data on branch expansions by 94 commercial banks in 24 states of the Republic of India between 1948 and 2003.

THE RESEARCH SETTING

India—A Pluralistic Society

India is a union of 28 states and seven union territories. After gaining its independence in 1947, India adopted a federal form of government (Bombwall, 1967). The central government, which is nominally more powerful than the state governments, dictates nationwide economic policies and runs centrally planned and sponsored schemes, but each Indian state has its own government that formulates local policies (Lijphart, 1996). The country elects its central government through nationwide suffrage, and individual states elect their governments through state elections (Enskat, Mitra, & Singh, 2001). Although the states enjoy substantial autonomy, Article 356 of the Indian Constitution (known popularly as the "president's rule") gives the central government the power to dismiss a state government and impose federal rule if the state government fails to ensure the effective functioning of the constitutional machinery (Lijphart, 1996; Saran & Guo, 2005).

India is a pluralist society in which politics is highly diverse (Lijphart, 1977, 1996). As a result of its diversity, India has a multiparty system wherein some parties have a national presence while scores of others remain confined to a particular state or region (Enskat et al., 2001). Currently, two major political parties have a national presence: the Indian National Congress (INC) and the Bharatiya Janata Party (BJP) (Sridharan & deSouza, 2006). The INC controlled the national government for most of the period studied.

These national parties have also played a major role at the state level since independence, but regional parties have proliferated. Each state also has at least one important regional party, and some states have two or more (Yadav & Palshikar, 2006). So political pluralism is common and widely accepted (Yadav & Palshikar, 2006), and it has led to substantial policy variations among states and over time (Khemani, 2002, 2003). As Besley and Burgess observed, "India is an interesting and important context for analyzing the political economy of government responsiveness" (2002: 1416).

Hardly any previous studies have examined the influence of government behavior in India on organizations. Although data limitations could partly be blamed for this paucity of research, the lack of sound theories to explain corporate responses in such pluralist political environments could be the main culprit. With the passing of India's Rights to Information Act in 2005, data availability has improved substantially. It is now important to integrate insights from research in positive political theory with those from research in organization and management theory to better understand government decision making in pluralist societies and its influence on organizations' decision making.

Branch Expansion of Indian Banks

Commercial banks are exemplary opportunity-seeking, capitalist organizations (Ingram & Simons, 2000). In India, banks have mirrored the nation's economic progress since their first introduction. Whenever there has been any major sociopolitical change, it has usually been reflected in the banking industry (Sathye, 2003). The Reserve Bank of India (RBI) is the nation's central bank. The Banking Regulation Act of 1949 gives the RBI the power to act as the federal government's agent in regulating, inspecting, and controlling all banks in India. Until recently, no bank was allowed to set up a branch without the permission of the RBI.

Reflecting the policy prescriptions of the incumbent national government, the RBI has over time imposed and repealed a long series of branching regulations. For example, in order to increase the participation of banks in priority sectors such as education, agriculture, and small businesses, the RBI imposes lending targets for banks; these often involve restricting branching activities in nonpriority areas and encouraging branching activities in priority areas. Banks failing to meet these targets during a survey period are penalized by the RBI (Banerjee, Cole, & Duflo, 2005).

Though the central government formulates branching policies for banks, each state government has a major say in implementing those policies in its state. For example, the RBI, in consultation with the central government, might require banks to open branches in special economic zones or to serve the education sector, but it then has to seek the advice of individual state governments to identify specific examples of these areas of priority in each state (Kochar, 2005). Variation in banks' branching activities between states and over time results, especially when the national and state governments disagree about the areas of priority and the relevant branching policies. This diversity makes the geographic expansion activity of banks in India a sensitive indicator of the impact of political pluralism on corporations.

THE IMPACT OF POLITICAL PLURALISM

Political Pluralism and Government Behavior

Checks and balances. Systems encouraging fragmented government are so designed to avoid concentration of power in the hands of a few and to divide responsibility for governing among different government branches. Fragmentation thus acts to check and balance the power of each branch to allow for fair representation of divergent interests in public policy formulation (Lijphart, 1996).

In federal systems, however, the situation is more complex. The federal government is nominally more powerful than individual subnational governments, so the ability of a subnational government to veto the policy decisions of the national government is limited. In fact, as mentioned earlier, in India the constitution even allows the central government to dismiss a state government and impose federal rule. And since independence, Article 356 has in fact been used 115 times to dismiss various state governments (Adeney, 2005).

Yet, there is still reason to expect that in a federal system, the division of power between the central and the subnational governments will serve as an effective check as long as subnational units are a source of political pluralism. According to positive political theory, policy makers are opportunistic agents who act to retain and strengthen their own positions in government (Downs, 1957; Riker & Ordeshook, 1973; Weingast & Moran, 1983). Research has confirmed that federal policy makers spend more time and effort winning voters in politically plural locations than they do in locations that are controlled by their own party (Gordin, 2004, 2006), giving voters in such locations a greater say in national affairs (Tiebout, 1956).

An important consequence of this federal government emphasis on winning back voters in pluralistic locations is that its influence over policy changes in those subnational units will be limited. The electorate might punish national policy prescriptions that vary substantially from those of the subnational government (Black, 1948; Downs, 1957). Research has confirmed that a federal government monitors the populist policies of subnational governments aimed at attracting voters' attention (Johansson, 2003; Khemani, 2003), so when different political parties control national and subnational governments, the power of the voters will ensure that no one enjoys unbridled control over public policy and each level of government disciplines the other (McKinnon, 1997; Tiebout, 1956).

Organizations should enjoy greater discretion in their decision making in such situations. The results of prior research suggest that organizations prefer to operate in environments that afford them greater discretion in their decision making (Goodrick & Salancik, 1996; Lounsbury, 2007; Oliver, 1991). Hence, political pluralism may signal a healthy investment climate for organizations. If so, they should tend to expand preferentially in locations with political pluralism rather than in those with political hegemony (i.e., where a single party dominates both branches of the legislature or both the state and national governments).

Hypothesis 1. Political pluralism has a positive relationship with organizations' decisions to expand in a subnational unit.

Redistributive politics. Political pluralism can limit government intervention in business affairs and thus may encourage organizations to expand into pluralistic locations. But it is also possible that political pluralism will lead to an unhealthy competition between political parties that harms the well-being of a subnational unit. It could also adversely affect the economic position of organizations that expand there. The influence of political pluralism on an organization's decision to expand its operations in a particular location may thus be weakened if the political pluralism that affords organizational discretion also ends up harming the economic well-being of that subnational unit. Research on fiscal federalism indeed suggests conditions under which political pluralism may be harmful to a subnational unit. Fiscal federalism concerns allocation of federal resources to subnational units (Dixit & Londregan, 1998). In this stream of research, it is widely held that redistribution of federal resources to subnational units can involve opportunistic decisions guided primarily by the need to win or retain power or promote the careers of individuals (Riker & Ordeshook, 1973; Weingast & Moran, 1983). In particular, the political party controlling the federal government attempts to lure voters and retain its mandate by opportunistically redistributing federal resources to those subnational units in which it is forced to compete (Dixit & Londregan, 1998). National policy makers normally pay more attention to subnational units that have the potential to provide them additional votes in future elections than to those in which they already have a reliable voter bank (Johansson, 2003; Khemani, 2003). Empirical evidence tends to confirm that locations with political pluralism often benefit from such tactical redistribution (Gordin, 2004, 2006). However, this argument assumes that voters are indeed willing to switch their political preferences in exchange for preferential transfers of resources (Dixit & Londregan, 1996, 1998).

