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Resurrection of the Robber Barons: Reassessing the Theory of the Firm

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I present Wal-Mart Stores, Inc., as a case study to argue the need for a new theory of the firm to explain and predict corporate political action in democratic systems. I analyze Securities and Exchange Commission filings, corporate bylaws and proxy statements, recorded shareholder meetings, press releases, and political contribution records to answer "Who drives political strategy in the corporation?" This evaluation challenges the belief that managers separated from stockholder-owners govern large publicly traded corporations. Evidence suggests that principal-owner–controlled firms dominate politics at all levels; thus political models based on managerial theories of the firm provide poor estimates of corporate political behavior. Using Walton family, corporation, and financial institution data to exemplify how the principal-owner–controlled firm translates economic power into political currency, I conclude that dynastic families play critical roles in commerce, banking, politics, and philanthropy. Exploring why families control firms and use them for political engagement demands more interdisciplinary dialogue and research by political scientists, economists, and business historians.

> Separation of management from actual ownership is complete and permanent.[1]

Comments are appreciated and can be sent to the email address provided. I thank the BHC for providing Alfred D. Chandler, Jr., grant assistance.

[1] Adolf Berle, "Non-Voting Stock and 'Bankers' Control," *Harvard Law Review* 39 (April 1926): 673-693 quotation at p. 675. Adolf Berle served on President Franklin Delano Roosevelt's "brain trust" in formulating the Second New Deal

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URL: http://www.thebhc.org/publications/BEHonline/2006/clarkmuntean.pdf.

> ...decision making in a firm is the province of managers who are not the firm's security holders.[2]

> The question that was not asked during the great debate over socialism *versus* capitalism has now been answered: ownership has been split off *de facto* from internal control.[3]

Conclusion of political scientists whose formal models and empirical studies are based on the above premises:

> The real story, as pieced together from dozens of scholarly studies, seems to be that the campaign contributions of interest groups have far less influence than commonly thought.[4]

Political scientists generally concur that American citizens are more ideologically polarized, as evidenced by their individual voting behavior and campaign contributions. Research reveals that for-profit and non-profit corporations are becoming more polarized and ideological as well. However, current theories recognize political contributions by firms only as instrumental (for example, to seek rents, government contracts, or regulatory relief), not ideological. Therefore, researchers assume that firms do not act ideologically or give to parties for non–profit-maximizing reasons.[5] Despite considerable theoretical postulating and empirical research, political scientists have yet to develop robust models that can convincingly explain and predict why some firms contribute to ideological causes and some firms do not. Nor can we explain why a profit-maximizing corporation would spend millions of dollars on a high-risk prospect (political campaigns) with minuscule, if any, tangible particularistic rewards to distribute to individual shareholders.

Furthermore, as politicians become more polarized and parties more unified and powerful, it is theorized that individual corporations and other interests should have less influence on the politician's decisions and, thus, on policy outcomes. Declining payoffs per dollar contributed in a saturated market should create a disincentive for political contributions. Yet we observe corporate lobbying and campaign funding on an unprecedented scale, even though the number of interest groups and lobbyists has grown exponentially, such that any individual firm's contribution or votes would seem inconsequential to a politician.

Reforms, which recommended the Securities and Exchange Commission (SEC) as a reform to protect investors.

[2] Eugene Fama, "Agency Problems and the Theory of the Firm," *Journal of Political Economy* 88 (April 1980): 288-307, quotation at p. 288.

[3] Robert A. Dahl, *After the Revolution?* (New Haven, Conn., 1970), 125.

[4] Richard Smith, "Interest Group Influence in Congress," *Legislative Studies Quarterly* 20 (Feb. 1995): 89-139, quotation at p. 91.

[5] Ibid.

Economic theories of the firm based upon profit-maximizing, cost-benefit–analyzing, and reward-risk–calculating rational managers fail to explain why certain firms spend so much on lobbying and political campaign contributions. Nor can economic theories explain why firms in the same industry in the same electoral cycle would give to warring ideological causes and opposing political campaigns.[6]

Political scientists have not been able to answer these perplexing questions, I posit, because there exists a widespread inaccurate and incomplete understanding of how firms are organized and how corporate actors behave strategically. This leads to poor constructs of "corporate political action" and measurement problems. I argue that these flaws stem from the failure to question the underlying assumptions of theories of corporate political behavior. An unquestioning acceptance of an over-simplified understanding of managerial theories of the firm, in which owners and managers are separate, and owners no longer exert control over any of the firm's decisions, leads to these problems in theorizing the relationship between corporations and politics.

This understanding of the managerial theory of the firm (as Adolf Berle stated about separation of management and ownership) belies the organization of most firms. Therefore, we need a better description of how the majority of corporations actually are organized to inform a theory of how corporations interact with political institutions. I propose a Principal-Owner theory of the firm.

Principal-Owner (P-O) firms retain considerable control over their governance functions: oversight of the board, officers, and major strategic direction of the firm, including its political and philanthropic contributions. In contrast, managerial theories of the firm attribute agency problems to the lack of principal-owners and the fact that remaining shareholders elect an independent board that cannot retain sufficient control over the firm's governance and oversight functions.

Managerial theories describe the classic economists' Agent Manager (A-M) firm whose independent officers and top executives do not own the firm. Lacking a sustained and dominant principal or affiliated group of owners, A-M firms experience agency problems associated with maverick executives. It follows that A-M firms are more likely to experience higher transaction costs and other difficulties in coordinating coherent and consistent political action than are P-O firms.[7]

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[6] Analysis of intra-industry polarization in corporate contributions is part of my prospectus dissertation and is available upon request. Data for this analysis were obtained from the Center for Responsive Politics and are available at http://www.opensecrets.com.

[7] Further arguments and empirical evidence to support this hypothesis are a part of my dissertation (in progress).

Empirical research suggests that the A-M firms are far less common than previously believed.[8] Researchers studying the influence of interest groups and campaign finance have assumed all firms are A-M and thus implicitly premised, if not explicitly based, upon the managerial theory of the firm. As I demonstrate through my case study, P-O firms, typically founded and governed by families, exhibit very different political behavior than the A-M firms that political scientists use as the basis for their models. The empirical evidence I present challenges what researchers take for granted: that corporations, like all interest groups, do not really matter much in the political process.

