Varieties of lobbying?

1. Introduction

The study of private sector input into EU policy-making – referred to as *lobbying* – has been the subject of extensive academic research that has examined who provides such input, how and when. The work has generated robust concepts and enabled hypothesis testing, providing a grasp of the 'why' that sits behind these facets. But in search of generalizable theories it has tended to focus on how the institutional characteristics of the individual firm or interest group might drive lobbying decisions, and often pushed macro-level factors, such as national origins, to the sidelines.

This paper seeks to begin the redressing of this imbalance, by proposing some theoretically-inspired expectations of how domestic contexts might impact on private actors' lobbying choices. It also seizes upon an opportunity to 'update' the lobbying literature, by examining how private actors have absorbed the bodies created under the most recent expansion of the EU's regulatory capacity (Levi-Faur 2011) – under which what were formerly only loose networks of national supervisors have crystallised into stand-alone regulatory authorities in their own right, which now represent legitimate targets for lobbying effort (and thus for study).

In tackling these objectives, the paper will focus on a case study of *banks* and their *representative groups*. The reason behind this selection is that if we wish to search for signs that national or contextual factors *count* in determining lobbying strategies, we should do so using a class of firm on which such national factors are *most likely* to exert an influence. Banks are exactly such a class of firm – they enjoy a unique structural position that embeds them in national political economies. In this way the project responds to a plea issued by Mügge in a recent research agenda article to 'put "finance" back into the study of financial regulation' (2013: 461) – in other words not to consider banks as 'normal firms', but to be sensitive to the role they play in domestic institutional structures, and to examine what effect that might have on their lobbying patterns.

The choice is motivated by a further factor. It is in the domain of bank regulation that this crystallisation of regulatory authority has been the most pronounced, as the EU has sought the integration of financial sector regulation to support the single currency; and more recently as a vital part of the steps to escape from lingering problems in the Eurozone. The case of bank regulation thus provides a suitable arena for examining how private actors operate in the EU's new regulatory space.

The final motivation is to contribute to a wider public debate on the future of European financial regulation. It seems almost incontrovertible now that a vital part of the solution to the recent problems lies in building credible regulations to govern cross-border financial markets. This, in turn, can be aided by a better understanding of how banks attempt to shape their regulatory landscape, such that we can perhaps assist politicians and regulators in understanding the nature of the dialogue with banking firms (of all types) in the channels used for their lobbying efforts.

The remainder of this paper proceeds as follows. Sections 2 and 3 provide a review of the literatures that form the basis for the study; section 4 brings them together and identifies the need for a slightly different perspective. Section 5 develops the argument that national contextual factors matter when considering how banks lobby in the EU's regulatory space, and section 6 outlines some early empirical findings. Section 7 concludes.

2. Regulation in the EU

This paper has its feet in two blocks of literature on policy-making in the EU. The first – which provides the broad theoretical backdrop – is that on the development of the union's regulatory apparatus, from the early days of harmonised policy and uneven implementation, to more recent ventures into overt and centralised regulation. The corpus shows a heavy influence of wider trends in the study of public policy identifying a shift by states away from the traditional roles of stabilisation and redistribution and towards regulation. In a parallel trend the locus of regulatory authority has also moved: the state now sits atop a de-centred network of actors who share regulatory functions (Black 2003; Jordan 1990; Thatcher 1998). Overall the process can be characterised as a shift towards 'governance' – the term connoting a dispersion of decision-making authority away from hierarchical structures and into informal networks of public and private actors (Treib, Bähr, and Falkner 2007). Hooghe and Marks (2001) anchored the concept in the European context with the pre-fix 'multi-level': the EU was likened to a large-scale regulatory state in its own right, with flexible policy-making arrangements spanning a range of distinct levels from the national to the supranational. The roots of this idiosyncratic style lay in the Union's desire to balance subsidiarity and respect for national discretion with the need to make progress (particularly as the single market agenda stalled in the years before Maastricht) (Kohler-Koch and Rittberger 2006; Stephenson 2013). Scholars such as Majone deployed this framework to great use; drawing on notions of 'regulatory governance' he recommended that the publishing of data on member-state compliance with legislation could encourage good behaviour (1997). Similarly Dehousse wrote that independent regulatory agencies within countries could be brought together into 'networks' to help effective harmonisation (1997).