Of course, the number of voters willing to switch their preferences might vary among subnational units. Research in positive political theory classifies subnational units as either "swing states" or "safe states" on the basis of the extent to which their voters exhibit loyalty to a particular political party (Dixit & Londregan, 1996, 1998; Lindbeck & Weibull, 1987, 1993). The safe states are considered difficult to switch, and their voters are presumably less sensitive to redistributive politics than those of swing states (Dixit & Londregan, 1996, 1998). As a result, political competition in safe states tends to be less intense (Bonardi, Holburn, & Vanden Bergh, 2006).

So political pluralism in a subnational unit might not lead to favorable resource distribution if there is only weak competition from opposition parties. At the extreme, when the national government considers a state's loyalty impossible to sway, it might even punish the voters there by holding back resources. In other words, where voter preferences are less flexible, the ability of political pluralism to serve as a check on national power diminishes. Thus, a lack of political competition in a subnational unit would be expected to negatively moderate any relationship between political pluralism and the expansion decisions of organizations.

Hypothesis 2. The positive relationship between political pluralism and organizational expansion weakens as political competition in a subnational unit decreases.

Political Pluralism and Organizational Responses

Prior research has confirmed that firms differ in their propensity to exploit opportunities (Kirzner, 1997). Studies of corporate political activity have identified at least two sources of such heterogeneity. Firms might vary not only in their propensity to act opportunistically, but also in their ability to manage the risk involved in exploiting the expansion opportunities presented by political pluralism.

Corporate opportunism. The concept of opportunism has received ample attention in research on organizations (Uzzi, 1997). North (1990) pointed out that it is not just politicians who act opportunistically to win votes; voters also act opportunistically when they see an opportunity to gain favorable policy treatment. The politically motivated investment behavior of organizations can be compared to voting tendencies (Vaaler, 2008). Organizations also support a particular political configuration when they base location choices on considerations such as the existence of political pluralism.

The literature on corporate political activity differentiates between relational and transactional approaches to dealing with government on the basis of the extent to which organizations exhibit opportunism (Hillman & Hitt, 1999). Organizations adopting a transactional approach tend to act more opportunistically when dealing with government on specific policy issues that affect their immediate interests. On the other hand, organizations adopting a relational approach tend to avoid opportunistic actions when dealing with government, as they consider the implications of each of their actions across issues and over time (Hillman & Hitt, 1999; Schuler, Rehbein, & Cramer, 2002). According to this classification, an expansion strategy motivated by political pluralism tends toward a transactional approach, as it is aimed at appropriating the value of a particular political configuration in a location that allows the organization to opportunistically pursue its interests. However, organizations do vary in the likelihood they might exhibit opportunism in a given situation, and the degree of that opportunism (Uzzi, 1997). Hillman and Hitt (1999) argued that organizations that depend more on a government tend to use a relational approach and avoid a transactional approach, as any act by such organizations perceived by the government as opportunism might harm their future prospects. In other words, dependence on government reduces a firm's discretion in devising transactional political strategies.

Organizations that depend heavily on a government apparatus for business opportunities might thus hesitate to expand in pluralistic locations, as they might earn the wrath of either or both levels of government present in these locations. Organizations owned by or dependent on a government will thus normally be unable to take advantage of many opportunities offered by pluralism. The value of political pluralism will thus be less for state-owned firms than for private ones.

Hypothesis 3. The positive relationship between political pluralism and organizational expansion is weaker for state-owned firms than for private organizations.

Ability to manage risk. Though political pluralism encourages organizational expansion by limiting government intervention in business affairs, under some circumstances it could discourage organizational expansion by engendering unhealthy competition between political parties ruling the different levels of government. Thus, opportunistically expanding in locations with political pluralism involves certain risks (Bonardi et al., 2005).

Situational embeddedness is an important factor that might determine whether or not an organization seeks to manage the risks involved in corporate political activity (Baron, 1995). Organizations that are locally embedded have better access to nonmarket information that allows them to respond faster than their competitors to changing political situations (Delios & Henisz, 2000, 2003; Henisz & Delios, 2001; Uzzi, 1997). Embeddedness also allows organizations to forge ties with local factions, which can protect their interests against unforeseen developments. In line with this, Baron (1995: 61) argued that firms may hire external agents such as political advisors, lobbyists, and lawyers to pursue their interests in the government arena, but hiring these agents cannot substitute for awareness among a firm's managers about local political issues, interests, and institutions. Such local awareness serves as a firm-specific advantage that helps an organization customize its strategy to specific local, nonmarket needs.

Similarly, the behavioral perspective on organizational decision making holds that "bounded rationality" leads organizations to simplify their search processes by employing a form of judgmental heuristic called local search (Cyert & March, 1963). Organizations focus their search efforts on locations where they are already more active, as they are more aware of the risks involved in their decisions there (Gavetti & Levinthal, 2000). This should lead organizations that depend more on a particular location for their business to be more likely to expand their operations there when political pluralism prevails.

Hypothesis 4. The positive relationship between political pluralism and organizational expansion in a subnational unit strengthens as the proportion of an organization's total business coming from that subnational unit increases.

RESEARCH METHODS

Data and Sample

Data on bank branch expansion in India were obtained from the commercial bank address archives of the Reserve Bank of India, through which branches in each state could be tracked. Data on variables such as a state's economic development, population, and grants received from central government came from the archives of the Indian Planning Commission. Historical data on the political composition of national and state governments came from the national archive of the Election Commission of India.

India now has 28 states. Of these, Jharkhand, Uttaranchal, and Chhattisgarh were carved out from other states only in 2000; Jammu and Kashmir, Arunachal Pradesh, and Mizoram have had peculiar sociopolitical characteristics that make them outliers that could distort the results. So these six states were excluded from the sample. There are also seven union territories that are controlled by the national government through appointed officials. However, as two union territories, New Delhi and Pondicherry, democratically elect their state governments, data from these two were included.

Sequential entries by 94 commercial banks[1] into these 24 states and union territories between 1948 and 2003 were then examined. A bank entered the analysis only after it had made its first entry into any Indian state. From then, the bank can sequentially expand its branches into any of the 24 states. The actual dates of branch expansions or entries were available, but some of the covariates were observed only annually, so the data were sorted into 72,418 bank-state-year observations, and the unit of analysis was a particular bank in a particular state in a particular year.

Measures

Political pluralism. The key independent variable in this study was *political pluralism*, defined as the situation in which the party controlling the national government was different from the one that controlled the state government in a particular observation. We coded this indicator variable as 1 if the political party that ruled the state was different from the one that ruled nationally or if it was not part of the national ruling coalition and as 0 otherwise. This way of defining political pluralism is consistent with the methods of previous studies in political science (Gordin, 2004, 2006; Levitt & Snyder, 1995).

Branch expansion. The dependent variable was a bank's expanding in a state in a particular year. Expansion decisions are often regarded as opportunity-seeking behavior (Greve, 2002). In India, growth in the banking industry has been mainly fueled by the branching activity of fewer than 100 major commercial banks rather than by the founding of new banks (Sathye, 2003). In line with previous research (Greve, 2002), expansion was represented as a count of the number of branches opened annually by each bank in each of the 24 states.

Moderators. Three potential moderating variables were included in this study. *Reduction in political competition* in a state was measured as the number of years the incumbent ruling party had ruled the state continuously. For example, if an incumbent party had been in power continuously for three years in a state, this variable was coded 3. *State ownership* was an indicator variable coded 1 if a government entity had a majority ownership share in a particular bank and 0 otherwise. Various governments had majority ownership shares in 32 percent of the banks, which may have limited their flexibility in choosing entry locations. The *proportion of business from focal state* was coded as the ratio of a bank's branches in a focal state to its total number of branches in all states in a particular year.