Case Study: Family-Controlled Wal-Mart

> The Walton family is as rich as Bill Gates and Warren Buffett combined; [their] $90 billion fortune is equivalent to the GDP [Gross Domestic Product] of Singapore. It is reasonable, and useful, to consider the Waltons' combined wealth this way because the family members act and think collectively. They are constantly in contact with each other and with family advisors, and they meet three times a year to discuss and manage their fortune. Because they hold such a huge stake in Wal-Mart, the Waltons have a large, if quiet, influence on our economy and society. They have a say in more than a million jobs in this country.[9]

> Worth more than $90 billion, heirs of Wal-Mart founder Sam Walton are the richest family in the world and include five of the ten richest Americans. The Walton Family Foundation (WFF) gave away $170 million and Alice Walton donated $2.6 million in 2004. Since 1999, the Wal-Mart Foundation, a company-controlled entity with no direct connection to the WFF, has tripled its giving to more than $200 million a year in cash and merchandise.[10]

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[8] Data and literature reviews compiled as part of my prospectus dissertation are available upon request. A sample of U.S.-based family-controlled firms is available in its Appendix. The strict definition of the Berle-Means firm (non-owning management) would indeed be rare today, as more than half of CEO compensation is presently in the form of stocks, options, and other forms of ownership, blurring the lines between ownership and management, even in non–family-controlled firms. However, that analysis is beyond the scope of this paper.

[9] Andy Serwer, "Inside America's Richest Family," *Fortune* 150 (10), 15 Nov. 2004; viewed 2 March 2006. URL: www.mindfully.org/Reform/2004/Wal-Mart-Waltons-Richest15nov04.htm.

[10] Wal-Mart PAC (Political Action Committee), the third-largest corporate PAC and the second-largest corporate donor to the GOP in 2004, gave away $2.1 million in comparison. By measuring influence by PAC contributions alone, political scientists are proverbially looking for lost keys under the lamplight, the very place watchdog-shy firms and politicians are the most careful. Philanthropic

They're back. The "robber barons" of today attain economic and political powers more global in scope and with an impact on more lives, I argue, than did those in the time preceding the Progressive reform movement in the United States at the dawn of the twentieth century. In this paper, I explore the institutions and methods by which a dynastic family seeks public, political, and ideological influence. In my research on these politically active dynastic families, I explore whether or not concentration of wealth results in synergistic accrual of political power or influence. I examine the strategies and institutions for attaining both concentration and influence, and I reveal the methods of obscuring ownership and political action. While I note instances of apparent influence, we need further empirical study to measure the impact of actual influence, if any, on political outcomes.

In this paper, I present a case study of the Walton dynasty's ownership and governance of one of the largest publicly traded corporations in the world. Wal-Mart is an exemplar of hundreds of other family-owned and -controlled firms.[11] The Walton case typifies the political behavior of many family-controlled firms, the most common type of Principal-Owner firm, in which control over the firm is secured by founding owners, related persons, heirs, and shares held in their name, trusts, foundations, and other entities over which family members exercise ultimate control.

While numerous scholars have evaluated Wal-Mart's impact on the environment, wages, and prices, such studies have been limited to the stores themselves or to the firm's management practices and policies.[12] I investigate the strategic roles played in the political arena by the principal owners of the firm, focusing on four Walton heirs who hold nearly 41 percent of common stock of the corporation. Given that the majority of firms (including some of the world's largest such as Wal-Mart Stores, Inc.,

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data provided by the National Committee for Responsible Philanthropy; viewed 11 Feb. 2006. URL: http://ncrp.org/press_room/index.asp?Article_Id=73.

[11] A strong claim I defend in my prospectus dissertation, available upon request. This research reveals that firms' contributions are significantly more partisan than previously believed, and that family-controlled firms are more likely to use political advocacy groups and philanthropic organizations than are non–family-controlled firms.

[12] For a historical piece and more on the legacy of Sam Walton, see Bethany Moreton, "It Came from Bentonville: The Agrarian Origins of Wal-Mart," pp. 57-82, and other scholars in *Wal-Mart: The Face of Twenty-First-Century Capitalism*, ed. Nelson Lichtenstein (New York, 2006). The contributors to this recent text dedicated to analyzing Wal-Mart fail to include the current role played by Walton heirs, and they entirely miss the other institutions the Waltons own and use for political and economic dominance. In contrast to the authors' largely faceless capitalism described in the book, in this brief paper I provide an alternative theory and explanation of the faces behind Wal-Mart: the owners of the firm, the Walton family. Not the legacy of Sam, but his heirs, alive and running the show today.

Ford Motor Co., and Koch Industries, which recently bought Georgia-Pacific) do not fit the A-M model of the firm first described by Adolf Berle, I develop an alternative principal-owner theory of the firm to explain organizational strategies and better predict corporate political behavior.[13] In addition, I propose a new proxy by which social scientists from multiple disciplines can identify principal owners of firms: political contributions.

Who Owns and Controls Wal-Mart?

In addition to dominating the retail and grocery sectors in several countries, the Walton family dominates in global manufacturing and trade and owns several firms with significant and growing market share in financial services.[14] The family distributes a portion of the wealth generated to politicians, political organizations, educational institutions, and ideological causes. Just four family members, collectively worth $100 billion, effectively control the massive global enterprise, affecting millions of lives around the globe each day.

It is perhaps common knowledge to corporate finance insiders, but counter-intuitive to political scientists, that a "blockholder" (affiliated group of stockholders) does not need a majority of shares (51 percent) in order to control decision-making. Leveraged buyout raiders threaten to take control with the purchase of as little as 5 percent of shares.

In 2004, eight members of the Walton family made the *Forbes* World's Wealthiest list (see Table 1). When asked "What is the Walton family's perspective on Wal-Mart today?" chair and director S. Robson "Rob" Walton replied: ". . . *the Walton family* has never felt better about *the company* and *our future*."[15]

I have identified and am compiling data on approximately thirty additional descendents of the Walton and Robson families, many of whom contribute to the same political candidates, Political Action Committees (PACs), and other political and ideological causes as do the four nuclear family members.[16] The details of extended family members' shareholdings in Wal-Mart are less well known, as only those who own 5 percent or more of total outstanding shares or who serve on the board of directors must be

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[13] Adolf Berle and Gardiner Means, *The Modern Corporation and Private Property*, 2d ed. (New York, 1968).

[14] The family can reinvest a portion of the approximately half-billion dollars per year generated from Wal-Mart stock into venture capital funds, private equity investments, and high-growth opportunities, as long as they create entities legally separate from Wal-Mart. Even though Walton Enterprises LLC is 100 percent owned by the family, it can thus own and run the world's largest retail enterprise and numerous financial institutions without violating legislation intended to separate commerce from banking.

[15] Emphasis added; from Wal-Mart *Annual Report* (2005), 15.

[16] The Robson family provided the initial funding to Sam Walton. Sam married Helen Robson.

listed on publicly available documents. In Table 2 are eight family members required to report an interest in the firm. In Table 3, I list holdings and voting and disposition powers of insider Walton shareholders who are required to report this information to the SEC. Each of the four members listed individually owns more than 10 percent equity in Wal-Mart and collectively vote and make decisions through Walton Enterprises.[17] In addition, the family members control voting shares of the Walton Family Foundation (where they also serve as directors on the board), the Estate of John T. Walton, the HR (for Helen Robson) Walton Trust, and other trusts.

