How do Small Firms Manage their Political Environment?
– A Network Perspective

Firouze Pourmand
Dissertation presented at Uppsala University to be publicly examined in Hörsal 2, Ekonomikum, Kyrkogårdsgatan 10, Wednesday May 18, 2011, at 13.15 for the degree of Doctor of Philosophy. The examination will be conducted in English.

ABSTRACT

To this point research on firms’ political behavior has contributed knowledge concerning large firms’ relationships and strategies with political actors and their surrounding environment. Less is known about small firms’ behavior towards political organizations. As a matter of fact, the fields of international marketing, international business and corporate political science have left the political behavior of small firms almost untouched. Therefore, extant literature assumes that small firms due to their resource constraints are passive receivers of political initiatives.

About 99 percent of all firms within the European Union are small firms, and it is therefore questioned whether all these firms are passive receivers of political initiatives. The intention with this thesis is to challenge some assumptions regarding how small firms manage their relationships with political actors concerning EU related rules and regulations. Consequently, the study raises the overarching research question; how do small firms manage their political environment?

Theoretically, the study takes a network perspective on business political interaction to examine both individual and/or collective political behavior of small firms. It develops a theoretical view constituted of knowledge, commitment and legitimacy. Methodologically, two sequential stages are followed: first an in-depth qualitative case study of three successful cases is presented and second, the in-depth understanding is broadened to a wider population of firms based on a quantitative survey.

A central contribution of this thesis is to aid research on the political behavior of small firms. It is found that small firms, in contrast to prevailing assumptions, do possess political resources. They are not passive receivers of political initiatives. Instead, the findings show that small firms are active and can exercise influence. This, however, is shown to be dependent on the firm’s political commitment, political knowledge and competency and business-political legitimacy. It is also shown that small firms mobilize these critical resources not only directly, but also indirectly through various intermediating actors. Besides the theoretical contributions, these conclusions are important not just because of the managerial implications but also, and perhaps more importantly, for the policy implications that can be drawn from the study. Being exploratory and opening up the black box of small firm’s political behavior, the thesis ends with a number of future research directions.

Keywords: small firms, political actors, intermediating actors, coercive and supportive initiatives, political behavior, political knowledge, political commitment,

Firouze Pourmand
Department of Business Studies
Uppsala University
Box 513, SE-751 20 Uppsala, Sweden

ISSN 1103-8454
© Firouze Pourmand 2011
Printed in Sweden by Universitetstryckeriet, Uppsala 2011.
In loving memory of my dear brother Ahmad.
ACKNOWLEDGEMENTS
I remember a few years ago, when I told my fellow university classmates during our first year that I was planning to apply for the PhD program, they just laughed and said: are you out of your mind? Well, you would be surprised to see how far stubbornness and determination can take you!

However, I would not have come this far without the help and support from some influential people. My deepest gratitude goes to my supervisors Professor Amjad Hadjikhani, Associate Professor Cecilia Pahlberg and Associate Professor Anna Bengtson. During these years many people have asked me “isn’t it hard to have three supervisors, all going at different directions?” The answer is no. It has been a privilege! It is only a selected few that have had the opportunity of having three supervisors, all with separate focus. Amjad, thank you for extending my theoretical view and always asking me the tough questions. A total confusion from my side first, but after some sleepless nights, I’ve always felt energized and ready for the next round! Even if the light at the end of the tunnel indeed was the train, I managed to survive! Cecilia, thank you for being detail-oriented, always pushing me to clarify and for being a great listener. Anna, thank you for always pushing me to think one step further and for being a great “translator”. To all three of you, thanks for believing in me. Special thanks go to Associate Professor Peter Thilenius for introducing me to the statistics and for encouragement and support throughout the process. Professor Ivo Zander, for doing a great job as discussant at my final seminar. Thank you so much for all the constructive comments.

This thesis would not be the same without all the helpful informants, taking the time and providing me with insightful data. Special thanks go to Sören Silén and Rolf Zenker.

I would also like to thank my colleagues and fellow PhD students at the Department of Business Studies. Special thanks go to Catherine Welch for helping and guiding me during my visit at the University of Sydney. For financial support during my PhD studies I am grateful to Handelsbanken Research Foundation for the first three years of this study. Moreover, the financial support received from Jan Wallander & Tom Hedelius Forskningsstiftelse and the Foundation Marketing Technology Center (MTC) is greatly acknowledged.

Nader. My idol. Without you, this would not have been possible. Thanks for introducing me to the idea of a research career. I have to
admit that I have been cursing you at times for fooling me into this! However, you did not abandon me, you have been my biggest source of inspiration, always taking the time, always ready for pep talks, guiding me through the academic life and encouraged me in every step! Dada, you are truly the best brother one can wish for, I love you! However, fooled me once, you cannot fool me again!

Maria, I’m not sure if I can express my gratitude to you in words. You have been such a valuable person in my life; started off as a colleague, but turned out to be my best friend! Thank you for simply being you.

To my friends Lule, Dalia and Johanna for always being there for me: I did it!

I thank my family for their support and patience over the years. From now on I promise to be a better sister, ‘ame’ and ‘khale’! Farhad, you took me under your wings when I needed it the most. All those endless “tjat” gave results. God knows, not a day passes by without me realizing the meaning of your wise words. I love you and will always be grateful to you.

Mikael, the love and joy of my life. Thank you for making life worth living!

Uppsala, Maj 2011
Firouze
FOREWORD

From the perspective of a small firm

I am happy to share my experiences on the management of small firms and give my view of the challenges these firms face. My entrepreneurial background goes back to 1976, through my first forging company and the park furniture manufacturing company Nifos to the Finnish Lappset. Lappset is one of the four major manufacturers of playground equipment and together with Lappset I bought Nifos eleven years ago. Today I am the president of Lappset Sweden in Enköping with 25 employees.