Control variables. Prior research on the geographic expansion of organizations has established that a number of firm-, industry-, and location-level variables can influence it. Firm-level covariates can designate either (1) overall characteristics of an organization or (2) location-specific characteristics. Prior research has shown that age and size both tend to influence an organization's expansion (Haveman & Nonnemaker, 2000), but prior studies have not conclusively established any consistent relationship between these two variables and a firm's propensity to expand (Baum & Shipilov, 2006). Some business scholars have argued that age is an advantage, but others suggest it as a liability. Similar inconclusiveness persists with respect to organizational size (Baum & Shipilov, 2006). Founding conditions can also have effects on an organization's success (Baum & Shipilov, 2006). About one-third of Indian banks were established as pioneers in what Indians term "social entrepreneurship." They were set up to serve society's banking needs, even if they represented an economically unsound decision such as establishing a branch in an unpromising area (Sathye, 2003). Another third of the banks were established toward the last decade of the study period, and these banks were slow to expand during their formative years,

[1] Of these 94 banks, 36 were multinational banks such as HSBC and Citibank; the rest were domestic banks, including both state-owned and private banks.

concentrating their branches mostly in urban centers (Sathye, 2003). Hence, older banks in the sample undertook more expansions than younger ones. In other words, age in this population was to some extent positively related with expansion. However, once a critical mass has been established, organizations tend to lose their agility (Baum & Shipilov, 2006). So as banks grow in size, they should tend to reduce their expansion activity. *Age of bank* was measured here in terms of the number of years a bank had been operating in India, excluding the current year. *Size of bank* was measured as the natural logarithm of the number of branches of a bank nationally, again lagged one year.

Apart from age and size, several location characteristics might also affect expansion. According to the results of prior research on location choice, an important location characteristic is the extent to which a firm's competitors are active there (Haveman & Nonnemaker, 2000). The results of prior research suggest that two competing processes may operate. On the one hand, competition in a location promotes expansion in a sort of arms race among multimarket competitors. On the other hand, an arms race might result in retaliatory action from competitors, so in markets with many multimarket competitors, firms may try to encourage mutual forbearance by avoiding further entry. These considerations led us to control for the extent of *multimarket contact* faced by the each bank in each state each year. In line with the methods of Haveman and Nonnemaker (2000), the intensity of multimarket competition for each firm, in each state, in each year was measured in terms of the total number of states in which the focal bank met the competitors operating in the focal market in that year.

An organization's experience in a location might signal its readiness to expand further there, so *instate experience of bank*, measured as the number of years a bank had been operating in a state, excluding the current year, was another control variable in the analysis.

Apart from these firm-level variables that might affect banks' geographic expansion decisions, several location-specific factors have also been shown to have an impact on these firms' location choices. The intensity of competition in a location is of course an important consideration (Greve, 2002; Marquis & Huang, 2009). The natural logarithm of the *density of banks* (i.e., their number) in a focal state in each year was included in the analysis to account for the extent of competition.

Then, branching activity in neighboring states may have an impact on local branching decisions. Following the lead of Greve (2002), we accounted for such spatial effects by calculating the number of a bank's branches in neighboring states (defined as those that shared any border with a focal state).

Another industry level consideration is the consumer profile in each market. In India, the national government gives greater priority to agricultural lending, which is not usually considered a lucrative investment proposition for banks, as it may lead to large stocks of nonperforming assets. A location's requiring a lot of agricultural credit might discourage commercial banks from expanding there. Each state's intensity of *agriculture credit*, represented by its current ratio of agricultural credit to total credit, was therefore included as another control.

The socioeconomic characteristics of a location including (1) transportation and communications infrastructure, (2) population density, and (3) state's relative level of economic development should also have their usual influence on expansion decisions. Locations with well-developed transportation and communications infrastructure should need fewer branches to serve a given number of people (Marquis & Huang, 2009), hence should have a lower expansion rate. *Infrastructure* was measured as the natural logarithm of the turnover of the transportation and communication sectors as a proportion of a state's gross domestic product (GDP). Similarly, locations where the population is concentrated geographically should offer economies of scale (Morikawa, 2011), wherein fewer branches are needed to serve a certain number of consumers. So higher *population density* (population per square kilometer) should predict a lower expansion rate. The relative economic development of a location is also important for expansion decisions, so the ratio of *state*'s *GDP to national GDP* was also included in the models.

The nature of public policy in a state has been shown to influence organizational expansion decisions (Marquis & Huang, 2009; Rao, 2004). The redistribution of federal resources to a subnational unit is among the policy tools a federal government may use to influence the voters of that subnational unit. Therefore, we controlled for each state's record of attracting federal transfers. In India, an important means through which the central government redistributes resources is by providing "grants-in-aid" to individual states (Roy & Raychaudhuri, 2007). State-by-state data on grant receipts was compiled by examining the reports of the planning commission available through the archives of India's Ministry of Finance. Using the data on grants to states, we defined the variable *federal grants* as defined as the total grants allocated by the central government to each state each year.

Though India's economy still features a mixture of socialist and capitalist ownership, it has become more market-oriented over the years. The extent of political pluralism among Indian states has increased in parallel. To demonstrate the impact of political pluralism irrespective of the general trend toward a market economy, we controlled for the *number of state-owned organizations* in each state—the greater the number, the weaker the state's market orientation and the more socialist its economy (Jones, Megginson, Nash, & Netter, 1999; Megginson & Netter, 2001).

To tease out the effect of political pluralism from other political considerations, we also controlled for four important political factors: (1) the number of other states with political pluralism, (2) the state's election years, (3) the support for the ruling party, and (4) the size of a state's political market. *Number of other states with pluralism* accounted for the potential choice set of locations with political pluralism in any given year—the more such states, the lower the ability of any one of them to attract new branches. Further, competition for resources among many such states might constrain the ability of the central government to redistribute resources at will.

During election years, ruling parties generally implement expansionary economic policies that go over and above the tactical resource allocation resulting from party competition (cf. Vaaler, 2008). Thus, an indicator variable was defined to capture any such *election year* fixed effect. This indicator variable was coded 1 for years in which either state or national elections occurred and 0 otherwise.

To isolate the influence of political pluralism from that of heterogeneity in political preferences within a state's legislature, we also included the proportion of seats in each state's legislative assembly won by the state's ruling party. The greater this proportion, the greater the *support for ruling party* and the less the political heterogeneity of that state's legislature.

Finally, states with many seats in the national legislature should be more likely to see intense competition for votes, irrespective of their current political alignment. The size of each state's political market was represented by the number of constituencies in the national legislature from that state.

Modeling

Organizational expansion was modeled as a count of the number of branches opened annually by each bank in each of the 24 states. Traditionally, Poisson regression is used to model count data that are observed yearly, but Poisson models require that the conditional variance of the dependent variable equal its mean, a strict assumption that is often violated owing to overdispersion in the data. Such a violation generates a downwardly biased covariance matrix, leading to small, incorrectly estimated standard errors (Haynes, Thompson, & Wright, 2003). Hence, in line with the methods of previous studies (Dobbin & Dowd, 1997; Swaminathan, 1995), we used the negative binomial model to accommodate overdispersion in the dependent variable (Barron, 1992).