The family's percentage of ownership in the company has increased incrementally but steadily, from approximately 38 percent five years ago to nearly 41 percent today. Since John's death in June 2005, the "Estate of John T. Walton" has been established, in which "S. Robson Walton, Jim C. Walton, and Alice L. Walton act in the capacities of co-personal representatives and now execute voting and control as managing members of Walton Enterprises LLC, of which the Estate of John T. Walton is also a managing member."[18] At the same time, fewer common shares are outstanding in 2005 than in 2004, suggesting further concentration of ownership despite significant growth over the same period and future expansion plans. In other words, the remaining family members after John's tragic death enjoy greater voting rights and control over Wal-Mart and the affiliated organizations that its profits fund more than ever before.

The shares of common stock owned by Walton Enterprises (the four family members) include 2,076,917 shares held by "a corporation organized and operated for charitable purposes as to which S. Robson Walton, Jim C. Walton, and Alice L. Walton are directors thereof and share voting and dispositive powers."[19] In other words, the Walton Family Foundation is: a) funded by Wal-Mart profits, dividends, and appreciation in stock price, b) a tax-advantaged shell or conduit, c) used to consolidate voting power over Wal-Mart, and d) used to keep ideological and political philanthropic giving within the family. I discuss the political, ideological, and strategic uses of the family firm's philanthropy later in the paper.

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[17] The three remaining children of Sam Walton—Alice, Rob, and Jim (the fourth, John, passed away)—however, appear to make the bulk of decisions now. Helen Walton is in her late 80s and, according to son Rob, sustained a head injury in an automobile accident and "is limited as to what she can do now"; Serwer, "Inside America's Richest Family," 11.

[18] Schedule 13G, Amendment No. 25, Wal-Mart Stores, Inc. No. 931142-10-3, Filed 12/31/05, p. 12; viewed 20 March 2006. URL: http://www.sec.gov/archives/edgar/data.

[19] Footnote 2(e) to attached Schedule A, "Beneficial Ownership of Common Stock" of Schedule 13G, Amendment No. 25, Wal-Mart Stores, Inc., No. 931142-10-3, Filed 12/31/05, according to Rule 13d-1(d) of the Securities Exchange Act of 1934.

TABLE 1
Forbes' World's Wealthiest, Wal-Mart, and the Walton Family

2004 Rank	Name	Age	Net Worth in Billions	Primary Location	Source of Wealth
10	S Robson Walton	61	$18.3	AR, Bentonville	Wal-Mart
11	Jim Walton	57	$18.2	AR, Bentonville	Wal-Mart
11	John Walton*	59	$18.2	AR, Bentonville	Wal-Mart
13	Alice Walton	56	$18.0	TX, Fort Worth	Wal-Mart
13	Helen Walton	85	$18.0	AR, Bentonville	Wal-Mart
194	Ann Walton Kroenke	55	$3.0	MO, Columbia	Wal-Mart
243	Nancy Walton Laurie	53	$2.5	MO, Columbia	Wal-Mart
387	Stanley E Kroenke	57	$1.7	MO, Columbia	Wal-Mart Real Estate

* Listed as Christy Walton (his widow) in future years, although the shares of "Estate of John T. Walton" are owned by and voting powers are split among Alice, Jim, and S. Robson Walton.

TABLE 2
Wal-Mart Company Roster

Shareholder	Relationship	Total Shares	Record Date
Alice L. Walton	Beneficial Owner of more than 10% of a Class of Security	1,702,500,000	12/06/2000
Helen R. Walton	Beneficial Owner of more than 10% of a Class of Security	1,681,270,000	07/13/2004
Jim C. Walton	Director and Beneficial Owner of more than 10% of a Class of Security	1,690,990,000	09/28/2005
John T. Walton	Director and Beneficial Owner of more than 10% of a Class of Security	1,692,680,000	06/03/2005
S. Robson Walton	Chair of the Board	1,685,180,000	09/22/2004
E. Stanley Kroenke	Director	31,425,961	03/31/1998
Steuart L. Walton	Shareholder	N/A	
Thomas Layton Walton	Affiliated Person	N/A	
James L. Walton Trust	Director	N/A	

Source: Thomson Financial.
N/A: not required to list if number of shares held is less than 5 percent of total outstanding.

TABLE 3
Beneficial Ownership of Common Stock

Reporting Person	Shares of Common Stock Beneficially Owned (Aggregate #)	Outstanding Common Stock (%)	# of Shares of Common Stock that Reporting Person has:			
			Sole Power to Vote	Shared Power to Vote	Sole Power to Dispose	Shared Power to Dispose
1. Helen R. Walton	1,681,270,819	40.38		1,680,506,739	764,080	1,680,506,739
2. S. Robson Walton	1,687,898,143	40.54	2,876,663	1,685,021,480	2,819,213	1,685,021,480
3. Estate of John T. Walton	1,680,521,685	40.36	14,946	1,680,506,739	14,946	1,680,506,739
4. Jim C. Walton	1,693,062,082	40.66	10,478,426	1,682,583,656	10,478,426	1,682,583,656
5. Alice L. Walton	1,691,373,246	40.62	6,978,958	1,684,394,288	6,978,958	1,684,394,288

Source: Wal-Mart Corporation's 2005 Proxy Statement filed with the SEC as required by Section 14 (a) of the Securities Exchange Act of 1934. Calculated using the 4,163,490,196 shares of common stock outstanding on 31 Oct. 2005.

Who Controls Wal-Mart's Board of Directors?

Control is established by setting the rules of the game. At most companies, board members can be elected with only one shareholder vote, because shareholders can vote "yes" or "withhold,"" and the withhold votes do not count.[20] Although political contributions can serve as an indicator of who governs the firm, only acute attention to details such as appointment, removal, and voting rules, which are found in the footnotes of proxy statements, amendments to SEC filings, and amended articles of incorporation, specify the means by which owners control a firm's board of directors and management.

Careful analysis of Wal-Mart's legal documents reveals the mechanisms by which the Walton family exercises and maintains control over the firm. The legal structure allows for power and control to stay within the family in the event of a death. When John Walton died unexpectedly in June 2005 in a plane crash, Jim C. Walton replaced him on the board of directors at Wal-Mart, joining chair S. Robson Walton to ensure that at least two family members sit on the board at all times.

Walton heirs on the board attain greater removal and appointment power than the remaining independent directors at Wal-Mart Stores, Inc.[21] In choosing a replacement director, only the remover (the Walton heir) may choose a replacement. The Waltons are not mentioned by name, but rather via reference to the Certificate of Incorporation (not posted on Wal-Mart or SEC websites) or as the beneficiaries of more than 5 percent stock, of which there are only Walton family members. Therefore, not all directors have equal powers; family members enjoy greater control than do non–family members do. Yet existing theoretical and formal models of the corporation assume all directors hold equal power, *ceteris paribus*.