Another trend in this literature has been an adaptation of economic principal-agent models to explain the development of the EU's regulatory apparatus. Where the canonical works – originating in studies of delegation of regulatory authority by the US Congress (McCubbins and Schwartz 1984; Thatcher and Stone Sweet 2002) – had tended to view agency creation as inspired by various functional logics (such as blame-shifting, or the need to isolate regulatory authority from political intervention), European scholars highlighted the importance of contextual factors in mediating the form and timing of delegation (Thatcher 2002). Tallberg (2002) criticised the tendency of such models to separate the acts of delegation into analytically discrete 'stages' (design, delegation, control) – and instead proposed a more dynamic framework for understanding the transfer of legal powers from member states to the supranational institutions. In this vein the development of the EU's regulatory approach was shown to involve a process of evolutionary layering, with previous acts of delegation shaping future choices and a marked preference demonstrated for informal and flexible solutions operated through transnational networks (Coen and Thatcher 2005; Eberlein and Grande 2005). Furthermore, delegations in *two directions* were exposed: downwards to independent agencies within member states, and then upwards to regulatory networks at the EU level (Coen and Thatcher 2008).

The EU's framework for bank regulation offers an excellent example of this process of institutional layering. Efforts at harmonising financial sector policy had remained sluggish through much of the closing decade of the 20th century, pushed aside by the focus on achieving monetary union. In 2000, a report by the Committee of Wise Men therefore recommended that a novel approach to drafting legislation be adopted for financial sector policy. This would operate over three levels, with each providing finer-grained detail. The Commission, Parliament and Council would issue 'Level 1 texts' through the usual co-decision process, containing the core political principles of the proposal at hand. Next Level Two and Three committees, both comprising national regulators, would draft the technical standards to complete the regulation, and between them would adopt the finalised text (Alford 2005; De Visscher, Maiscocq, and Varone 2007; Moloney 2003). Under these proposals the Committee of European Banking Supervisors (CEBS) was formed in 2004, alongside similar groups to work on the securities and insurance sectors. Then, after some five years of operation, the Commission upgraded the regulatory architecture (Spendzharova 2011), and thus the CEBS became the European Banking Authority (EBA). It now had the power to issue binding judgements in the case of disagreement between a bank's domestic and host supervisors over the application of a standard. It also gained direct responsibility for drafting a single rule-book to be absorbed into the Commission's regulations, and for conducting EU-wide examinations of banks' capital positions.

This literature provides the theoretical backdrop for this research. Regulation of economic activity in the EU is conducted through a set of flexible arrangements, and in this realm private market actors and public policy-makers operate in a constant to-and-fro of activity. This is, importantly, conducted in parallel in several distinct domains: at the national (or member state) level, and at the European. Just as it does for the actors involved, this framework encourages us as scholars to be nimble in understanding the choices actors make in operating in this multi-level structure. In order to understand the dynamics of this process we must move to the second major block of literature – that on lobbying.

3. Lobbying in the EU

Around the turn of the 21st century scholars identified firms and their representative interest groups as 'legitimate political actors' (Coen 1997). Since then the literature has grappled with questions of who lobbies; what 'currency' is exchanged; and when and how access is obtained.

First, who are the actors involved? A taxonomy proposed by Jordan *et al.* (2004) distinguishes between *policy participants* and *interest groups*. The former describes those unitary actors – such as firms, think-tanks or universities –

which are significant policy-shaping players but not aggregations of others. The latter term captures all those trade bodies, peak associations and collective 'voluntary' organisations that represent shared or communal interests, who seek to influence policy but not to take office, and who are effected by internal bargaining problems and collective action difficulties.

Next, lobbying is fundamentally an activity involving a trade of some sort. From this starting point Naoi and Krauss (2009) offer two broad conceptions of lobbying: the 'exchange' model and the 'persuasion' model. The first has private actors offering material incentives (such as campaign finance or block votes) to legislators to secure influence, which is then used to change the legislators' preferences and bring them into line with those of the purchaser. Alternatively, the 'persuasion' model emphasises enhancing rather than changing legislators' preferences, and rests on the notion of an information asymmetry between well-informed private actors and under-resourced legislators (Austen-Smith 1993; Potters and Van Winden 1992). In this model, direct lobbying of public actors by firms or interest groups can be though of as an offer of aid with the intention of producing 'better' policy. From here it is only a very short theoretical step to what Hall & Deardorff (2006) refer to as the theory of 'lobbying-as-subsidy', in which policy-makers effectively contract out the gathering of policy expertise to private actors.