I have always had an interest in and commitment to business issues, particularly to issues concerning small firms, and for the last 15 years I have been on the board for The Swedish Federation of Business Owners (Företagarna). Although I have been active on the board for a long time, most recently as president in the local chapter, it still amazes me how much influence you have in a small town. When the manufacturing industry left Enköping in the late 1990's, the municipality realized that something radical must be done for the survival of the town. One of the changes was that the business community was invited to discussions with the municipality to improve the business environment and attract new businesses to town. I think this work laid the foundation for the close relationship that exists today between small firms, civil servants and politicians in Enköping. Small firms are represented in the municipality’s Labour Council and Adult Education Council and representatives from the municipality are in turn on the boards of, for instance, the local chapters of The Swedish Federation of Business Owners and The Swedish Trade Federation (Svensk Handel). This gives the municipality the opportunity to capture business needs and challenges at an early stage. For us it is an opportunity to influence issues related to education and supply of labor which are essential issues for the future development.

Over the years I have learned to combine the membership in various interest organizations with my role as a small business owner. Public speeches, contributions to the debate in the newspaper as well as participation in numerous meetings with politicians and business leaders are examples of my commitment. The results are also significant. Sure, the processes are often long, but I have had the opportunity to influence several major changes both at local and national level. A local example is the handling of building permits in Enköping which today is considerably shorter. From three months or more, lead-times are now reduced to three weeks. Another example, on the national level, is when we managed to bring about a change in the environmental code of federal regulations concerning freon. The initial regulation posed unrealistic demands on small businesses and, due to our efforts, it was modified.
I am interested in politics and try to be updated and acquire knowledge by meeting politicians and visiting events such as “Almedalsveckan”. I take every opportunity to discuss how political decisions affect small firms. With this background, let me point to the fact that small businesses, despite the fact that many laws are created from the perspective of large firms, have good opportunities to take action, to influence and to make change - just the way Firouze Pourmand shows in her thesis. And I strongly agree with the conclusions, especially the fact that it is mainly about relationships and finding the right channels.

Sören Silén

Managing Director, Lappset Sweden
Chairman, The Swedish Federation of Business Owners, Enköping
CONTENTS

SUMMARY OF THE THESIS

PAPER I

PAPER II

PAPER III

PAPER IV
# TABLE OF CONTENTS

1. **INTRODUCTION** .................................................................................................................. 11
   1.1. Previous studies of the political behavior of firms .................................................. 13
   1.2. Assumptions about the political behavior of small firms ...................................... 18
   1.3. Specifications of research questions ...................................................................... 22
   1.4. Structure of the thesis ............................................................................................ 24

2. **THEORETICAL FRAMEWORK** ......................................................................................... 25
   2.1. A business network view ...................................................................................... 25
   2.2. The political relationships of firms ....................................................................... 28
   2.3. Different types of political initiatives ..................................................................... 32
   2.4. The role of intermediating actors .......................................................................... 34
   2.5. Heterogeneity of political actors ............................................................................ 36
   2.6. Summary of theoretical framework ...................................................................... 37

3. **THE RESEARCH DESIGN AND METHODOLOGY** .......................................................... 39
   3.1. Phase 1: Pre-study of small firms political behavior ............................................. 40
       3.1.1 Interviews with intermediaries and political actors ....................................... 41
       3.1.2 Field trip to Brussels .......................................................................................... 43
   3.2. Phase 2: A qualitative deep dive into small firms political behavior .................... 45
       3.2.1 Case studies ...................................................................................................... 45
       3.2.2 Data analysis ..................................................................................................... 48
   3.3. Phase 3 - A widen study of small firms political behavior ..................................... 49
       3.3.1 The survey ........................................................................................................ 49
       3.3.2 Research objectives and target population ...................................................... 50
       3.3.3 Sampling methods ............................................................................................ 51
       3.3.4 Designing and developing the questionnaire .................................................... 52
       3.3.5 Questionnaire modification ............................................................................. 53
       3.3.6 The postal survey ............................................................................................. 54
       3.3.7 Response rate .................................................................................................... 55
       3.3.8 Common method bias ...................................................................................... 59
       3.3.9 Data analytical technique .................................................................................. 60

4. **INDIVIDUAL PAPERS** ...................................................................................................... 62
   4.1. Summary of paper 1 ............................................................................................. 63
   4.2. Summary of paper 2 ............................................................................................. 64
   4.3. Summary of paper 3 ............................................................................................. 66
   4.4. Summary of paper 4 ............................................................................................. 68

5. **CONCLUSIONS** .............................................................................................................. 71
   5.1. Resource heterogeneity and prerequisites in the network ...................................... 73
   5.2. The role of intermediaries ..................................................................................... 74
5.3. The political relationships of small firms ...........................................76
5.4. Managerial implications ....................................................................77
5.5. Policy implications ...........................................................................78
5.6. Future research ................................................................................79

APPENDIX A: The Questionnaire

APPENDIX B: Paper I - Small Firms’ interaction with political organizations in the European Union

APPENDIX C: Paper II - Impact of International Political Units on Small Business Firms’ Relationships – the case of EU and Swedish Small Firms

APPENDIX D: Paper III - The Political Commitments of Small Firms in Response to Supportive and Coercive Initiatives

APPENDIX E: Paper IV - Political Strategies of Small Firms
1. INTRODUCTION

A new EU Directive (2009/128/EC) concerning the establishment of a framework for Community action to achieve sustainable use of pesticides was published in 2009. The main objective of the Directive is to protect human health and the environment from possible risks associated with the use of pesticides (2009/128/EC). Two of the 300 pesticides that are going to be banned are Stomp and Totril (Swedish Chemicals Agency’s newsletter). These two pesticides are used by farmers who grow onions, leeks, parsnips, carrots, and brown beans. According to the Swedish Board of Agriculture (Jordbruksverket), there are no pesticides now available to replace those currently used. The Swedish authorities granted an exemption to Swedish farmers until stocks of the chemicals were exhausted, which has now happened, compared to most other Member States, which have exemptions until 2013/2014. The Federation of Swedish Farmers (LRF) applied to extend the exemption for the pesticides but the application was denied by the Swedish Chemicals Agency, the responsible agency in Sweden.