Independent Management Does Not Govern Wal-Mart

One of the traits earning Wal-Mart the title "Most Admired Company" on *Fortune* magazine's list in both 2003 and 2004 is its policy of promoting from within the firm. Wal-Mart exhibits an unusual willingness to promote to executive management those who do not have degrees from Wharton, Harvard, or Stanford. The Walton family prefers locally raised and educated chief executive officers (CEOs) such as Lee Scott or David Glass, both loyal to the company and family. Anti–Wal-Mart activists waste their resources attacking Lee Scott, who holds no substantive power over the firm's strategic position and long-term decisions. The Walton

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[20] "Democracy in the Boardroom," *Comstock* (13 April 2006) p. 1.

[21] "The Amended and Restated Bylaws of Wal-Mart Stores, Inc., Effective as of March 3, 2005," 8. An updated version is available at URL http://media.corporate-ir.net/media_files/IROL/11/112761corpgov/bylaws.pdf.

family–supported Sam Walton School of Business at the University of Arkansas, which specializes in retailing and consumer products marketing, logistics, and supply-chain management, provides a continuous pool of loyal managers for Wal-Mart.

The management and operations of Wal-Mart make the headlines of multiple newspapers on a nearly daily basis, and they are now attracting the attention of scholars from University of California at Santa Barbara to Yale.[22] A common target for the chain's enormous economic power, the so-called Wal-Mart effect, is its executive management and, specifically, the most visible representative, non–family member and CEO Lee Scott. The story told is one of faceless capitalism run amok by powerful independent executives, assisted by technology, enormous salaries, and beyond the control of an independent board of directors and busy shareholders. Those who express concern with Wal-Mart's political power also point the finger at management. However, thorough investigation of the firm's ownership and corporate governance structure and breakout of actual political contributions reveals a different story. The CEO does not have a material ownership position in the firm, nor do other non-family members in executive management. We find further evidence that independent management does not control Wal-Mart in political contribution records.

Political Contributions

Political contributions from independent managers of the firm such as CEO Lee Scott are minimal. Between 1990 and 2004, Scott contributed a total of $2,000 as an individual (to George W. Bush in 2004) and none directly to members of Congress or their campaigns. In contrast, note the following patterns present in principal-owner contributions in Table 4: a) contributions increased after the 2002 Bipartisan Campaign Reform Act (BCRA) through contributions to 527 organizations, b) extensive use of other entities and relatives, and c) uniformity.

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[22] The University of California at Santa Barbara held a conference in April 2004, "Wal-Mart: Template for Twenty-First-Century Capitalism." University of California Professor Nelson Lichtenstein edited a compilation of those papers into a 350-page book of the same name *Wal-Mart: Template for Twenty-First-Century Capitalism*, targeted to a wider public audience, which is highly critical of the firm. Scholars in the text overlooked the roles played by the current heirs, who are the principal owners of the firm. They do not discuss corporate governance of the firm and its ownership structure. In chapter 4, James Hoopes, "Growth through Knowledge: Wal-Mart, High Technology, and the Ever Less Visible Hand of the Manager," makes the critical error of comparing Wal-Mart's independent executive managers to the owners of Carnegie Steel, DuPont, and Standard Oil. Without determining first that all of these are family-controlled firms, he inappropriately discusses and applies Coase's managerial theory of the firm to these dynasties.

TABLE 4
Individual Family Member Political Contributions: $25,000 and Up, 31 March 2000 to 20 October 2004

Contributor	Occupation	Date	Amount	Recipient
Walton, Alice	Rocking W Ranch	10/20/2004	$1,000,000	Progress For America (527)
Walton, Alice	Rocking W Ranch	10/7/2004	$1,000,000	Progress For America (527)
Walton, Alice	Rocking W Ranch	8/3/2004	$600,000	Progress For America (527)
Kroenke, Stanley Columbia, MO 65203	The Realty Inc	10/19/2000	$220,000	Rnc/Republican National State Elections Committee
Walton, S. Robson Mr Bentonville, AR 72712	Wal-Mart	11/4/2002	$150,000	Republican National Committee
Walton, Jim Bentonville, AR 72712	Arvest Bank Group Inc.	3/19/2002	$100,000	National Republican Congressional Committee
Walton, John Jackson WY 83001	Wal-Mart	8/14/2002	$100,000	Republican National Committee
Walton, John T. Bentonville, AR 72712	Wal-Mart	7/17/2000	$100,000	Republican National Committee
Walton, Alice Mineral Wells, TX 76067	Retired	11/28/2000	$90,000	Republican National Committee
Walton, Jim Bentonville, AR 72712		3/31/2000	$55,000	National Republican Congressional Committee
Walton, John T. Bentonville, AR 72712		9/23/2002	$50,000	Democratic Senatorial Campaign Committee
Walton, Jim Bentonville, AR 72712	Arvest Bank Group Inc	10/19/2000	$50,000	Rnc/Republican National State Elections Committee
Walton, Lynne Bentonville, AR 72712	Arvest Bank Group Inc	10/19/2000	$50,000	Rnc/Republican National State Elections Committee
Walton Enterprises LLC Bentonville, AR		6/6/2001	$25,000	2001 President's Dinner Committee

Contributor	Occupation	Date	Amount	Recipient
Walton, Alice L. Mineral Wells, TX 76067	None	6/23/2004	$25,000	Republican National Committee
Walton, John T. Bentonville, AR 72712	True North Partners/ Chair	6/23/2004	$25,000	Republican National Committee
Walton, Christy R. Bentonville, AR72712	Homemaker	6/23/2004	$25,000	Republican National Committee
Walton, Jim Bentonville, AR 72712	Arvest Bank Group Inc./Banking	4/29/2005	$25,000	National Republican Congressional Committee
Walton, Jim Bentonville, AR 72712	Arvest Bank Group Incorporated/Bank	5/23/2003	$25,000	National Republican Congressional Committee
Penner, Carrie W. (Alton) Bentonville, AR 72712	Homemaker	6/17/2004	$25,000	Republican National Committee
Penner, Gregory B. Bentonville, AR 72712	Wal-Mart Stores/C.F.O.	6/17/2004	$25,000	Republican National Committee
Penner, Carrie W. Bentonville, AR 72712	Homemaker	6/24/2004	$25,000	2004 Joint State Victory Committee
Penner, Gregory B. Bentonville, AR 72712	Walton Enterprises/ Executive	6/24/2004	$25,000	2004 Joint State Victory Committee

Since November 4, 2002, no one with the Walton name has contributed over $25,000 disclosing an association with Wal-Mart. However, Wal-Mart chief financial officer (CFO) and Walton Enterprises executive Greg Penner, Rob Walton's son-in-law, contributed $25,000 as Wal-Mart CFO and $25,000 under Walton Enterprises in 2004. His wife Carrie Penner, daughter of Wal-Mart Chair Rob Walton, contributed $50,000 to the Republican Party in the same year. Scholars, journalists, and campaign finance reform advocates have not yet linked these contributions, among others, to Wal-Mart. Most important, we do not find any PAC contributions in Table 4; yet political scientists continue to measure corporate political action through corporate PAC contributions.