This second conceptualisation has become the mainstay of studies of EU lobbying (Bouwen 2002; Broscheid and Coen 2003; Mazey and Richardson 2001), and scholars have studied 'information' as the currency involved in the exchange. Bouwen (2002) identified 'expert knowledge' as the precise technical information about the feasibility of proposals, and 'domestic' or 'European encompassing interest' as broader sectoral opinion expressed by interest groups. He then paired with these information types with their likely sources of demand: thus the Commission, as drafter of legislation, primarily requires expert technical input; while the Parliament and Council have a greater need for sectoral opinion.

In a pair of important contributions to the EU lobbying literature, Broscheid and Coen (2003; 2007) advanced the theory of 'élite pluralism' to further illuminate the interplay of supply and demand of information between EU institutions and lobbyists. They described a system whereby repeated interactions between the Commission and firms or interest groups created a coterie of 'insiders' – parties who had shown a willingness to provide high-quality information. These actors then dominated policy-making fora and helped the Commission shape single market policies. The implication is that the EU does not consciously discriminate between types of information provider, or between representatives of different countries; instead, it privileges those who are able to repeatedly provide useful expertise in a timely manner.[1]

But such information is not simply 'held' by private actors (be they firms or groups); it has to be either internally developed or bought in, and at this point material resources and institutional capacity become important. Klüver (2012) studied interest groups' interaction with the European Commission. Drawing on

[1] The result is rather like an advertising slogan for the Royal Marines: *"We are egalitarian elite. Anyone can join, as long as they're good enough."*

resource mobilisation and organisational theories, she argued that their institutional characteristics – chiefly functional differentiation, professionalism and decentralisation – drive their effectiveness as providers of information and thus as lobbyists. Meanwhile Chalmers (2011) focused more sharply on their information processing abilities as determinants of their lobbying. He found that groups that invest more heavily in research, and maintain a larger network of contacts through which to transmit it, are more active lobbyists.

So the lobbying literature provides us with an understanding of who the actors involved are, what sort of information is exchanged, and how such information is developed and deployed as a currency. Joining this to the preceding review of the EU regulatory governance literature, we can gain a more complete picture – in that the complex and multi-layered environment in which lobbying occurs is illuminated.

4. Bringing the two together: lobbying in the context of EU agency regulation

This paper seeks to integrate these two literatures, but it also seeks to address two shortfalls. Firstly, much of the effort to date has been dedicated to building 'system-wide' accounts of lobbying; that is, explanations of how firms or interest groups lobby regardless of their national origin, or the policy involved. This has been driven by the aim of understanding how the EU operates as a single (if rather differentiated) polity. In this schema Europeanization is thought to have sufficiently uprooted actors from their domestic contexts as to make lobbying a homogenous activity – with its determinants predictable with reference to the *institutional characteristics* of the groups or firms involved. As has been shown, scholars have been concerned with the impact size, or wealth, or organisational form have had on private actors' ability to gather and transmit information, and thus to lobby effectively.[2]

The second shortcoming is that the interest group literature has not yet embraced the EU's new regulatory agencies (Egeberg and Trondal 2011; Levi-Faur 2011) as viable targets for lobbying activity. This could, of course, be a function of their youth, or of on-going scepticism about the role they may play in the policy process. Nevertheless there is an opportunity to contribute to the development of this literature by absorbing these institutions into a study of lobbying, and joining together ideas gathered from elsewhere we can build an optimistic expectation that such bodies *do* constitute a realistic lobbying venue. For example, we know from the regulatory governance literature that private actors work with their regulators in the setting of standards (since they both inhabit the devolved policy networks in which regulation is conducted). Meanwhile we know from the early findings of the EU lobbying literature that private actors are adept at finding the locus of authority in the multi-level policy system (Coen 1997).

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[2] It should be noted that there have been exceptions to this pattern. Beyers and Kerremans, for instance, retained a focus on national origins by arguing that a reliance on locally-sourced membership dues, or government financing, could prevent interest groups (such as trade unions) from re-aligning their lobbying efforts to the European level (2007). Meanwhile a study focussing on variations in clustering patters of interest groups in different policy domains (modelled as 'sub-systems') found that those needing the most input legitimacy tended to attract the most NGOs and civil society groups (Coen and Katsaitis 2013). These serve as small sources of inspiration for this study – which looks to understand whether national origins continue to effect how lobbyists go about their business.