There are a number of consequences of the directive: 1) For the onion harvest alone, there are about 500 companies with total annual turnover of approximately SEK 300 million at risk of being put out of business (LRF, 2010). These companies employ about 2,500 people who could lose their jobs. The entire supply chain involving suppliers and outbound logistics would also be seriously affected. 2) Following the new directive, Sweden would be put in a situation where the country’s total consumption of these crops would have to be imported from countries where, ironically, these banned pesticides are used. This situation is paradoxical as the
environmental action to prohibit environmentally hazardous pesticides would actually cause more pollution due to additional transports and thus higher emissions. According to LRF, Sweden should proceed at the same pace as the other EU Member States. If it does not, Swedish farmers will be unable to compete internationally. 3) Swedish industry for these types of crops will be knocked out. This is contrary to general practice and current emphasis on local production and job creation. Investing in production that does not use these types of pesticides is meaningless, according to one of the largest actors in the industry.

This case refers to one initiative among many that are affecting large and small businesses in the European Union. It introduces certain aspects covered in this thesis, including the EU and its relationships to local authorities that interpret rules and regulations for the local market. Further, the consequences of a coercive initiative on small firms’ business operations and the industry as a whole are illustrated. What this case does not show but will be discussed in the thesis is the interaction between small firms and political actors, what the role of various intermediaries such as LRF and the Swedish Chemicals Agency are, and what capacity, if any, small firms have to influence policy decisions.

This is interesting because ninety-nine percent of all firms in the EU are small and medium sized enterprises (SMEs), which employ two thirds (65 million) of the total private workforce (Com 2008, 394 final). Generally, SMEs are the “job engine” of the EU and during 2002-2008 they increased the number of jobs by 1.9 percent annually compared to 0.8 percent annually for large enterprises. In absolute numbers, they account for 9.4 million created jobs (DGENTR Annual report 2010).

The importance of small firms to the wellbeing and growth of economies has been recognized by researchers in international business, international entrepreneurship, and international marketing studies. One focal issue has been the internationalization behavior of SMEs, studied by authors including
Hohental (2001), Coviello and Martin (1999), Jones (1999), Coviello and McAuley (1999), Reuber and Fischer (1997), and Coviello and Munro (1997). SMEs and export has been studied by authors like Bijmolt and Zwart (1994), and Burpitt and Rondenelli (2000). Others have studied SMEs and e-business (Taylor and Murphy, 2004) and some other researchers have turned to the field of entrepreneurship to explain the behavior of the resource-constrained SME (see Schumpeter, 1950 and Kirzner, 1973).

Nevertheless, the growing body of research has not encapsulated small firms’ relationships with political units. Instead researchers have focused on larger firms’ political behavior. The subsequent section gives an overview of how political behavior of business firms has been presented in the literature.

1.1. Previous studies of the political behavior of firms
What we know from reported research to this point is that in modern societies, the “economic” and the “political” are difficult to differentiate because economics and politics constantly interact (Boddewyn, 1988). These behaviors and transactions are, however, constrained and controlled by governmental rules and regulations. Boddewyn (1988) defines the term political as “(1) the actors belonging to the non-market environment which includes not only the State (governments, essentially) but also Community (e.g., public opinion and the intelligentsia and private-interest associations (i.e., organized pressure groups) (Streeck and Schmitter, 1985,) and (2) particular means used by firms in interacting with the non-market environment: lobbying, public and government relations, alliances with other firms and associations, bribery, suing etc. (…) Yet, it is obvious that political behavior affects the market environment and, particularly, the transaction costs of using markets” (Boddewyn, 1988, p. 343). If it is obvious that political behavior affects the market environment, then the
central questions are: How do institutions affect the behavior of firms? What does the interaction between business firms and non-business actors look like, what actors are involved, and most importantly, what resources are necessary to manage the non-market environment? The answers to these questions have been elaborated in many different research fields and several models and frameworks have contributed to our understanding of the various aspects of the interconnectedness of business firms with political actors/institutions.

The topic of political decisions and views on the hierarchy in the political power of governments has been widely explored in political science studies. Streeck (1992) and Fligstein (1990) explain the failure of the political hierarchy. Others use economic and sociopolitical theories to demonstrate the problems of states in creating stable and consistent rules (Chaudhiri and Samson, 2000). Researchers like Potters and Sloof (1996) study interest groups and the effect of political uncertainty, while Le Breton and Salanie (2003) and Pecorino (2001) study the economic aspect and achievement. Others study the impact of government on competition (Ramaswamy and Renforth, 1996), while Barros and Nilssen (1999) study the heterogeneity of firms and industrial policy. These researchers introduce internal dynamics and differentiated social systems as factors that make centralized political control in the traditional legal way more challenging.

The debate on the relationship between business actors and political actors builds mainly on the assumption of a coherent regulatory environment where political institutions regulate business firms and their behavior in a one-dimensional manner, that is, political organizations have legitimate power to affect business firms, but business actors have no such power. This view is grounded in industrial organization economics (Caves, 1982) or theories of transaction cost economics (e.g. Rugman et al., 1985; Teece, 1985). In the political risk literature, risk perception and assessment still have some dominance, where risk is defined as decisions or events in a
country that will affect the business in an international market (Howell, 2000). In this stream of literature, there are studies that address organizational responses to the risks (Brewer, 1992). Others divide political risk into micro and macro levels (see for example Oetzel 2005) regarding risk assessment, adaptation, and avoidance. The focus of these studies is on political issues and the governance structure of the political system.

In the field of institutional theory, DiMaggio and Powell (1991) explore the ways in which individuals and organizations innovate, act strategically, and contribute to institutional change. In this stream, there are large numbers of studies on pressure groups, bargaining, and bribery (Pecorino, 2001). More specifically, Andersen and Eliasson (1996) and Austen-Smith (1987) study lobbying and influence by business firms on political actors, Ballam (1994) and Bolton (1991) study the creation of bargaining competency to persuade political actors and Rose-Ackerman (1978) studies pressure groups, bribery, and lobbying. In this stream of research, business and political actors are seen as actively influencing each other and focus has been on the direct impact of institutional rules, pressures, and sanctions on organizational structure.