Passing Political Contributions through Tiered Ownership Structures[23]
In a time of increased public scrutiny of Wal-Mart and campaign finance reform legislation, an opaque and complex institutional structure enables the dynasty to fund political campaigns and ideological causes under the radar. Identification, aggregation, and confirmation of these contributions to one interest group (a dynasty) must begin with analysis of the tiered ownership structure of Wal-Mart. All links tie back to Walton Enterprises LLC, the tax-advantaged institution established by Sam Walton, by which the Walton family heirs maintain control over Wal-Mart, and the tax-free wealth generated, in order to launch new endeavors.

In addition to Wal-Mart and its PAC, the owners have used the following Walton institutions to contribute politically during the last 15 years: Walton Enterprises LLC, Arvest Bank, Arvest Bank Group, Arvest Bank Group PAC, the Llama Co., Rocking W Ranch, Inc., and the Bank of Bentonville. In addition, contributions have been made by the family through the following loosely regulated financial entities: Quantum Partners, JCL Corp., and True North Partners. These venture capital, equity, and bank holding companies serve as conduits, providing funds to Wal-Mart Stores PAC, selected leadership PACs, congressional campaigns, and partisan committees. John, Jim, and Alice Walton are all experienced investment bankers/venture capitalists, while S. Robson Walton, chair and eldest son of Sam Walton, holds a law degree from Columbia and

[23] Public disclosure of such a tiered ownership structure is available on page 2 of the letter enclosing the mandatory Senate Public Financial Disclosure Report for Senator Diane Feinstein of California, dated July 15, 2005: "The spouse of the Senator [Diane Feinstein, D-CA], Richard C. Blum, is the Chairman of Blum Capital Partners, L.P. (BCP L.P.) and general partner of Richard C. Blum & Associates, Inc. (RCBA Inc.). Mr. Blum's ownership's interest in BCP L.P. is the general partner of several investment partnerships. Mr. Blum has an ownership interest in RCBA Inc. and in several of the investment partnerships. Additionally, the investment management firm has ownership interests in the investment partnership and some of the partnerships have investments in other partnerships. This results in a tiered ownership structure."

undergraduate degree in accounting/business. Thus, the children of Sam have requisite professional training and experience to run a complex web of legal and financial institutions, which ensures long-term family control over Wal-Mart and the dynastic enterprise.

Members of the Walton family, and their firms' directors and executives, fund Wal-Mart's political activities by passing political contributions through a PAC affiliated with bank holding company Arvest Bank Group and subsidiaries including Arvest Bank (whose parent company is Arvest Holdings). Jim Walton is chair of Arvest Bank Group while his wife Lynne Walton has served as president. John, Helen, and Rob Walton served as directors at Arvest Bank Group, the family bank holding company, while Jim served as chair. Alice, Jim, and Rob (and formerly John) Walton contribute to Wal-Mart PAC directly and to Arvest Bank Group. Alice, Jim, and Rob (and formerly John) Walton provide funds to Arvest Bank Group's PAC, which in turn contributes to Wal-Mart Stores PAC. While CEO of Wal-Mart, David Glass, family loyalist and current director at Wal-Mart, contributed to Arvest Bank Group PAC. Bank of Bentonville, which Sam Walton purchased many years ago, gives to Arvest Bank Group PAC. Arvest Bank Group PAC, in addition to Wal-Mart officers and directors, contribute to Wal-Mart PAC.

Over the same period of time that Wal-Mart has received greater press coverage and has become the focal point of several political issues, including health care policy, banking, employee relations, and U.S. trade policy, the Walton family has increasingly used its other corporations to contribute to political campaigns. Four Walton entities independently made the top ten federal political contributions list in the 2004 election cycle for the state of Arkansas. Nearly one-quarter of Walton federal contributions made in the state of Arkansas in 2003-2004 came from Walton-controlled corporations other than Wal-Mart: Arvest Bank, Arvest Bank Group, and True North Partners (see Table 5).

Staying Out of the Spotlight

The family members avoid parading their wealth and associating the Walton name too closely with Wal-Mart stores (except for promoting the legend of penny-pinching Sam driving his beat-up pick-up truck to save both the simple folks and the shareholders money). The family is not completely removed from the public eye, however. Two family members serve on the board of directors of the publicly traded firm, books are published on the legacy of Sam Walton, and *Forbes* and *Fortune* magazines attribute the Walton fortune to an inheritance from Wal-Mart.[24]

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[24] However, *Forbes* 2004 was incorrect in stating that siblings other than S. Robson do not participate in the affairs of Wal-Mart. This contradicts documents filed with the SEC and interviews admitting regular family meetings to discuss oversight of the firm; see Serwer, "Inside America's Richest Family."

TABLE 5
Arkansas Top Contributors to Federal Campaigns, 2003-2004

Rank		Amount
1	Wal-Mart Stores	$2,119,432
4	Arvest Bank	$259,428
6	Arvest Bank Group	$217,907
8	True North Partners	$100,000

Source: Center for Responsive Politics; viewed 23 Feb. 2006, URL: http://www.opensecrets.org/states/contrib.asp?State=AR&Year=2004.

Journalists and scholars overlook the ownership and extent of control of the Walton heirs as well as their political and ideological contributions, which is surprising given the publicity and political discourse the firm generates. I posit that this is because the failure to analyze governance structures thoroughly leads to misunderstanding of a firm's organization and, thus, inaccurate measurement of its political strategies and action.[25]

> Much of the confusion about the extent of family control derives from the fact that mechanisms used by families to exert their influence over management (voting, trusts, foundations, holding companies) are deliberately designed to keep the identities of shareholders hidden.[26]

How is a multinational public corporation portrayed in daily press headlines able to obscure ownership and the drivers of its political action? It is rational for principal owners of large firms to protect themselves and their families from potentially negative publicity by delegating daily operations of the firm to others. Therefore, many principal owners lack visibility to the public and to common stockholders, though they retain significant influence over critical decisions, including the firm's political and ideological contributions. Principal-owners of firms create or hire trusted accountants and lawyers to create holding companies, trusts, and foundations to grow wealth, preserve capital, retain family control, and polish the family firm name.[27] Although the primary purpose in setting up these structures may be tax minimization and/or ensuring that control remains in the family, an additional feature of tiered ownership, pass-

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[25] The closest attempt thus far was made by Chris Synness of the Institute on Money in State Politics in "Names in the News: Wal-Mart and Its Founding Family," 2 Aug. 2004, URL: http://www.followthemoney.org/press/Reports/200408021.pdf.