A negative binomial regression model is generally specified as follows:

$$\ln \lambda_{ijt} = \beta \boldsymbol{X}_{ijt} + \varepsilon_{ijt},$$

where λ_{ijt} is the stochastic expansion rate of bank i in state j at time t, $\boldsymbol{X}$ is a vector of covariates, and ε is the error term, which follows a gamma distribution. For fixed effects, the negative binomial model is

$$\ln \lambda_{ijt} = \alpha_{ij} + \beta_{ijt} + \varepsilon_{ijt},$$

where α_{ij} is a state-specific fixed effect. Similarly, for random effects, the negative binomial model is

$$\ln \lambda_{ijt} = \beta \boldsymbol{X}_{ijt} + u_{ij} + \varepsilon_{ijt},$$

where ε_{ijt} captures unobserved heterogeneity uncorrelated with the predictor variables and u_{ij} is the random effect for the ith bank in the jth state. It has a one-parameter gamma distribution (θ_{ij}, θ_{ij}) that varies between groups (Hausman, Hall, & Griliches, 1984).

Here we interpret only the results of the more conservative fixed-effects specification, as it was favored by a Hausman test. The results of the random-effects specifications are reported in Appendix A. In addition, we also show the robustness of our findings with a panel Poisson specification with robust standard errors, a more conservative estimation procedure for count data described by Wooldridge (1999) that uses a quasi-conditional maximum-likelihood estimator. Papke (1991) used this procedure to estimate the founding rate of start-ups in five manufacturing industries across 22 U.S, states over eight years—an empirical data structure similar to that of this study.

The STATA 11 software package was used to estimate the models. Specifically, we estimated the fixed- and random-effects negative binomial models using the package's "xtnbreg" routine with the "fe" and "re" options, respectively. The fixed-effects Poisson models with robust standard errors were estimated using the "xtpoisson" routine with the "vce(robust) fe" option.[2]

[2] The "xtpoisson" routine with the "vce(robust) fe" option computes the quasi-maximum-likelihood estimate for a panel Poisson specification with robust standard errors, as suggested by Wooldridge (1999).

RESULTS

Table 1 provides summary statistics and correlations for the variables. Since some of the predictor variables were highly intercorrelated, we examined the collinearity diagnostics for the models were examined using the "collin" routine in STATA 11. The mean variance inflation factor (VIF) was below 2.25 in all models, well below the thresholds suggested by Netter, Wasserman, and Kutner (1985: 392). However, other conservative estimates (e.g., Ryan, 1997) suggest a threshold of 2. So to ensure that multicollinearity was not affecting the results, we dropped the variable with the highest individual VIF, density of banks. The mean VIF then fell below 2 in all models, and the coefficients of the remaining variables were unaffected. Hence, multicollinearity did not appear to be an issue in this study.

Table 2 provides the maximum-likelihood estimates of fixed-effects negative binomial models predicting bank branch expansion in a state in a particular year. Model 1 is the baseline formulation with all of the control variables. Models 2–5 are hierarchical tests of the relationships predicted in Hypotheses 1–4.

Control Variables

In line with expectations, model 1 of Table 2 shows that state-owned banks and older banks expanded more often, but larger banks did not. Since size and age were highly correlated (.49), we conducted additional analyses in which we entered firm size and age separately in the models. The effects of both firm size and age were consistent with those shown in model 1. Similarly, state ownership was highly correlated (.67) with size so, in separate analyses not reported here, size and state ownership were also entered separately. As in model 1, the effect of firm size remained negative, and the effect of state ownership remained positive and significant. Expansion rate increased with the proportion of business from a state, but it declined with increasing experience in that state. The extent of multimarket contact in the state enhanced the likelihood of bank expansion, consistently with the findings of prior research (Haveman & Nonnemaker, 2000).

Bank density in a state enhanced the likelihood of expansion, indicating that competition was not the main concern during the study period. Prior organizational ecology research has suggested that organizational density has an inverted U-shaped relationship with expansion (Greve, 2002). Hence, in separate analyses not reported here, we also included the natural logarithm of the square of bank density in a state to control for any density-dependent processes of legitimacy and competition (Hannan & Freeman, 1989). Although these additional models significantly supported the density dependence theory, our theorized effects were consistently supported as well. Hence, political pluralism appears to explain additional variance in organizational expansion beyond that of density dependence. Since the VIF of the squared organi-

TABLE 1
Descriptive Statistics and Correlations[a]

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1. Branch expansion	0.34	1.89																				
2. Political pluralism	0.51	0.50	−.01																			
3. State ownership	0.33	0.47	.13	.05																		
4. Age of bank	53.34	34.72	.07	.06	.36																	
5. Size of bank/1,000	0.17	0.25	.16	.12	.67	.49																
6. Proportion of business from focal state	0.02	0.10	.49	.00	.04	.01	.04															
7. Multimarket contact	9.79	28.47	.08	.12	.04	.08	.07	.19														
8. In-state experience of bank	10.18	20.59	.27	.12	.38	.44	.49	.32	.31													
9. Density of banks	2.90	0.91	.10	.20	.06	.06	.12	.11	.27	.35												
10. Number of branches in neighboring states	26.6	28.7	.04	.19	.08	.08	.15	.05	.24	.25	.63											
11. Agriculture credit	0.16	0.07	.01	−.15	.01	−.01	−.01	.02	−.05	−.02	.11	.14										
12. Infrastructure	10.66	1.96	.09	−.08	−.02	−.01	−.01	.09	.16	.25	.60	.40	.19									
13. Population density	5.53	1.04	.02	.30	.03	.03	.07	.01	.14	.20	.59	.16	.04	.27								
14. State GDP to national GDP (ratio)	2.75	3.70	.08	−.23	−.06	−.07	−.11	.07	.03	.07	.16	−.02	−.01	.57	.04							
15. Federal grants	0.00	0.01	−.06	.19	.02	.02	.03	−.06	−.09	−.15	−.38	−.23	−.24	−.67	−.14	−.33						
16. Number of state-owned organizations	22.21	19.94	.05	.31	.06	.05	.10	.03	.24	.30	.68	.39	−.03	.35	.67	−.01	−.21					
17. Reduction in political competition	7.74	9.34	−.01	−.13	−.01	.00	−.02	−.01	−.04	−.03	−.08	−.22	−.10	−.07	−.09	−.04	.02	.06				
18. Number of other states with pluralism	15.54	6.44	−.04	.50	.11	.11	.23	−.05	.14	.13	.36	.45	−.07	.01	.22	−.29	.07	.28	−.08			
19. Election year	0.20	0.40	.01	.06	.02	.03	.03	.01	.01	.02	.03	.04	.01	.01	.01	.01	.01	−.01	−.08	.09		
20. Support for ruling party	0.59	0.25	.01	−.32	−.06	−.06	−.08	.01	−.04	−.02	.00	−.07	−.04	.07	−.05	.15	−.08	−.02	−.01	−.04	−.03	
21. Size of political market	155.58	107.80	.09	−.12	.01	−.02	−.02	.07	.11	.19	.46	.35	.15	.70	.16	.61	−.42	.2	−.08	−.03	.02	.13

[a] $n = 72{,}418$; correlation coefficients with a magnitude greater than .02 are significant at the $p < .05$ level.