In the field of corporate political science, firms are assumed to develop political strategies in an attempt to gain influence over political actors and in so doing gain information, access, influence, and lower uncertainty and transaction costs (Hillman and Hitt, 1999). These studies have mainly focused on the objectives of firms’ political activity (Baysinger, 1984), what types of firms are likely to become politically active (Pittman, 1988; Zardkoohi, 1985), why government policy is important to firms’ profitability (Schuler, 1996; Shaffer, 1995), why and when firms become political active (Bonardi et al., 2005), how firms engage in political behavior (Hillman and Hitt, 1999), and determinants of political strategies by firms (Hillman, 2003). Hillman and Wan (2005) integrate institutional theory, corporate political strategy literature, and theories from the field of international
business to study the institutional factors that influence the political strategies of multinational corporations (MNCs). Rizopoulos and Sergakis (2010) study how MNCs influence political decisions and how their strategies regarding host countries are influenced by political forces in their home country. These activities are important aspects of lobbying, but do not always mean that the individual firm needs to pursue political activities independently. Lobbying through collective actions by trade associations has been studied by Wilts and Meyer (2005) and Hillman and Hitt (1999), while Kauto (2007) studies lobbying through collective actions such as ad hoc coalitions. Instead of individual lobbying or various forms of collective actions, firms can ask third parties, such as political consultants or lawyers to act on their behalf (Bouwen, 2002; Wilson 1990; Salisbury 1984). The common denominator of research in the field of corporate political science is the internal strategies of individual firms and MNCs political strategies in particular.

In contrast to the stream of research in corporate political science, which focuses on the behavior of individual firms, there is an evolving stream of research that studies the political behavior of firms at the relationship level. This research stream takes a network view of interaction between business firms and socio-political actors, arguing that actors such as firms, media, governments, and specialists are linked to one another in various exchange relationships (Hadjikhani, 2000; Welch and Wilkinson, 2004; Ritvala and Salmi, 2009). For example, Hadjikhani and Ghauri (2001), Elg et al. (2008), and Sun et al. (2010) focus on interaction interrelated to the management and competitive advantage of firms in their internationalization process and influence on sociopolitical actors. In their study, Hadjikhani and Lee (2006) studied how MNCs manage their relationships with sociopolitical actors to strengthen competitive positions. With a business network view, the authors study legitimacy, commitment, and trust to describe the firms’ actions in developing competitive positions. Ghauri and Holstius (1996), Welch and
Wilkinson (2004), and Hadjikhani and Thilenius (2005) also study how MNCs manage their relationships with political and sociopolitical organizations/activities to strengthen their positions in the international market. Sun et al. (2010) study the relationship between political embeddedness of MNCs and their long-term competitive advantages in host-country markets based on case studies in the Chinese automobile industry. Welch and Wilkinson (2004) have studied business networks and political connections across a range of institutional settings. However, political behavior of MNCs in an international context has been the central concern of all these studies. Focus has been on how business actors manage their relationships with non-business actors to gain legitimacy and support in their businesses. The non-business actors studied include political actors, but other actors such as intermediating organizations and the media are also discussed.

As the introductory case of sustainable use of pesticides illustrated, political initiatives can have devastating consequences for small firms and various resources and relationships are important in such situations. Nevertheless, none of the studies mentioned above have captured or directed interest at small firms, other than Hadjikhani and Ghauri (2001). In their study, they compared the political behavior of three MNCs with seven exporting SMEs. The main reason for including SMEs in the study was to find information about EU financial support to exporting firms, rules supporting cooperative activities with foreign firms, and the adaptive initiatives SMEs needed to undertake to conform to political rules. Their findings revealed that SME managers felt that they could not influence EU rules as they could Swedish rules before Sweden acceded to the EU. They also felt they had to adapt their specific circumstances to EU rules. Out of the seven SMEs studied, only one had managed to influence a specific political issue. The main findings were that the SMEs did not have the resources required to commit a specific person or unit to manage political
relationships, due to limitations in both time and resources. Nor could they participate in meetings arranged by various intermediating actors and, for these firms, the price of engagement in intermediating organizations was too high. Moreover, the objective for the SME managers was mainly to approach the foreign market and expand business activities; they were not particularly interested in traditional lobbying. Firms of various sizes display different managerial behaviors and the study by Hadjikhani and Ghauri (2001) revealed the reactive behavior of SMEs, whose aim was to understand which rules were applicable to their specific business sector. The SMEs had low levels of knowledge and commitment, which forced them to adapt. Despite the scarcity of research on the political behavior of small firms, assumptions about this category of firm are found in previous research. I will discuss some of these assumptions in the next section.

1.2. Assumptions about the political behavior of small firms

What we know from reported research on the political behavior of firms is that relationships with political actors are essential to firms’ capacity to strengthen their competitive position and gain advantages and support for their businesses. However, establishing and maintaining relationships and formulating political strategies requires specific commitments and resources. In this respect, there seems to be some assumptions about small firms’ political behavior and their shortcomings. These assumptions will be discussed below.

1) Small firms are homogenous

The majority of the research has treated companies, regardless of size, as a homogeneous group constrained by governments (Jansson et al, 1995; Ghauri and Holstius, 1996; Bouwen, 2002; Kautto, 2009). Sociopolitical
actors use their legitimate position to affect the market and they enact and implement market rules that can affect groups of firms homogeneously (Rehbein and Lenway, 1994). This homogeneous influence is often measured by adaptive actions (Hadjikhani and Thilenius, 2005). While sociopolitical actors, like governments, stress the repeated procurement setting and homogeneous effect of decisions, MNCs aim to gain heterogeneity, i.e. specific support (Hadjikhani and Lee, 2006; Hadjikhani and Ghauri, 2001). Contrary to earlier studies, Hadjikhani and Ghauri (2001) found that not all firms are affected homogenously. In fact, their study showed that small firms reacted similarly and engaged in rather defensive political behavior. MNCs on the other hand, were more heterogeneous in the sense that they engaged in relatively assertive and proactive behaviors. However, the firms in their study all had different types of political issues, administrative commitments, and connections to different groups of actors.

While the Hadjikhani and Ghauri (2001) study points out the homogeneity of small firms based on their rather defensive behavior, Julien (1993) points out the opposite and stresses that one of the obstacles to recognizing the importance of small firms to economic theory is their heterogeneity. Julien (1993) establishes that small firms are different from large firms and must be studied separately. As their characteristics differ, small firms should not be studied in comparison to MNEs but as heterogeneous actors; otherwise, it would be like comparing apples and oranges. Small firms differ from large firms in their specific characters, resources, and connections.