[26] Ivan Lansberg, Edith Perrow, and Sharon Rogolsky, "Family Business as an Emerging Field," *Family Business Review* 1, no. 1 (1988): 1-8, quotation at p. 3.

[27] The Walton family entrusts the top corporate finance and securities law firm, Cravath, Swaine & Moore LLP, with the Walton Family Foundation.

through entities, and trusts is the difficulty they create in tracing political contributions.

Covering Their Tracks: Common Disclosure Tactics
The extended Walton family, as well as the four direct heirs, donate from multiple locations. Watchdogs cannot find you if you are always moving. Dynastic families can afford multiple residences and the accountants and lawyers necessary to establish holding companies in multiple locations, including offshore tax havens such as the Caymans. Therefore, what watchdog groups (who typically data mine contributions by zip code or a single business or personal residence address) report is understated.

Daughter and heir Alice contributes to politics under the names of Alice Walton, Alice L. Walton, Alice Walton III, Ms. Alice Walton, and Mrs. Alice Walton. She contributes under the following occupations: retail intern; The Llama Co. (investment bank, of which she is the founder); rancher; retired; self-employed/investments; Rocking W. Ranch, Inc.; entrepreneur; Bentonville Public Schools substitute teacher; Llama Sports Management; homemaker; housewife; none; n/a; Wal-Mart; and Walton Enterprises. Chair of Wal-Mart and Sam Walton's eldest son donates in the name of S. Robson Walton, Robson Walton, Rob Walton, Samuel R. Walton, and S. R. Walton. Carrie Walton Penner, daughter of S. Robson Walton and married to Wal-Mart's CFO, is also listed as Carrie Penner. Mrs. Walton-Penner lists herself as a homemaker, but also lists herself as an education consultant, and was paid $33,725 under contract with Wal-Mart for international operations consulting from August 25, 2004 until January 31, 2005. Several other family members have dizzying arrays of occupations, names, and titles under which they contribute politically as well.

Family members communicate information to politicians and campaign managers by "signaling donations," often contributing identical amounts (for example, $1,111 donated repetitively by Greg and Carrie Walton Penner, Alice and Christy Walton, and $1,487 multiple times by Lynne and Christy Walton, in the same cycle). Another method is to donate in intervals of declining increments or add specific indicators in the occupation as a signal to certain recipients.

New Urban Machine?

> It's philanthropy, but it's politics too—mighty good politics... The poor are the most grateful people in the world, and, let me tell you, they have more friends in their neighborhoods than the rich have in theirs... I can always get a deserving man a job. I make it a point to keep track of jobs.
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> —George Washington Plunkitt, politician, New York, 1889.[28]

[28] Quotation from public education Web site viewed May 1, 2006. URL: http://www.socialstudieshelp.com/USRA_Pol_Machines.htm.

With no Walton family members holding political office, their firm and agents are able to engage in local politics at multiple locations simultaneously. The firm utilizes strategies resembling those of urban machines in the past: recruit family members and their social networks, provide jobs to the unemployed and underemployed, distribute charity to targeted groups, and make visible improvements in neighborhoods in order to gain political leverage, legitimacy, and loyalty of the voters. Firms such as Wal-Mart supply local politicians and public officials with lucrative opportunities, such as claiming credit for job creation, tax revenue, and economic development, as well as providing campaign funds.[29]

The firm has even taken on a public and political role, formerly the domain of elected politicians, economic development and redevelopment agencies and commissions with its latest strategy, the "New Urban Initiative." This initiative establishes ten "Jobs and Opportunity Zones" in urban areas across the United States. Each zone, anchored by a Wal-Mart store, will provide development grants, free advertising, and seminars on how to become a supplier and compete effectively with Wal-Mart to small businesses in the zone. Wal-Mart established the first zone in Chicago in tandem with a $500,000 grant from the Wal-Mart Foundation.[30] Combined with the lure of badly needed job creation in minority communities, and $100 million in tax revenue at each urban location, the firm is attempting to preempt failures resulting from opposing coalitions of small business owners, unions, local citizens, anti-growth activists, and politicians.

The Walton family does not passively own shares of the company and does not delegate management of important strategic and political decisions to executives; rather, the family retains control, even over strategy executed at the local level. For example, at the June 3, 2005, shareholders' meeting, chair Rob Walton addressed the controversy over Wal-Mart PAC spending on political advertisements in the Arizona *Daily Sun* in response to a zoning ordinance affecting the firm: "But it was very bad judgment in a case in which we just show the fact that we are a bunch of humans trying to run this Company. We make mistakes from time to time."[31]

The family firm acts in the name of citizens by initiating and funding special elections—purportedly proposed from a coalition comprised of the

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[29] Wal-Mart has inadvertently provided opportunities to those opposing them as well. Numerous previously unsuccessful city council and mayoral candidates have won by taking a position against Wal-Mart, exploiting this opportunity in cities and towns where Wal-Mart store sites are controversial.

[30] Peter Hoy, "Small Business Groups Assail Wal-Mart Program," 5 April 2006; viewed 8 April 2006. URL: http://www.inc.com/criticalnews/articles/200604/walmart.html.

[31] S. Robson Walton, 3 June 2005, Friday, *Wal-Mart Stores Inc. Shareholders' Meeting—Final*, transcript provided by Voxant, Inc. and CCBN, Inc., p. 5 of 30.

city's residents—to overturn decisions made by elected or appointed officials. Attempts are made to influence local land-use policy through direct democracy, funding initiatives or referenda in the name of Wal-Mart constituents (for example, local citizens or consumers for free choice), far more often than directly funding mayors and city council members. "Citizens for" initiatives and local committees to promote the approval of Wal-Mart stores receive millions of dollars as the family enterprise dominates strategy in local politics.[32]

In addition to funding initiatives and campaigns, philanthropic organizations such as Wal-Mart Foundation and the Walton Family Foundation may wield further influence at the community level. The latter provides scholarships and grants in the name of the Walton family and thus endears needy students and families—citizens voting in communities where the company wants to site stores—to the family and firm. The Walton family achieves all this without requiring individual family members to visit the thousands of communities and individuals in person. This is a "pull strategy," not a "push strategy," paralleling Wal-Mart's low-price strategy of pulling customers into its stores with low prices. If the Waltons and Wal-Mart win the hearts of people and local citizens who demand either a store or the "manna" that comes along with it, than they may not need to "push" decision makers through lobbying and the promise of campaign funds. In tough cases, perhaps both strategies are needed and utilized.