TABLE 2
Maximum-Likelihood Estimates of Fixed-Effects Negative Binomial Panel Regression Models Predicting Branch Expansion by Commercial Banks in India, 1948–2003[a]

Covariates	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Hypothesized Effects						
H1: Political pluralism		0.15***	0.11***	0.77***	0.02	0.64***
		(0.03)	(0.03)	(0.04)	(0.03)	(0.05)
H2: Political pluralism × reduction in political competition			−0.01***			−0.01**
			(0.00)			(0.00)
H3: Political pluralism × state ownership				−0.94***		−0.90***
				(0.05)		(0.05)
H4: Political pluralism × proportion of business from focal state					0.46***	0.33***
					(0.06)	(0.06)
Bank Level						
Overall bank characteristics						
State ownership	0.79***	0.78***	0.77***	1.07***	0.77***	1.04***
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Age of bank	0.01***	0.01***	0.01***	0.01***	0.01***	0.01***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Size of bank/1,000	−1.10***	−1.10***	−1.08***	−0.87***	−1.03***	−0.83***
	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Location-specific bank characteristics						
Proportion of business from focal state	4.84***	4.86***	4.85***	4.88***	4.74***	4.78***
	(0.10)	(0.10)	(0.10)	(0.11)	(0.11)	(0.11)
Multimarket contact	0.00***	0.00***	0.00***	0.00***	0.00***	0.00***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
In-state experience of bank	−0.02***	−0.02***	−0.02***	−0.01***	−0.02***	−0.01***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Location Level						
Industry characteristics						
Density of banks	0.57***	0.56***	0.55***	0.56***	0.58***	0.56***
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Number of branches in neighboring states	−0.00***	−0.00***	−0.00***	−0.00***	−0.00***	−0.01***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Agriculture credit	−0.79***	−0.69***	−0.75***	−0.49**	−0.64***	−0.50**
	(0.19)	(0.19)	(0.19)	(0.19)	(0.19)	(0.19)
Socioeconomic controls						
Infrastructure	−0.13***	−0.13***	−0.14***	−0.10***	−0.12***	−0.10***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Population density	−0.43***	−0.44***	−0.44***	−0.48***	−0.42***	−0.47***
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
State GDP to national GDP (ratio)	0.03***	0.03***	0.03***	0.02***	0.03***	0.02***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Policy variables						
Federal grants	33.70***	34.35***	31.37***	33.59***	39.63***	35.14***
	(7.39)	(7.34)	(7.40)	(7.28)	(7.33)	(7.34)
Number of state-owned organizations	0.05***	0.05***	0.05***	0.05***	0.05***	0.05***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Political characteristics						
Reduction in political competition	0.01***	0.02***	0.02***	0.02***	0.02***	0.02***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Number of other states with pluralism	−0.03***	−0.04***	−0.03***	−0.04***	−0.04***	−0.04***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Election year	0.16***	0.15***	0.14***	0.14***	0.14***	0.13***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Support for ruling party	−0.00	0.09	0.07	0.09	0.12*	0.09
	(0.04)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Size of political market	0.00	0.00	0.00	0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Constant	−0.54	−0.66*	−0.53	−0.88**	−0.79**	−0.88**
	(0.29)	(0.29)	(0.29)	(0.29)	(0.29)	(0.30)
χ^2	4,108.4	4,142.9	4,171.8	4,566.0	4,207.6	4,622.2
Log-likelihood	−22,017.2	−22,004.8	−21,997.4	−21,805.1	−21,976.8	−21,787.3
Mean VIF	2.01	2.03	2.11	2.07	2.13	2.24

[a] Although our panel data covered 72,418 bank-state-year observations of commercial banks between 1948 and 2003, only 40,325 observations were used in this analysis owing to the restrictions in the fixed-effects specification.

Standard errors are in parentheses.

* $p \leq .05$

** $p \leq .01$

*** $p \leq .001$

Two-tailed tests.

zational density term was high, we report only its linear effect.

The effect of the number of branches in neighboring states was also significant ($p < .001$) and negative, suggesting a significant spatial effect. In other words, spatial competition was present in Indian banking during the study period, lending support to Greve's hypothesis about spatial competition: "the number of organizations in neighboring areas is negatively related to the rate of organizations entering the area" (Greve, 2002: 850). As expected, credit to agriculture deterred bank expansion, confirming the importance of customer profiles in bank branching decisions. A state's GDP in relation to the national GDP also predicted bank expansion, with larger states attracting more branches. A state's transportation and communications, however, showed a negative relationship with branch expansion, suggesting that well-developed infrastructure may reduce the need for building an extensive branch network in a location. In line with expectations, population density showed a significant, negative relationship. This suggests that densely populated areas require fewer branches, which might enable banks to achieve economies of scale (Morikawa, 2011).

Among the policy variables, federal grants showed a significant, positive relationship with branch expansion, suggesting that banks base their expansion decisions partly on a state's history of attracting federal grants. The number of state-owned organizations in a state was used as a proxy for socialist policies, and it also showed a significant, positive relationship. This suggests that socialist policies may encourage the expansion of capitalist organizations (commercial banks, in this case). Part of the reason for this association could be that, in India, the government has played the role of the principal capitalist, in that it has explored and created new avenues for other capitalist organizations to exploit (Dewan, 2006; Kapila, 2009).

Among the five variables capturing the various political characteristics of a state, three showed a significant relationship with branch expansion. Reduction in political competition showed a significant, positive relationship. Reduction in political competition or voter loyalty potentially signals that a local economy is performing well under the incumbent state party, an important consideration for expanding organizations. The number of states with political pluralism, however, showed a negative relationship. More states with political pluralism might present more choices for banks seeking to expand, limiting the attractiveness of any particular state. But banks did show a tendency to expand in election years. Election year expansion was probably a spillover from populist policies and partisan election campaigning, as Vaaler (2008) would predict. Neither support for the ruling party nor the size of the political market showed a significant relationship with branch expansion.

Hypothesized Effects

Model 2 shows that political pluralism had a positive and significant ($p < .001$) relationship with the number of bank expansions in a state. Therefore, Hypothesis 1 was supported. An examination of the marginal effect of this variable demonstrates that there was a 16 percent (exp [0.145]) increase in the number of expansions when the political pluralism variable was equal to 1 compared with when it was 0. In other words, there were 16 percent more bank expansions in states whose ruling parties were different from the one ruling the nation than in states in which the ruling party also controlled the national government.

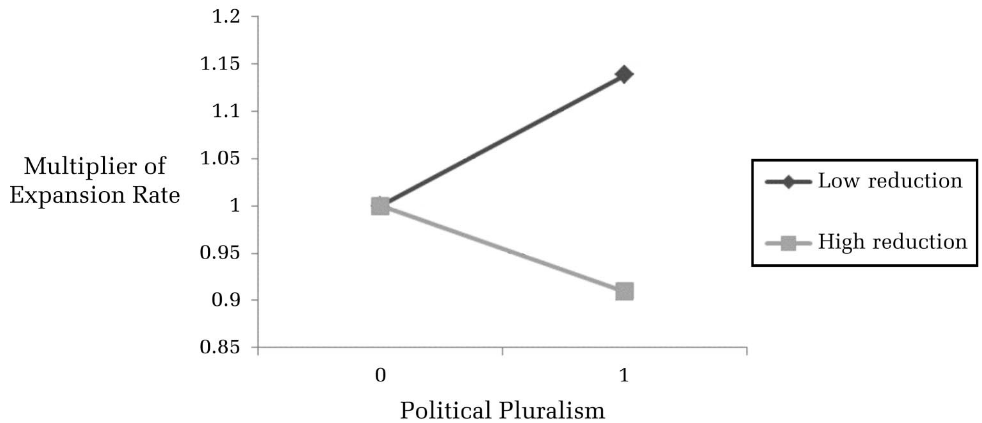
Hypothesis 2 predicts that any positive relationship between political pluralism and bank expansion should weaken as political competition in a state decreases. In support of this hypothesis, the coefficient for the interaction between political pluralism and reduction in political competition was negative and significant ($p < .001$).

Model 4 tests Hypothesis 3, which predicts that any positive relationship between political pluralism and bank expansion should be weaker for state-owned banks; and indeed, the coefficient for the interaction between political pluralism and state ownership was negative and significant ($p < .001$). Hypothesis 4 predicts that the observed positive relationship between political pluralism and the likelihood of bank expansion should strengthen as the proportion of business from a state increases. In support of this hypothesis, in model 5, the coefficient for the interaction between political pluralism and proportion of business from the state was positive and significant ($p < .001$).