The heterogeneity of small firms is something that has been also recognized at political levels. In “Think Small First” - A Small Business Act for Europe (COM (2008) 394 final) the European Commission recognized the heterogeneity of SMEs and points out that the differences should be borne in mind by policymakers in order to create an “SME-friendly” environment, based on the conviction that rules must respect the majority of
those who will use them. Extensive efforts have been made to include and involve small firms in the decision-making process to better promote them. Small firms face particular difficulties that EU and national legislation try to address by granting them various advantages. Yet little is known about how such firms manage their political environment.

To summarize “…organizations come in all sizes and flavors, from tiny mom and pop grocery stores to giants like Ford Motor Company, from voluntary organizations like consumer groups to inherently coercive public institutions like prisons” (Lowery, 2007, p. 31). The conclusion is that firms of all sizes are heterogeneous, but there are also things that bring them together as a homogenous group, such as industry affiliation, the national and local environment in which they operate, and, most importantly, the political issue which is their common task to influence.

2) Small firms are passive receivers of political initiatives
Whereas studies of larger firms have revealed that they (large firms) are active with political resources, the second assumption refers to the passiveness of small firms in the political environment. A consequence of being a passive receiver of political initiatives is adaptation, which applies to the political rules firms must follow. According to Hadjikhani and Ghauri (2001), small firms are forced by their lack of resources to adapt to the coercive political initiatives. In such situations, firms must take an adaptive strategy for production activities, organization structure, purchasing, and marketing behavior etc., and in severe cases, firms are forced to leave the market to the supremacy of political forces (Hadjikhani and Thilenius 2005). Other reasons for small firms’ passivity could be a lack of interest in policy issues and a belief that individual actors cannot influence rules and regulations. Furthermore, if firms are satisfied with the status quo there is no need for lobbying (Lowery 2007). If firms trust policymakers and perceive them as “experts” and therefore rely on their competence in making the
“right” decisions for their industry, there is no need to take political action. Obviously, this mindset leads to passive behavior and inclines us to view small firms as a passive, homogeneous group. In this thesis, the need to reevaluate the political behavior of small firms is stressed.

3) Small firms lack political resources
According to Easton (1992), every firm is individual in its structure, employee preferences, history, resources, investments, skills, etc. When it comes to industry-specific regulations, we can expect that the effects are the same for all firms. However, large firms are expected to have financial and managerial resources, while small firms are expected to have neither resources nor the knowledge required to challenge the issues. Moreover, it is assumed that small firms, due to their resource scarcity, rely on collective actions by, for example, their trade associations. The reasons for belonging to trade associations may vary. Apart from political reasons, such as lobbying, some small firms join trade associations to benefit from group insurance policies, for consulting reasons, or to exploit their broad network and find possible partners, etc. However, the assumption that small firms have few political resources and do not make political commitments seems somewhat superficial; yes, they are resource-constrained, but we need to specify “political resources” in more detail. What types of political resources do we mean? Can membership in a trade association in itself be perceived as a political resource commitment? And why do some firms engage in political activities while others do not? All political activities are not always successful and will most likely result in adaptation to coercive initiatives, regardless of whether the activities are performed by small firms or MNCs.
1.3. Specifications of research questions

To this point, research on the political behavior of firms has mainly advanced our knowledge of MNC’s relationships and strategies with political actors and the business environment. As indicated above, current theoretical research leads to problematic assumptions about small firms. The assumptions are taken from extant literature, but are a problem not only for small firms but also for policymakers. The current situation is challenging since thus far there is a substantial lack of studies of the political behavior of small firms. The discussions bring three crucial issues to the attention of this study: 1) small firms’ interaction with political actors 2) small firms’ embeddedness in various networks and the role of intermediaries, and 3) shortcomings in studies of the effects of political rules and regulations on the business of small firms. The rationale and justification for this thesis is not merely an interesting and underdeveloped research area. It necessitates development of existing theories on large firms, but specifically related to the strategic political behavior of small firms. Studies of small firms tend to assume either that models derived from large firms can be applied directly or that small firms are uniformly distinct from large ones (Gilman and Edwards, 2008). Small firms need to be studied in relation to how they behave, rather than contrasting practice with an idealized image of what they should do (Taylor, 2006). Theoretically, there is a great deal of research on the political behavior of large firms and one challenge in this thesis is to determine whether we can apply theories of large firms’ political behavior to small firms. From that point of departure, I examine the similarities and differences in behavior without making any direct comparisons. In line with Keillor et al. (1997), this thesis also stresses that the development of relationships with political actors will not only influence policymaking. It will also allow firms to gain a broader understanding of the political environment and how it impacts on firm operations. The empirical gap is thus small firms and their political behavior.
For this reason, the following research question is postulated: how do small firms manage their political environment?

To provide an answer to this overall research question, four individual papers in this thesis set out to answer the following questions:

1. How do small firms interact with political organizations in the EU?
2. How do coercive and supportive initiatives affect small firms’ business relationships?
3. How do small firms combine direct and indirect political commitments in response to coercive and supportive political initiatives?
4. How do small firms develop political strategies in response to political initiatives?

The research questions above are connected to how small firms respond to political rules and regulations, which have been divided into coercive and supportive initiatives. These will be further discussed in the theoretical section. Additionally, the questions are related to the effects of such initiatives on their business relationships and how small firms respond by committing resources and developing political strategies. In order to study the research questions, the thesis limits the political environment by focusing on EU-related rules and regulations and domestic Swedish small firms. In answering the overall research question, each paper explores a specific question.

The originality of this thesis lies in the attempt to contribute to the understanding of the interaction between business actors and political actors in a supranational context. Thus, the study serves the overarching purpose of “breaking new ground” by exploring how small firms interact and manage their political environment in a novel way. Theoretically, the thesis extends
knowledge in the field of international marketing and business by studying the political behavior of firms (Boddewyn, 1988) and political embeddedness of firms (Welch and Wilkinson, 2004; Halinen and Törnroos, 1998; Granovetter, 1985) and extends the network perspective by including political actors in the business network (Hadjkhani and Ghauri, 2001; Welch and Wilkinson, 2004). Empirically, the contribution of this thesis is the political behavior of small firms, which will be revealed through case studies and a survey.