The final step, then, is to chart the various options available to banks lobbying in the EU. Assuming away all constraints for a moment, we can focus instead on the range of possible *approaches* they can adopt. Firstly, banks can employ a *direct European* approach and contact an EU policy-making institution directly. Secondly, banks can employ an *indirect European* approach, under which they co-operate with their peers and work through a European trade association or group. The lobbying signal will then be conveyed upwards to these same European institutions. Alternatively, banks can side-step European approaches altogether and work with a national institution (such as a regulatory agency, central bank or a government department). Again, this can be done *directly* or via an *associational* route, and the aim is to transmit their lobbying intentions upwards into the European level. However, this time the level at which consensus is reached is obviously lower: this approach coalesces *national* rather than European sectoral opinion.

As we seek to build an understanding of how these patterns may vary consistently from banks from different countries, we must now move to a review of some key theories of national political economic structures.

5. Context matters

5.1 Variety of variation

Introduced in the early years of the 21st century in a now seminal work by Hall and Soskice (2001), the notion that capitalism takes on localised forms has gained considerable traction. The concept can be seen as a economic (or political economic) parallel to the older notion that democracy rarely exhibits precisely the same characteristics in different *locales*, and that it rarely conforms to established theoretical definitions (see Collier and Levitsky 1997). In the varieties of capitalism (VoC) literature, firms are considered to be embedded in dense relational networks, interacting with other market actors in ways that are mutually beneficial and self-reinforcing. Over time these networks stabilise into equilibria in which co-ordination problems are resolved, and in its canonical form the literature proposes two such systems. In *liberal market economies (LMEs)*, compromise is achieved in contractual, arms-length arrangements through market transactions; meanwhile in *co-ordinated market economies (CMEs)*, stable patterns of non-market consensus emerge, with economic actors forming closer and more durable bonds.

The original VoC work used the approach to explain industrial and employee relations and corporate governance (P. A. Hall and Soskice 2001: 7), but it is also particularly relevant for our purpose (of understanding the impact of domestic contexts on banks' lobbying choices). Principally it serves to inform us of the structural importance of banks as economic actors in their own right: 'normal' firms produce, distribute, sell or offer services, while banks facilitate all such activity through their role as creators of credit and transferors of capital. Importantly, *the way they do this varies between liberal and co-ordinated systems* (Hardie and Maxfield 2010; Zysman 1983). In an LME, business is financed through the issuance of debt or equity securities, with ownership dispersed among a great many investors. The locus of risk remains with the firm, as if it fails the investors lose their capital; to offset this risk great importance is placed on the transparency and accuracy of information on the firm's performance. Banks play an essentially transactional role in this arrangement, underwriting the original issuance and then facilitating the trading of the securities (and even this second function is a relatively recent addition to their repertoire – see Augar (2000)). The more durable, tighter bonds between economic actors in a CME are reflected in the relationship between firms and their banks, as in such a context finance is provided by direct loans and long-dated debt securities. Banks draw on the savings of households to obtain liquidity which is then converted into loan capital and extended to firms. Information on the firm's performance need not go further than the network thus created between it and its bank, and there are now two loci of risk: as before the firm can collapse and default on its loans, but in addition the bank can fail and lose its depositors' funds.

From an appreciation of these differing economic roles, we can begin to understand how bank lobbying in response to regulatory changes should vary systematically between countries, and how this variation is *more* robust than similar patterns among non-financial firms. A comparison between this and an imaginary area of non-financial regulation serves to clarify the matter: consider a range of widget-making firms of varying sizes spread across the EU. The Commission wishes to harmonise product standards, such that all widgets made and sold in the single market are identical. We can expect lobbying responses by these firms to vary according to institutional factors, chiefly the adjustment costs that they face. However, in the case of a similar attempt to standardise the level of equity capital that banks are required to hold, their *domicile* is expected to feature much more prominently in explaining their lobbying responses –

because of differences in the way finance is provided among countries, and thus in the roles and structural positions of banks in those countries. Thus the responses of banks based in CME countries will be systematically different to those from LME countries: fundamentally, because equity is comparatively more scare in such countries owing to the in-built preference for loan finance.[3]

A particular criticism levelled at the VoC approach, however, is an excessive focus on the private actors and the neglect of the state. Public authority is left aside as the solutions to co-ordination problems – be they market or non-market – are thrashed out among private actors. Subsequent additions to the canon of VoC scholarship (see Howell 2003) have sought to correct this by focussing more explicitly on the role of the state; and so it is that we turn to a consideration of the interface between public authority and private market actors – personified by the regulatory agencies through which the former exerts control over the latter.