Model 6 is the full model. In this model, all the hypothesized effects remained significant and in the predicted directions. Overall, model 6 demonstrates the robustness of the results. The predictions were further confirmed with the maximum-likelihood estimates of the random-effects panel negative binomial models and the quasi-maximum-likelihood estimates of the fixed-effects panel Poisson models presented in Tables A1 and A2, respectively, in Appendix A. The likelihood-ratio test results suggest that models 2–6 significantly improved upon the baseline model 1.

We used the coefficients of model 6 in Figures 1–3 to graphically illustrate the patterns of the interaction effects that supported the hypotheses. We

FIGURE 1
Moderating Effects of Reduction in Political Competion



plotted the multipliers of interaction effects[3] using one standard deviation above and below the mean to represent high and low levels of the moderating variables (Aiken & West, 1991).[4]

Illustrating Hypothesis 2, Figure 1 shows that, all else being equal, a one standard deviation reduction in political competition in a state predicts about a 6 percent decrease in the bank expansion rate in a state with political pluralism. Figure 2 shows that, all else being equal, state-owned banks are 57 percent less likely than private banks to expand in states with political pluralism, as Hypothesis 3 predicts. Finally, Figure 3 shows that, all else being equal, a bank's chance of expanding in a state with political pluralism increases by about 3.5 percent when the proportion of the bank's business from that state is one standard deviation above the mean, illustrating Hypothesis 4.

Additional Analyses

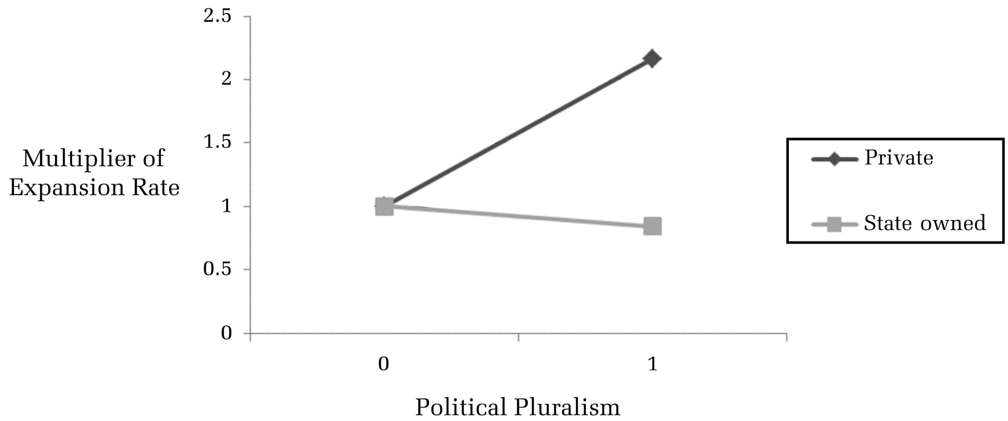
Prior research has suggested that the ideology of the party in power has a major role to play in attracting or retarding business activity. For example, Rao (2004) found that in the United States, states ruled by governors from "probusiness parties" witnessed faster growth in the number of businesses than states ruled by governors from "parties less favorable to business." One might, then, be tempted to reason that when political parties with a procapitalist ideology control both the national and state government, business expansion in the state should be encouraged. If so, our central thesis becomes to some extent counterintuitive, as we have argued that having the same party rule state and nation might lead to unchallenged policy implementation and excessive interference in business, deterring expansion irrespective of the party's ideological orientation.

In an attempt to resolve this tension, we conducted additional analysis. India's two major national parties, the Indian National Congress and the Bharatiya Janta Party, can today both be described as basically procapitalist (Bandyopadhyaya, 2003; Sridharan & deSouza, 2006), though the level of advocacy of capitalism exhibited in their policies has certainly varied over the years. Nevertheless, in this analysis, both were considered procapitalist. Four new dummy variables were defined. *Political hegemony—Procapitalist* took the value 1 if the central government and state government were ruled by the same party and that party was procapitalist; *political hegemony—Others* was coded 1 if the central government and state government were ruled by one party that was not procapitalist. *Political pluralism—Procapitalist* was coded 1 if the central government and state government were ruled by different parties and the state party was procapitalist, and *political pluralism—Others* was set to 1 if the central government and state

[3] Interpreting interaction effect in nonlinear regressions such as logit, negative binomial, and Poisson is not straightforward (King, Tomz, & Wittenberg, 2000). Zelner (2009) proposed a simulation-based approach that plots confidence interval bands to identify statistical significance over varying ranges of the independent variable of interest. This approach is made available through the "intgph" command in STATA, but it requires that the independent variable of interest be continuous. Since we measured political pluralism as a binary variable, we were unable to use this approach.

[4] For plotting the moderating effect of state ownership of banks, we plotted the multipliers on the basis of two situations, either state ownership = 1 (state owned) or state ownership = 0 (private).

FIGURE 2
Moderating Effects of State Ownership



government were ruled by different parties and the state party was not procapitalist.

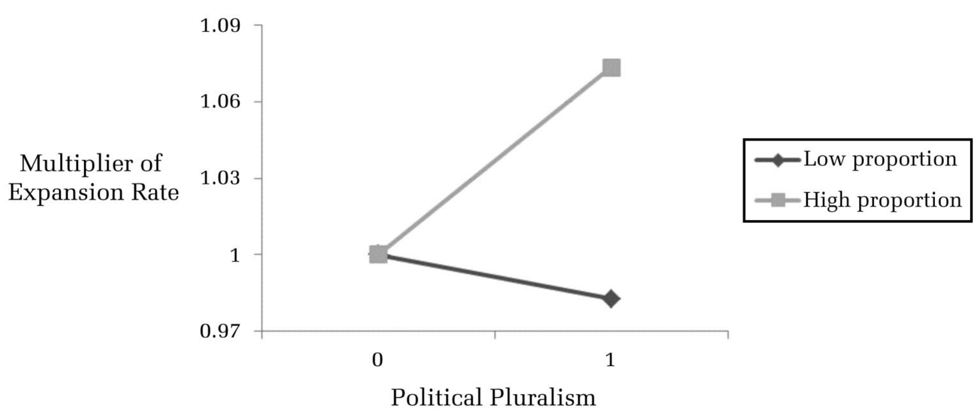
Four additional analyses are reported as models 19–22 of Table A3. In the first analysis, reported in model 19, we tested for relationships involving political pluralism—procapitalist and political pluralism—others with the political hegemony groups as the reference category. In the second analysis, reported in model 20, we tested political hegemony—procapitalist and political hegemony—others for relationships with the political pluralism groups as the reference category. In the third analysis, reported in model 21, political pluralism—others was the reference category. In the final analysis, reported as model 22, political pluralism—procapitalist was the reference category.

The results shown in Table A3 provide robust evidence in support of our central thesis. Both of the political pluralism dummy variables in model 19 show positive and significant relationships, suggesting that organizations prefer political pluralism over political hegemony, irrespective of the ideological orientations of the ruling parties. Further, in models 20–22, both political hegemony dummy variables show negative and significant relationships with expansion, suggesting that political hegemony, irrespective of the ideological orientation of the ruling party, is a less preferred situation for organizations than either type of political pluralism. These findings were also replicated in (unreported) fixed-effect Poisson models with robust standard errors and in random effect negative binomial models.