1.4. Structure of the thesis
The structure of the thesis after this introductory section is as follows. The theoretical framework of the study is specified and put into context in Section Two. Section Two ends with a research model based on the theoretical discussion. Section Three describes the research design and methods for the empirical study. The research process was threefold; a pre-study, a qualitative study, and a quantitative study were conducted. In Section Four, the four papers that comprise the thesis are summarized and related to the overall aim and research questions of the study. The main results of the papers are also discussed in this section. Section Five summarizes the main findings, points to some managerial implications of the study, and proposes avenues for future research. The questionnaire and full papers are provided in Appendices 1-5.
2. THEORETICAL FRAMEWORK

This section develops an analytical framework to study how small firms manage their relationships with business actors and political actors regarding EU-related rules and regulations. It begins with a discussion of the business network view, followed by a section on business firms’ political relationships. Next, the various types of political initiatives and the role of intermediating actors will be discussed followed by an exploration of the heterogeneity of political actors.

2.1. A business network view

As the introductory section implied, when small firms are affected by the outcome of political initiatives, they need to manage the associated uncertainty. To do so, small firms need certain types of resources and become dependent on various types of business and non-business relationships; while some relationships are with business actors, others involve intermediaries, and some others political actors. This study takes a relational and network view on firms and on business activities, i.e. each relationship affects and is affected by other relationships. It is stated by Håkansson and Johanson (1988, p. 370) that; “industrial networks are functional entities, in which heterogeneous resources are used in industrial activities to satisfy heterogeneous demands.”

There is a power structure in every network, where different actors have different power to act and to influence the action of other actors (Håkansson and Johanson, 1988). Political actors, however, are not mentioned and the power dependency reasoning is thus applicable to relationships such as those
between customers and suppliers within the network, where this power is normally related to resources. A business relationship (see Håkansson 1982; Johanson and Mattsson 1987) is accordingly characterized by the involved actors, their resources and activities, and its primary and secondary functions (Anderson et al., 1994). The actors refer to the aim of individuals or collectives to increase their control over the network; the actors control resources, perform activities, and have certain knowledge (Håkansson, 1987). Resources are heterogeneous, mutually dependent, controlled by one or more actors, and linked to each other by means of activities that change or exchange them. The activities refer to the transformation or transactional acts performed by actors on resources. The actors, activities, and resources are all interwoven in a network and without these interdependencies there is no network (Håkansson, 1987).

Andersson et al. (1994) define primary functions as the effects (positive/negative) on the two partner firms of their interaction in a focal dyadic relationship, whereas secondary functions are the indirect effects (positive/negative) of a relationship because it is directly or indirectly connected to other relationships. “Every relationship is unique in its content, its dynamics, in how it evolves, in how it affects the parties involved, and in what it requires from them for success for each of them. ...managing relationships is the critical task of business and the complexity of that management task reflects the complexity of the relationships themselves and the resulting network structures” (Ford et al 2003, p. 38).

Andersson et al. (1994) view the firm as embedded within a business network context that is surrounded by an environment. In this thesis, network boundaries are extended to include not only business actors but also political actors that are embedded in the business network or vice versa. Embeddedness is a central concept within business networks. Granovetter (1985) and other economic sociologists argue that firms are embedded in ongoing networks of social and exchange relationships with other
organizational actors such as suppliers, competitors, customers, and regulators. Actors are “embedded in concrete, ongoing systems of social relations” (Granovetter, 1985, p. 487). In other words, the actual social relations that actors are part of must be examined to understand actors’ actions (Uzzi, 1997). In this increasingly globally interconnected world of business and government, it becomes important to understand how business networks are embedded in political networks. While firms may be connected through a multitude of connections, each of which could be a social network, some may be more or less significant than others and researchers have rarely focused on more than one network at a time (Gulati, 1998).

Firms can be interconnected with other actors through social, economic, and political relationship constituted in different networks. These include business actors, trade associations, politicians, and others. Welch and Wilkinson, (2004) point out that a growing number of researchers within the industrial network tradition have revisited the concept of embeddedness while extending the research agenda from industrial marketing to business networks involving various sorts of relationships.

Companies are connected with each other, thus forming business networks, but are also connected to various other network structures that greatly influence economic actions and their outcomes (Halinen and Törnroos, 1998). The degree of embeddedness can vary with the closeness of the relationships with customers, suppliers, and other business counterparts (Forsgren et al., 2005). Halinen and Törnroos (1998) suggest six types of embeddedness that are characteristic in business networks: temporal, spatial, technological, market, political, and social embeddedness. Consequently, non-business actors may also be seen as embedded in a system or network that also affects the actors in the business network. It is therefore suggested that the network in which a business enterprise is embedded should be seen as a comprehensive network, including market actors as well as non-business actors. The context of a business enterprise thus includes both non-business
and market actors that are perceivable, identifiable, and relevant (Sjöberg, 1996). Welch and Wilkinson (2004) discuss four dimensions of political embeddedness; those of political institutions, political actors, political activities, and political resources. They call this dimension the political Actor-Resource-Activity-model (ARA). These dimensions will be further elaborated in respect to the purpose of this thesis in the following section.

2.2. The political relationships of firms

Business exchange relationships have dominated the theoretical and empirical work on industrial networks while the non-business aspect, as indicated above, has been somewhat neglected (Easton and Araujo, 1992). Easton and Araujo, (1992) also stress that exchange relationships do not necessarily have to involve just an economic dimension; they may also have to do with the technical, planning, knowledge, social, and legal dimensions, for example. It is the non-economic dimension of exchange that is of particular interest in this thesis, with special focus on the political dimension. Non-business actors have been defined by Sjöberg (1996) as authorities, media, opinion leaders, political organizations, and interest organizations that directly or indirectly influence the activities of a business firm. Hadjikhani and Håkansson (1996) and Boddewyn (1988) refer to these actors in a non-market environment.