As we have seen, the delegation of regulatory authority to independent agencies across Europe has been matched by a continuing diversity in their actual institutional form (Coen and Thatcher 2005; Levi-Faur 2006b; Thatcher and Stone Sweet 2002). This is perhaps unsurprising, if we accept (as the preceding review has indicated) that *capitalism* itself exhibits subtle variations among the

[3] The same can be said of attempts to harmonise banking *products*, and here we can introduce an empirical example. At first glance retail mortgages seem quite fungible, but often the business practices surrounding the way they are structured and treated varies considerably. But the EU's programme for harmonising banking services attempted to set a universal cut-off date of 90 days for considering a mortgage to be 'in default'. This drew strong reactions from British banks, which conventionally treat mortgages far more leniently (Masters and Barker 2012).

national contexts in which it operates. Drawing on the VoC approach, we can thus identify the notion of ‘varieties of regulation’, whereby state-market relations are similarly embedded in local, historically-determined patterns. Indeed, scholars have focused on such embeddedness to explain the 'variegated' impact of the homogenising forces of Europeanisation or globalisation: there is something of a 'convergence towards continuing divergence' at play (Lodge 2002).

This notion – of varying co-operation – is particularly important for this project. Recall that firms often attempt to manage their regulatory environment by engaging in the strategic provision of information to policy-makers in the hope of influencing outcomes (or *lobbying*). The continuing presence of such national specificities in regulation therefore implies that lobbying habits exhibited by firms will vary robustly among countries - since *how* and *where* market actors lobby is partly determined the institutional venues available to be targeted.

All this can be thought of in more concrete terms by examining two facets of the ‘regulatory regime’ (Levi-Faur 2006a). The first concerns the *institutional framework* which represents the actual manifestation of regulatory authority (Barth et al. 2003; Begg 2009; Davies and Green 2008; Group of Thirty 2008; Sousa 2008). Under the *separated* structure, different bodies supervise and regulate banks, insurance companies and securities firms. Alternatively, the regulation of the different business areas can be combined under a single authority (the *integrated* model). The final variation involves separation again, but by regulatory task rather than business area: one agency is concerned with ensuring the stability and soundness of the whole system, while another monitors the conduct of market players. Importantly I do not mean to comment on the relative *efficacy* of these arrangements; rather, I wish to highlight that variations in the regulatory framework will present banks from different countries with differing opportunity structures – possible venues at which to conduct their lobbying on the domestic stage.[4]

The second is the *regulatory philosophy*, and here we can draw on Quaglia's (2010) identification of two contrasting paradigms that have dominated regulatory discourses, and which underpin national approaches to regulation. The first is the *market-making* philosophy, which holds at its core a fundamental trust in the efficiency of markets and their ability to self-regulate and self-correct. This, in turn, prioritises market liberalisation – through measures which ensure access, encourage transparency of disclosure and stimulate competition. Extending from this is an approach to financial regulation which is 'light touch', 'principles-based' and 'market-friendly', and which values input from the private sector in a process of policy-making through governance. The alternative paradigm has more of a *dis*trust of market efficiency, and is referred to as *market-shaping*. This favours 'harder' policy goals, such as the protection of consumers or the maintenance of systemic stability (hinting at the belief in

[4] Note that it is also common for the central bank to be present in regulatory arrangements, as either one of the front-line agencies or as a silent partner involved in policy-making and ensuring financial regulation is aligned with broader monetary policy objectives. Even where it is not *directly* involved its presence is nevertheless felt, and this has the effect of creating regulatory competition and adding uncertainty to the arrangement. *In extremis*, banks can thus find themselves pulled between the body holding their ultimate safety net (as lender of last resort) and their named regulator This was certainly the case in the UK as the financial crisis unfolded: despite the Memorandum of Understanding dividing responsibility between the Bank of England, the Treasury and the Financial Services Authority, banks found themselves under conflicting pressures from the three bodies as each struggled to assert dominance over the others (Davies 2010).

markets' *in*ability to self-correct). The resulting regulatory approach is more 'legalistic' and 'rules-based', with public authority playing a much firmer role in guiding the regulation of markets (Quaglia 2010: 1011).