The Use of Philanthropy for Political and Ideological Purposes

A free and open society allows any person or group to establish a partnership, corporation, or non-profit organization to contribute to other charities, political organizations, or causes of their choosing. In a liberal market economy, we view the ability to contribute an unlimited amount to a philanthropic cause of one's choice as one of the earned rewards for successful competition in a free market. Few would argue that contributions made in the name of both the Wal-Mart Foundation and Walton Family Foundation are undesirable or that they have not provided benefits to most recipients. Individuals and communities benefit from an infusion of capital and other privately donated resources.

A democratic dilemma may arise, however, when a small minority concentrate and utilize capital as a tool to exert a political or ideological agenda, particularly in cases when some might consider the views extreme, potentially harmful, or the principals hidden or obscured. Whether the method of communication to a democratic and free people is through democratically elected leaders, philanthropic organizations, the media, or monopoly in the marketplace, such people require a variety of information

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[32] Source: California Automated Lobbying and Campaign Contribution and Expenditure Search System (Cal-Access), Wal-Mart Stores, Inc. Entity ID# 496052, 2003-2004, URL: http://cal-access.ss.ca.gov.

consumption, political choices, and multiple exit options to remain democratic and free.

It is very difficult to differentiate legitimate local philanthropy and community support from the use of donations and charities to achieve political goals, gain influence over the democratic process, or seek private objectives. Philanthropic foundations and non-profit organizations are legal and often political institutions. Evidence suggests that the Walton family makes strategic use of philanthropy, particularly at the local level, in order to establish and maintain a substantial base of community support for its business operations. This philanthropy may be used politically and to further the ideological, as well as business, agenda of the Walton family. According to S. Robson "Rob" Walton:

> My mother and dad (Helen and Sam Walton) always maintained that each store knew what was most important in its own community, and their philosophy endures today. Communities support us, and we want to support them through both donations and personal involvement. This is why 90 percent of our contributions are directed at the local level.[33]

Evidence supports Rob Walton's statement that his family's philosophy endures and is manifest in Wal-Mart's actions today. Through its store-level Safe Neighborhood Heroes grants, Wal-Mart has contributed over $25 million to local communities' first responders (local emergency personnel such as police, fire, rescue, and emergency medical service teams) since 2002. These grants buy everything from drivers' lessons for local teenagers and smoke alarms to hand out to local residents to the care of police canines.[34] Donations through the Good Works community involvement program directly benefit city fire and police departments. As a major strategy in preempting, softening, and fighting opposition to its forty planned Supercenters in California, in 2004 Wal-Mart invested nearly $12 million to financially strapped local government departments, schools, and charities in the communities where it planned to site those stores.[35]

I also investigated the trend in philanthropic donations by the Walton family over the same period and found supportive evidence suggesting that the principal-owning Walton family is directing the strategy: Alice, John, and his wife Christy; Jim, and his wife Lynne; S. Robson; and Helen. All four members of the Walton family, the primary focus of this paper, sit

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[33] S. Robson Walton, "Letter from the Chairman," viewed 11 Feb. 11, 2006. URL: http://ar.twst.com/ar/co/WMT/report.html.

[34] Press Release Newswire/ FirstCall, "Wal-Mart Donates $8.5 Million to Benefit Police, Fire, Rescue and Emergency Medical Service Teams," 12 Oct. 2005; viewed 20 April 2006. URL: http://www.prnewswire.com/cgi-bin/stories.pl?ACCT=PRNI2&STORY=/www/story/10-12-2005/0004166592&EDATE=.

[35] Press Release, 22 Sept. 2005, Gilroy, CA; viewed 29 Jan. 2006. URL: http://www.walmartfacts.com/articles/1954.aspx.

on the board of the Walton Family Foundation, which gives to other ideological non-profits, especially those promoting school choice through vouchers, charter schools, and reform, and think tanks such as the Cato Institute. They make donations, in both cash and Wal-Mart stock, to the Walton Foundations, which fund ideological causes, particularly school privatization and the promotion of voucher programs. Other contributions are more instrumental in nature. For instance, John Walton's $300 million to the University of Arkansas, among others by the family, ensures that the Sam Walton School of Business provides a steady supply of loyal executives to Wal-Mart.

Principal-Owner Firms Differ in Political Contributions: Use of 527s

I hypothesize that closely held P-O firms, particularly those controlled by a founder's family, are more likely to hold homogenous political preferences than are widely dispersed A-M firms. Empirical evidence suggests that P-O firms are able to coordinate and adapt more quickly to changes in campaign finance legislation. My research suggests that P-O firms exploit the following campaign finance loopholes more frequently than do A-M firms: 527 and 501 organizations, bundling (also known as conduit financing), inaugural committees, leadership PACs, and soft money.[36]

Non-profit organizations such as 527s are proliferating in Washington, D.C. These organizations enable very high net worth individuals and families to contribute millions of dollars in a very short time to targeted ideological causes and political campaigns. Alice Walton was the twentieth top individual donor to 527s during the 2004 election cycle, contributing $2.6 million to one non-profit, tax-exempt organization, "America for Progress."[37] This 527 funded campaign ads deemed critical to President Bush's 2004 election against John Kerry. According to the Center for Responsive Politics,

> 527 groups are tax-exempt organizations that engage in political activities, often through unlimited soft money contributions. Most 527s are advocacy groups trying to influence federal elections through voter mobilization efforts and so-called issue ads that tout or criticize a candidate's record.[38]

In 2004 and 2006, contributions to Democrat and Republican candidates and parties, liberal and conservative ideological campaigns alike, came overwhelmingly from the principal owners of closely held firms. Owners who control the firm through shares held by family

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[36] Extensive data on principal-owner firms compiled in support of my prospectus dissertation are available upon request.

[37] Center for Responsive Politics, "Types of Advocacy Groups"; viewed 30 Dec. 2005. URL: http://www.opensecrets.org/527s/types.asp.