The business network approach has been extensively explored in international business settings but there are only a few studies on political relationships of firms in international markets (see for example Hadjikhani et al., 2008; Elg et al., 2008). The dimensions of political embeddedness of interest in this thesis refer to firms’ embeddedness with political actors in the non-business network on the EU and national levels. These political institutions issue new or amended rules and regulations to which firms must respond. The political activities are firm-specific and related to influential
activities taken by firms towards governments and public opinion (Welch and Wilkinson 2004). Welch and Wilkinson (2004) stress the importance of political activities; wherein lobbying is an important component, but suggest three additional political activities: policymaking, policy learning, and international diplomacy. For the political resources, Hadjikhani (2000) argues that firms need to invest in political relationships to gain legitimacy and influence in the political market and that one way to invest in a political relationship is to set up political units, for example in Brussels. Boddewyn (1988) also stresses the notion of political advantages in terms of knowledge or expertise when dealing with the non-market environment. Welch and Wilkinson (2004) argue that legitimacy is critical for continued market access. A firm’s positioning in its network relationships can prove to be an important resource in and of itself. If firms develop relationships with political actors, it will not only influence policymaking but also help firms increase their knowledge of the political setting since it has impact on firms’ operations (Keillor et al., 1997).

In the exchange between two actors mutuality is a basic mechanism. Building mutuality is a matter of incremental commitments in order to form a balanced dependence relation, which is a time-consuming process that requires relationship-specific investments (Blankenburg-Holm et al., 1999). The mutuality does not necessarily need to be direct; it can also be indirect through network connections.

Governments are the source of a wide range of political goods that potentially benefit firms in their market exchanges: public sector contracts, licenses and approvals; industry policies and regulations; support in the form of tax concessions, tariffs, and other protectionist measures such as funding for research and regional development (Hadjikhani and Sharma, 1999). In addition, governments are an important source of market-specific information for firms. More fundamentally, firms act politically in order to achieve legitimacy (Jansson et al., 1995). Firms depend not just on
“technical” or “business” legitimacy or their performance in terms of traditional business measures such as profit and market share – they also need to attain “institutional” legitimacy by justifying their performance in terms of prevailing political norms and values (Jansson et al., 1995; Hadjikhani and Sharma, 1999). The purpose of business actors in their interaction with political actors is to convert the dependency on political actors to mutual interdependency and thus gain influence (Hadjikhani and Thilenius, 2005).

Influence in a business-political relational setting refers to intentional activities performed by firms in this context to convince political actors to give specific types of political support in their businesses (Hadjikhani, 2000). The ability to influence has been interrelated to concepts of legitimacy, commitment, and trust (Hadjikhani and Lee, 2006) and knowledge (Hajikhani 2000; Ghauri and Holstius 1996; Hajikhani and Ghauri 2001; Welch and Wilkinson 2004; Elg et al., 2008; Hadjikhani et al., 2008; Sun et al., 2010). Legitimacy has by Hadjikhani and Lee (2006) been divided in two ways; gaining legitimacy through 1) the size of the firm’s business market and business exchange and 2) through interaction with non-business actors. An actor’s legitimacy is based on the surrounding actors’ knowledge of how an actor’s performance preserves the rule of mutuality and maintains its own interest and that of others (Hadjikhani et al., 2008). Political knowledge and commitment are important to gaining influence and receiving specific support from political actors (Hadjikhani and Ghauri, 2001). Thus, low levels of political knowledge and commitment lead to low levels of influence and the firm will perceive the relationship as coercive.

In order to gain legitimacy and influence, firms need to invest in political relationships, for example by setting up political units, as several Swedish companies have done in Brussels (Hadjikhani, 2000). A lack of political relationships can decrease a firm’s performance through adaptation that could lead to cost inefficiencies, underdevelopment of capacity, etc. By
making political commitments, firms can use their influence in public policy for a strategic end. Firms can do so to bolster their economic positions, hinder the progress and competitiveness of their domestic and foreign competitors, and exercise their right to a voice in government affairs (Keim and Zeithaml, 1986; Hadjikhani and Lee, 2006). In so doing, firms can increase their overall market size by gaining advantages related to industry competition, reducing threats of substitutes and entry, and increasing their bargaining power relative to suppliers and customers (Hillman and Hitt, 1999).

Having managers with sufficient political knowledge is essential in the influential process. In the study by Hadjikhani and Ghauri (2001), managers of MNEs committed 30 percent of their time to ascertaining the positions of political actors and finding out about newcomers and new ideas released in the media and the political activities of competitors. To relocate human resources to, for example Brussels, be on site and act proactively towards decision makers, firms need financial resources. Lacking these financial resources, managers cannot commit to such social relationships or to gaining and increasing their political knowledge. These ideas can be traced back to Penrose, (1959) who stated that the value of resources is not inherent in the resource itself, but in how it is combined with other resources. To achieve the objectives and potential benefits of political behavior, firms ought to be proactive (Keim, 1981). The extent of influence varies: with high influence, firms gain resources or supportive rules, with low influence, firms are forced to adapt their business or leave the market to the supremacy of political forces (Hadjikhani, 2000). The political outcome is feasible as it can reduce organizational costs (Boddewyn, 1988). While large business firms have organized units and commit resources towards the political organizations, small firms often need to undertake costly, adaptive actions (Prashantham, 2005; Hadjikhani and Ghauri, 2001; Hadjikhani and Lee, 2006). In the
following, the different types of political initiatives, which will be described as either coercive or supportive, will be discussed.

2.3. Different types of political initiatives

Swedish firms are embedded in both the Swedish and the European institutional environment. Hence, they need to handle the national environment as well as the supranational, the EU. Scott (2001) discusses different levels of institutional environments in the organizational field and the societal field. The organizational field in this context refers to the business network and business partners, while the societal field refers to institutions and other social actors that have an impact on the organizational field. Scott (2001) and Jansson (2007) stress that there is a high degree of dependency between actors in both fields. In other words, political actors influence business actors through their regulatory power and business actors try to influence actors in the societal field to improve their capacity and gain support in their organizational field.

This political connection can be defined in different ways. One is that a company is defined as politically connected when at least one of its large shareholders or one of its top executives is a member of parliament, a government minister, or closely related to a top politician or party. These connections are more common in more transparent systems due to greater access to information, in highly corrupt countries, and in countries that impose restrictions on foreign investments (Faccio, 2006). In the business network approach, the view of connection is explained by relationships that affect the focal business relationship. Within this context, the connection refers to political organizations. The political impact can be divided into two types; coercive and supportive. Coercive impact refers to legislative rules that firms must follow when political actors use their legitimate power to apply restrictions to firms’ activities (Hadjikhani and Sharma, 1999). The
relationship between business firms and political organizations contains two presumptions; 1) weakening and change of the coercive behavior or 2) strengthening and change of the supportive behavior. The political initiatives are the following: new regulations or directives, changes to existing rules and regulations, and re-classification of existing rules, regulations, or directives.