To conclude this review of variation in national models of capitalism and of regulation, we should consider the impact the notion has had on the extant research on the financial sector. Pre-dating Hall and Soskice's approach by a few years, Story and Walter's work on the 'battle of the systems' set much of the tone for subsequent scholarship. They saw *finance* (both in the sense of financial markets and of their regulation) as being firmly embedded in national contexts, and were sceptical of the idea that Europeanisation would cause a convergence in regulation at anything more than a superficial level (Story and Walter 1997). These ideas were later echoed by Lütz (2004), who charted the resistance of such national specificities against the globalisation of financial regulation and argued for a pattern of convergence matched with diversity. Later still, Grossman and Leblond (2011) spoke of a sharp fracturing between the integration of financial regulation and that of financial markets. The latter remain distinctly divergent precisely because of the difficulties banks face in overcoming variations in local business practices. Finally, looking at the financial crisis, both Hardie and Howarth (2009) and Jabko and Massoc (2012) used a similar framework to account for variations in impact and response between France and Germany.

5.2 Country cases and a working hypothesis

Having laid out these sources of variation in an abstract sense, we must now assign country cases to the theoretical constructs so that we can progress with the empirical investigation. Here, the canonical literature – on varieties of generic capitalism, on varieties of financial capitalism, and on varieties of regulatory regime – all point to a clear distinction between the UK and Germany. The UK is said to be a liberal market economy, with a heavily market-based system of financial intermediation and a market-making approach to regulation; meanwhile Germany is a co-ordinated market economy with a bank-based system and a market-shaping regulatory approach. Completing the chain, we can therefore expect, based on these several theoretical perspectives, that British and German banks will display robust differences in the way they go about lobbying in the EU's regulatory system.

To make these expectations more explicit we can develop them into a set of working hypothesis, but first we must recap some simplifying principles. Firstly – most obviously – all banks wish to influence EU regulatory policy, to either encourage or counter its progress. Next, banks would *like* to reach the EU at the highest possible level, where material decision-making authority resides (the Commission or the EBA, in this context). The ambiguity to be explored exists in the next stage: whether banks prefer to do so by engaging directly with the EU's regulatory apparatus, or by focussing instead on domestic channels. In these circumstances they hope to use a 'pass-through' strategy, transmitting their message upwards to the European institutions.

The working hypotheses examine the relationship between these contextual factors and the lobbying strategies banks employ. We begin with the 'target hypothesis':

> H1: British banks use *European* approaches, while German banks will use *domestic* approaches.

The causal mechanism here draws on the structural role banks play in the two political economy constructs. Banks serving Germany's co-ordinated market economy will be comparatively more embedded in national structures than their British (liberal-market) counterparts, which will push them to utilise these connections and lobby domestically. Simultaneously, there is something of an ideological 'pull' operating for British banks *towards* Europe: they will be relatively *more* supportive of the liberalising drive of European financial regulation, and so will exhibit a preference for lobbying at the higher level. There is thus a distinct parallel here between the case of bank regulation, and the tensions Thatcher observed as utilities regulation was harmonised (2007: 157).

The *varieties of regulation* are also expected to have a strong bearing on banks' strategies, and it is worth dwelling on the ambiguity involved here for a moment. If we think of the 'market-making' and 'market-shaping' philosophies as extensions of the liberal and co-ordinated models of political economy (Thatcher 2007), then we can expect banks operating under the former to accept and endorse the EU's liberalising agenda, and thus to work with its institutions (over domestic alternatives) – in line with *H1*. However, we should remember that a market-making culture also engenders a consensual, principles-based approach to regulation (Quaglia 2010), and as Coen argues (2005), this in turn enables firms to build strategic working relationships with their regulators. These fostered links can then over-ride banks' desire to run European strategies, instead encouraging them to lobby *domestically*. Meanwhile, the legalistic, rules-based approach characteristic of a market-shaping culture can push banks to seek to 'break out' – or to favour *European* strategies. This ambiguity leads us to suspect that the effect of the 'varieties of regulation' variable will actually be mediated somewhat by the characteristics of the banks involved – and thus perhaps remind us that micro-level institutional factors are still relevant.

Nevertheless, the way these banks make their case will also vary, giving us a 'pathway hypothesis':

> H2: British banks will use *direct* approaches, while German banks will use *associational* approaches.

Here, the bonds holding firms together in interest groups are seen to be weaker in Britain's liberal market context, because of the more dynamic, pluralist style of policy-making that prevails in its accompanying political system. This will push its banks to lobby directly on their own accounts. German banks, meanwhile, will be used to a more corporatist *modus operandi*, and so will use associational approaches (Schmidt 2006).

6. Empirical findings to date

7. References

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