[38] Center for Responsive Politics; viewed 13 April 2006. URL: http://www.opensecrets.org/527s/527cmtes.asp.

members, trusts, and foundations are much more likely to unify and coordinate on a particular candidate and cause than are widely dispersed shareholders or employees of A-M firms. They may donate millions of dollars in one election cycle in support of ideological goals or political bets of the oligarchs and heirs, while the BCRA limits the vast majority of Americans to $2,000 per individual.[39] This has come about as a result of three factors: a) increasing resources and concentration from family firms' equity, intra-corporate transfers to family trusts, and wealth appreciation; b) legislation stimulating the creation of so-called pass-through entities, trusts, non-profits, and foundations, and c) "reform," which allows unlimited contributions to non-profits created explicitly for political purposes (527s). Whether intentional or not, the Bipartisan Campaign Reform Act of 2002 has greatly increased the ability of P-O firms to contribute to political and ideological campaigns. Reporting requirements are effectively relaxed, enabling wealthy individuals to contribute without disclosing ownership positions in their firms. Empirically, there is a pronounced benefit for P-O firms' contributions to both parties.[40]

A recent publication exemplifies my central claim that an underlying assumption of A-M firms distorts current research. Political scientists affiliated with the Campaign Finance Institute released a book in May 2006, *The Election after Reform: Money, Politics and the Bipartisan Campaign Reform Act*. In it, they implicitly assume a managerial theory of the firm. They made numerous errors and oversights, grossly understated the amount of corporate contributions, making many conclusions drawn invalid. For instance, authors Weissman and Hassan mistakenly attribute contributions from principal owners of firms to 527s as coming from independent individuals. Furthermore, they provide a table that misclassifies an entire list of owners of firms as being employees of the very firms that they founded or of which they are heirs.[41]

Counter to the authors' claim, P-O firms such as Wal-Mart increased soft money contributions after 2002 by passing funds through alternative

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[39] Campaign Finance Institute political scientists Steve Weissman and Ruth Hassan listed Linda Pritzker, owner of Sustainable World Corp pass-through and heir of two Fortune 500 corporations, Marmon and Hyatt, as "Self/Investor," "BCRA and the 527 Groups," revised 8 March 2005, Working Paper, 14; viewed 3 May 2006. URL: http://www.cfinst.org/studies/ElectionAfterReform/pdf/EAR_527Chapter.pdf. Further, they significantly understated her contributions as $3,365,000 instead of $5,835,000.

[40] Data compiled for prospectus dissertation; available upon request.

[41] Steve Weissman and Ruth Hassan, "BCRA and the 527 Groups." The authors state that Alice Walton "of Rocking W. Ranch Inc. is a member of the family that owns 38% of Wal-Mart." They fail to mention that she owns over 10 percent of Wal-Mart voting shares herself, votes for her deceased brother's shares (for "the Estate of John Walton"), and via the Walton Family Foundation, and jointly holds 41 percent of the voting shares in the firm with two siblings and her mother through Walton Enterprises, LLC.

legal, albeit lightly regulated, institutions such as bank holding companies, hedge funds, and equity firms to 527 organizations with loosened reporting requirements. Political scientists who fail to analyze the source of funds adequately by assuming universal A-M firms and skipping the necessary step of evaluating the corporate governance structure at the individual firm level continue to make the same mistakes as those who came before them. The authors thus draw an opposite conclusion: "Does the scale of giving in 2004 indicate that [large 527 donors] were mainly switching their soft money from one legalized vehicle to another? Not at all."[42]

Beyond Wal-Mart: How Did This Happen?

Political scientists, economists, and organizational theorists including Ronald Coase, Robert Dahl, Michael Jensen and William Meckling, and Eugene Fama and Jensen have consistently asserted that the owners of the modern publicly traded corporation are separate from its management.[43] Nobel Prize–winner Coase developed agency theory based on transaction costs. He and others contribute to our understanding of principal-agent relationships premised upon this very assumption: that a professional, non-owning, and independent management is beyond the control of widely dispersed stockholders disinterested in the day-to-day operations of the firm. Dynastic power flourishes in an environment characterized by complex legal structures and opaque reporting, captured politicians, and scholars with an unquestioning belief in the managerial theory of the firm, which Robert Dahl restated in 1970 as "incontrovertible": that ownership and management have been "split apart."[44]

Too often, we assume that we can equate the theoretical or legal-institutional lines of separation with the assumption that managers control all of the decisions of the firm. While agency problems do occur at family-controlled firms in the oversight of non-family members' management of daily operations, this does not imply that family-controlled firms have similar agency problems over the firm's governance functions: control of equity, the board, executive oversight, and major strategic decisions. In the case of the P-O firm, political and ideological contributions through foundations, multiple-tiered–institutions, and other

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[42] Steve Weissman and Ruth Hassan, Campaign Finance Institute, "BCRA and the 527 Groups."

[43] Ronald H. Coase, "The Nature of the Firm," *Economica* 4 (Nov. 1937): 386-405; Dahl, *After the Revolution?*; Michael C. Jensen and William Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," *Journal of Financial Economics* 3 (1976): 305-60; Fama, "Agency Problems and the Theory of the Firm," 288-307; Eugene F. Fama and Michael C. Jensen, "Separation of Ownership and Control," *Journal of Law and Economics* 26 (1983): 301-25.

[44] Dahl, *After the Revolution?*, 125.

campaign finance loopholes, as this case study demonstrates, originate and are coordinated by the principal-owners of the firm and not its independent agent-managers, as the managerial theory of the firm implies.

Family-controlled firms typically have the necessary incentive structures such as trust, coordination mechanisms, and redundancy that support a tiered ownership structure. It is legal to use institutional formations, accounting rules, and sheltering procedures as "smoke and mirrors" techniques to contribute to the campaigns of legislators, judges, and executives at all levels of government. Indeed, these legal rules benefit those who make, interpret, and enforce those rules, and perhaps are designed by officeholders or their agents, such as lawyers, lobbyists, and accountants.

Compliance managers at accounting firms are hired to ensure that laws are not broken, the proper forms are filed, and new campaign finance legislation is put into practice. Often these compliance managers work with consultants, accountants, and lobbyists at the same firm (for example, Ernst & Young, Price Waterhouse Coopers) to create strategies and instruments for their clients (firms, politicians, and high-net-worth individuals) to stay one step ahead of reforms. The creation of foundations and trusts is highly lucrative for high-net-worth clients, often corporate founders or their heirs: tax savings and wealth preservation, control over the firm (through vote shares when a foundation is funded by voting stock), improved legitimacy and reputation for the family name and firm through philanthropic giving, the ability to contribute funds to ideological and political causes of one's choice, and legacy-building through leaving something immortal behind. Legislated rule changes on contributions, oversight committees, and watchdog groups alike have not removed the fundamental incentive structures to innovate on means of supplying highly motivated political candidates, who demand (multi-) million-dollar campaign war chests to win elections.

To summarize my theory of the principal-owner controlled firm: the wealth and influence attained by families of successful firms are strategically directed toward designing numerous legal entities such as trusts, foundations, and lightly regulated venture capital, private equity, and hedge funds, through which they can make political and ideological contributions. Families continue to play powerful, albeit concealed, roles in the development and decision making of financial, economic, and political institutions, yet their activities are poorly understood and infrequently studied. There has not been adequate research on the nature and degree of influence that founders and heirs exert over a firm's board of directors, its executives, and the firm's political activities. This case study of the Walton dynasty aims to underscore the need for further research on family-controlled firms by economists, political scientists, and organizational theorists, and for testing the principal-owner theory of the firm as an alternative to the widely accepted managerial theory of the firm.