DISCUSSION

This study examined banks' responses to political pluralism in a federal system—the situation in which the political party forming the national government is different from the one that governs a specific subnational unit. We proposed that political pluralism results in two outcomes of tactical significance to organizations. First, as a direct consequence, organ-

FIGURE 3
Moderating Effects of Proportion of Business from Focal State



izations should enjoy greater latitude of action, as political pluralism results in less government intervention. Though power over public policy is unevenly distributed between the national and subnational governments, the need to win elections in politically plural locations ensures that neither branch of government enjoys unbridled control and each may discipline the other. Second, as an indirect consequence, locations with political pluralism might in certain situations breed an unhealthy power struggle between the competing political parties, indirectly restricting the expansion possibilities of organizations into that location. Specifically, this study has demonstrated that a positive relationship between political pluralism and bank expansion that can be weakened if the state witnesses a reduction in political competition. This is so as the state's voters are less open to changing their party preferences on the basis of redistributive politics, thus prompting the national government to withdraw resources from that state, or at least to pay less attention to it.

These two results reinforce the importance of the tactical dimension of political pluralism. In addition, the results also confirm that organizations differ in their ability to exploit pluralism's value. An organization's likelihood of expanding into states with political pluralism is constrained by (1) its propensity to act opportunistically toward the government and (2) its alertness to the opportunities that arise out of political pluralism. These findings thus demonstrate that not all organizations are mere passive onlookers who are affected deterministically by their governments. Instead, organizations can act strategically by scanning the political environment to understand how governments might behave in various circumstances.

These results extend our understanding of firms' nonmarket strategies (Baron, 1995; Hillman et al., 2004; Holburn & Vanden Bergh, 2008). Research findings in this area suggest that organizations may actively engage in corporate political activities such as lobbying and coalition formation in their attempts to change public policy prescriptions in their favor (Hillman & Hitt, 1999). But studies have shown many "disincentives" for organizations' engaging in nonmarket behavior that might require direct engagement with policy makers (Hargadon & Douglas, 2001; Rao, Morrill, & Zald, 2000). This study has highlighted another nonmarket consideration important for organizations seeking strategic flexibility in responding to government behavior. In democracies, those in control of the government are not always free to impose their policy preferences on society. To insert their preferences into public policy, they have to overcome the opposition of competing political factions, which checks and balances their power and reduces the need for lobbying and other corporate political activities.

The results also confirm that society at large—the voters—can influence how government behaves and how its behavior affects organizations. Since policy makers depend on society's mandate to stay in power, they may attempt to appease the voters through policies that they hope will enhance society's well-being. Although political pluralism may encourage the policy makers in such attempts, the voters of some locations may exhibit less flexibility in their political preferences than others. As a result, the government may pay less attention to those locations or even harm their welfare, an important factor that expanding organizations have to take into consideration.

This study also addressed concerns raised by Henisz and Zelner (2003) to the effect that strategy research has paid too little attention to organizational differences in responding to the threats and opportunities stemming from the political environment. The results have demonstrated that although their political environment might create opportunities for all organizations, not all organizations are aware of them and capable of responding.

Taken together, these results show that, in pluralist economies such as those in nations with federal systems, examining one government level is not sufficient to yield a clear picture of the influence of government. It is essential to examine the interactions between the different levels of government and any competition that might result. Most studies that have examined the role of government have not focused on this issue. However, in most cases this distinction is very vivid. The European Union is a good example. In studying the impact of government and government agencies on organizations operating in the EU, it is important to be aware of the political preferences of the governments of the individual nations. The EU is not a typical federal system, but the example applies as well to other federal societies, such as the U.S., Canada, and Switzerland. These results thus bring pluralism in a society's political environment to the forefront of research on the impact of government on organizations.

Future research might fruitfully examine the impact of intergovernmental competition on various other organizational dynamics such as multimarket activities, rivalry, and collaboration between organizations, and organizational recruitment patterns. Research is also needed to examine the interplay between government variables and various organization-level and population-level attributes and their effects on organizational dynamics.

Conclusions

The results of this study have shown that in countries with fragmented government power, such as federal democracies, there is a tactical dimension to the influence of government on organizations that stems from political differences between the parties controlling the different levels of government. This might benefit organizations under certain conditions. This work has shown that organizations tend to locate new facilities preferentially in subnational units in which the local ruling party differs from that controlling the national government. But this is more important if political competition is intense in the subnational unit. Organizations also differ, however, in their propensity to respond to such opportunities. In sum, this study reaffirms the need to consider government's national and subnational branches separately and the power struggle between the political elites controlling these different branches.

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APPENDIX

TABLE A1

Maximum-Likelihood Estimates of Random-Effects Negative Binomial Panel Regression Models Predicting Branch Expansion by Commercial Banks in India, 1948–2003[a]

Covariates	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
Hypothesized Effects						
H1: Political pluralism		0.13***	0.10**	0.74***	–0.01	0.58***
		(0.03)	(0.03)	(0.04)	(0.03)	(0.05)
H2: Political pluralism × reduction in political competition			–0.01***			–0.01**
			(0.00)			(0.00)
H3: Political pluralism × state ownership				–0.92***		–0.88***
				(0.05)		(0.05)
H4: Political pluralism × proportion of business from focal state					0.51***	0.41***
					(0.06)	(0.06)
Bank Level						
Overall bank characteristics						
State ownership	0.90***	0.90***	0.89***	1.18***	0.88***	1.15***
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Age of bank	0.01***	0.01***	0.01***	0.01***	0.01***	0.01***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Size of bank/1,000	–0.83***	–0.83***	–0.82***	–0.60***	–0.76***	–0.55***
	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Location-specific bank characteristics						
Proportion of business from focal state	4.82***	4.83***	4.82***	4.85***	4.69***	4.73***
	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.11)
Multimarket contact	0.00***	0.00***	0.00***	0.00***	0.00***	0.00***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
In-state experience of bank	–0.01***	–0.01***	–0.01***	–0.01***	–0.01***	–0.01***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Location Level						
Industry characteristics						
Density of banks	0.73***	0.73***	0.72***	0.73***	0.76***	0.74***
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Number of branches in neighboring states	–0.00***	–0.00***	–0.00***	–0.01***	–0.00***	–0.01***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Agriculture credit	–0.52**	–0.43*	–0.49**	–0.26	–0.39*	–0.26
	(0.18)	(0.18)	(0.18)	(0.18)	(0.18)	(0.18)
Socioeconomic controls						
Infrastructure	–0.09***	–0.09***	–0.10***	–0.07***	–0.09***	–0.08***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Population density	–0.43***	–0.44***	–0.44***	–0.48***	–0.43***	–0.47***
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
State GDP to national GDP (ratio)	0.02***	0.02***	0.02***	0.02***	0.02***	0.02***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Policy variables						
Federal grants	14.18*	14.31*	12.46	13.73	19.98**	16.50*
	(7.13)	(7.09)	(7.13)	(7.07)	(7.05)	(7.07)
Number of state-owned organizations	0.04***	0.04***	0.04***	0.04***	0.04***	0.04***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Political characteristics						
Reduction in political competition	0.01***	0.01***	0.02***	0.01***	0.01***	0.02***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Number of other states with pluralism	–0.04***	–0.05***	–0.05***	–0.05***	–0.05***	–0.05***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Election year	0.16***	0.15***	0.14***	0.14***	0.14***	0.13***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Support for ruling party	0.06	0.15**	0.13**	0.14**	0.18***	0.15**
	(0.04)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Size of political market	0.00***	0.00***	0.00***	0.00***	0.00***	0.00***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Constant	–1.61***	–1.70***	–1.57***	–1.92***	–1.83***	–1.93***
	(0.27)	(0.27)	(0.27)	(0.27)	(0.27)	(0.27)
χ^2	4,648.0	4,682.5	4,707.4	5,092.8	4,764.2	5,177.0
Log-likelihood	–26,424.3	–26,414.5	–26,407.7	–26,224.6	–26,379.3	–26,198.7
Mean VIF						

[a] Although our panel data covered 72,418 bank-state-year observations of commercial banks between 1948 and 2003, only 40,325 observations were used in this analysis owing to the restrictions in the fixed-effects specification.

Standard errors are in parentheses.

* $p \le .05$

** $p \le .01$

*** $p \le .001$

Two-tailed tests.

TABLE A2
Quasi-Maximum-Likelihood Estimates of Fixed-Effects Poisson Panel Regression Models Predicting Branch Expansion by Commercial Banks in India, 1948–2003[a]

Covariates	Model 13	Model 14	Model 15	Model 16	Model 17	Model 18
Hypothesized Effects						
H1: Political pluralism		0.16***	0.12**	0.79***	0.03	0.65***
		(0.05)	(0.05)	(0.07)	(0.05)	(0.08)
H2: Political pluralism × reduction in political competition			–0.01**			–0.01
			(0.01)			(0.00)
H3: Political pluralism × state ownership				–0.84***		–0.80***
				(0.09)		(0.09)
H4: Political pluralism × proportion of business from focal state					0.52***	0.32**
					(0.12)	(0.13)
Bank Level						
Overall bank characteristics						
State ownership	0.95***	0.94***	0.93***	1.18***	0.92***	1.14***
	(0.14)	(0.14)	(0.15)	(0.14)	(0.14)	(0.14)
Age of bank	–0.03*	–0.03***	–0.03***	–0.04***	–0.03*	–0.04***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Size of bank/1,000	–1.85***	–1.85***	–1.83***	–1.63***	–1.75***	–1.57***
	(0.29)	(0.29)	(0.29)	(0.29)	(0.29)	(0.29)
Location-specific bank characteristics						
Proportion of business from focal state	6.89***	6.88***	6.89***	6.86***	6.75***	6.79***
	(0.65)	(0.65)	(0.65)	(0.64)	(0.67)	(0.65)
Multimarket contact	0.00	0.00	0.00	0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
In-state experience of bank	0.00	0.00	–0.00	0.00	–0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Location Level						
Industry characteristics						
Density of banks	1.44***	1.46***	1.47***	1.37***	1.44***	1.36***
	(0.22)	(0.22)	(0.22)	(0.21)	(0.22)	(0.21)
Number of branches in neighboring states	–0.00	–0.00	–0.00	–0.00	–0.00	–0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Agriculture credit	–1.17***	–1.11*	–1.15***	–1.02*	–1.06*	–1.03*
	(0.35)	(0.35)	(0.35)	(0.33)	(0.36)	(0.34)
Socioeconomic controls						
Infrastructure	–0.08**	–0.08**	–0.09**	–0.07	–0.08**	–0.07
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Population density	–1.89***	–1.83***	–1.81***	–1.58***	–1.79***	–1.56***
	(0.41)	(0.41)	(0.40)	(0.39)	(0.39)	(0.38)
State GDP to national GDP (ratio)	0.02**	0.02**	0.02**	0.02**	0.02**	0.02**
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Policy variables						
Federal grants	43.53*	47.32***	43.69*	49.50***	52.89***	49.91***
	(13.79)	(13.57)	(13.65)	(13.15)	(13.54)	(13.21)
Number of state-owned organizations	0.10***	0.10***	0.10***	0.10***	0.10***	0.10***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Political characteristics						
Reduction in political competition	0.02***	0.02***	0.02***	0.02***	0.02***	0.02***
	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)
Number of other states with pluralism	–0.02***	–0.03***	–0.03***	–0.03***	–0.03***	–0.03***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Election year	0.19***	0.18***	0.18***	0.18***	0.18***	0.17***
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Support for ruling party	–0.03	0.09	0.05	0.09	0.11	0.07
	(0.06)	(0.06)	(0.06)	(0.07)	(0.07)	(0.07)
Size of political market	0.00	0.00	0.00	0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Constant	1,320.6	1,323.2	1,313.3	1,456.6	1,254.7	1,422.0
χ^2	–26,224.6	–26,190.3	–26,175.7	–25,893.1	–26,133.1	–25,865.4
Log-likelihood						
Mean VIF						

[a] Although our panel data covered 72,418 bank-state-year observations of commercial banks between 1948 and 2003, only 40,325 observations were used in this analysis owing to the restrictions in the fixed-effects specification.

Standard errors are in parentheses.

* $p \leq .05$

** $p \leq .01$

*** $p \leq .001$

Two-tailed tests.

TABLE A3
Maximum-Likelihood Estimates of Fixed-Effects Negative Binomial Panel Regression Models with Added Dummy Variables Predicting Branch Expansion by Commercial Banks in India, 1948–2003[a]

Covariates	Model 19	Model 20	Model 21	Model 22
Political hegemony—Procapitalist		−0.14*** (0.03)	−0.20*** (0.03)	−0.07** (0.04)
Political hegemony—Others		−1.55*** (0.24)	−1.60*** (0.24)	−1.46*** (0.24)
Political pluralism—Procapitalist	0.07** (0.04)		−0.13*** (0.03)	
Political pluralism—Others	0.21*** (0.03)			0.13*** (0.03)
State ownership	0.78*** (0.04)	0.78*** (0.04)	0.78*** (0.04)	0.78*** (0.04)
Age of bank	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)
Size of bank/1,000	−1.12*** (0.08)	−1.11*** (0.08)	−1.13*** (0.08)	−1.13*** (0.08)
Proportion of business from focal state	4.88*** (0.10)	4.87*** (0.10)	4.89*** (0.10)	4.89*** (0.10)
Multimarket contact	0.00*** (0.00)	0.00*** (0.00)	0.00*** (0.00)	0.00*** (0.00)
In-state experience of bank	−0.02*** (0.00)	−0.02*** (0.00)	−0.02*** (0.00)	−0.02*** (0.00)
Density of banks	0.59*** (0.05)	0.57*** (0.05)	0.59*** (0.05)	0.59*** (0.05)
Number of branches in neighboring states/1,000	−0.03* (0.01)	−0.03*** (0.01)	−0.03*** (0.01)	−0.03*** (0.01)
Agriculture credit	−0.62* (0.19)	−0.66*** (0.19)	−0.59* (0.19)	−0.59* (0.19)
Infrastructure	−0.12*** (0.02)	−0.13*** (0.02)	−0.12*** (0.02)	−0.12*** (0.02)
Population density	−0.46*** (0.05)	−0.45*** (0.05)	−0.47*** (0.05)	−0.47*** (0.05)
State GDP to national GDP	0.03*** (0.00)	0.03*** (0.00)	0.03*** (0.00)	0.03*** (0.00)
Federal grants	33.70*** (7.37)	32.63*** (7.36)	31.97*** (7.39)	31.97*** (7.39)
Number of state-owned organizations	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)
Reduction in political competition	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)
Number of other states with pluralism	−0.04*** (0.00)	−0.04*** (0.00)	−0.03*** (0.00)	−0.03*** (0.00)
Election year	0.15*** (0.02)	0.14*** (0.02)	0.15*** (0.02)	0.15*** (0.02)
Support for ruling party	0.06 (0.05)	0.10** (0.05)	0.07 (0.05)	0.07 (0.05)
Size of political market	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Constant	−0.36 (0.28)	−0.09 (0.28)	−0.09 (0.28)	−0.22 (0.28)
χ^2	4,108.6	4,171.0	4,138.1	4,138.1
Log-likelihood	−21,996.7	−21,977.2	−21,969.4	−21,969.4

[a] The analysis used 40,325 bank-state-years. Standard errors are in parentheses.
* $p \leq .05$
** $p \leq .01$
*** $p \leq .001$
Two-tailed tests.

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