The rules, regulations, and directives discussed in this thesis are all general, and not solely applicable to a specific industry or Member State. There are no distinction between rules, regulations, and treaties in this thesis, which are thus all operationalized as EU rules. The adaptation cost due to a coercive action taken by policymakers consists of administrative costs (administration of rules and information reporting), financial costs (regulatory fees and taxes), and material costs (investments in production due to the rule). The negative impact of a coercive action may also affect how firms do business in terms of effects on their business relationships, market activities, business development, competitive position, etc. Political supportive impact, on the other hand, is when the effect of an initiative on business actors is positive in terms of financial support and subsidies (Hadjikhani and Sharma, 1999), as well as supportive rules and regulations that promote firms. Business-government interaction occurs in three broad areas of regulations, according to Walters (1993): 1) antitrust regulations meant to ensure a competitive market, rules on mergers and acquisitions, predatory pricing, exclusive dealings, tying, price discrimination etc. 2) economic regulations or industry-specific regulations dealing with prices, output, licensing, etc. and 3) social regulations, which go across industries to include such issues as environmental law, occupational health and safety, labor issues, etc. In the next section, the role of intermediating actors will be discussed in relation to firms’ response to political initiatives. Government institutions might have a homogenous view of firms when they make political decisions that affect firms, but the political effect is heterogeneous.
and the outcome is dependent on each firm’s political strategy and management behavior. Consequently, strategic political behavior in networks is dependent on the firm’s prerequisites in the network.

2.4. The role of intermediating actors

Above, it has already been indicated that political action by firms is dependent on firms’ resources. The extent to which small firms are able to take such action is very much related to their resources and the assumption is that these types of firms are resource-constrained. Consequently, small firms are presumed to act collectively. According to Cook and Barry (1995), small firms rely on collective forms of action when approaching the political environment. In their study of Dutch small firms, Wilts and Meyer (2005) studied the incentives for firm memberships in trade associations. They state that for small firms, there are two general motives for membership in associations; 1) to exert influence in cooperation with their competitors and act collectively or 2) to gain expertise and information held by associations to improve their individual performance. The results of their study showed that firms engage in national trade associations mainly to have their business interests represented collectively by trade associations.

Within the business network perspective, there are many studies on dyadic business relationships (see for example Anderson et al., 1994; Easton and Håkansson, 1996; Hadjikhani, 2000) Triadic business relationships on the other hand, represent three connected actors. Havila (1996) and Havila et al., (2004) discuss triadic relationships where intermediating actors such as agents or sales subsidiaries have an assistive role between the supplier and the customer in business relationships. Bridging gaps between customers and suppliers due to different types of distances (geographical, cultural, psychological, or technological) is one of the roles of intermediating actors and this “distance-reducing” role is crucial when most of the contacts

34
between the customer and supplier are through the intermediary (Havilia, 1996). In business-political networks and relationships, the role of the “distance-reducing” intermediaries (trade associations etc.) becomes evident in a triadic setting involving small firms which, as previously assumed, have no direct relationships with policymakers. In this context, the specific reason for the interaction is issue-based political rules and regulations, and all actors are expected to understand the perspectives of others in the relationship. The focus here is the firm trying to manage political rules, regulations, and subsidies and the role of intermediaries is to reduce the distance between small firms and political actors in political issues.

The interdependencies and exchange between the actors in the triad can be described as follows: 1) Political actors control financial and non-financial resources and possess power to make laws to regulate the business activities of firms (Hadjikhani and Sharma, 1999). Firms are thus dependent on the decisions and regulations that political actors make. According to this argument, business firms are dependent on intermediaries to reduce the distance to political actors and/or provide them with the resources required, and must make commitments towards them; 2) political actors become dependent on business actors because the latter control financial and technological resources (Hadjikhani and Sharma, 1999) and thus contribute to economies; and 3), the intermediaries are dependent on business firms because they depend on members/clients for the survival of their businesses, membership dues/remuneration, etc. Intermediaries are also dependent on political actors/organization because policymaking is their living, but also for the subsidies granted to their organizations.

The time perspective in the triadic relationships can be either short-term or long-term depending on the type of intermediary, the political issue, and where in the life-cycle the political issue is. Referring to the short-term dimension, Bengtson et al., (2011) discuss loosely-coupled issue-related relationships that are mainly active when an issue demanding political action
is raised. In their reasoning, they suggest that issues come up and relationships are activated, and when the issues are resolved, the relationships lose their intensity. The long-term dimension concerns the time before and after the loosely-coupled issue related relationships. In these relationships, firms make commitments of a more general character. When an issue arises, the existing relationship could be intensified. When the relationship loses its intensity, the commitment in the relationship is maintained.

2.5. **Heterogeneity of political actors**

Sociopolitical actors use their legitimate power to influence by making decisions and implementing rules that affect firms homogeneously (Lee et al., 2007). In this context, the network is contingent on a situation in which the position of political actors is rather unstable. In previous studies, government officials have been assumed to carry out the task assigned to them according to the rules and regulations, irrespective of personal values, preferences, and convictions, being impersonal entities independent of the people or group of people engaged in these processes (Boddewyn, 1988, p. 345). Political actors vary in many aspects. Hadjikhani and Håkansson (1996) argue that bureaucrats have an identity of their own and reject the homogenous view of political actors. Surely there is also certain heterogeneity between political actors in different countries and levels, local, national, supranational etc. It is also important to make a distinction between institutions and political actors. When firms engage in political activities, they are in contact with political actors within a certain institution. EU policies appear in a multilevel governance system characterized by complex interactions between local and national governments, heterogeneous sets of interest groups and a vast number of different EU agencies (Falkner, 2000). There is also heterogeneity between different political systems, national and
supranational. Swedish firms, for example, may have very good relationships with political actors on a national level and be perfectly cognizant of both formal and informal rules, but there are no guarantees that the same approach would work in the EU.

2.6. Summary of theoretical framework
The theoretical discussion is summarized in Figure 1 highlighting the key actors and their respective activities. The research model takes a network perspective on business political interaction to examine both individual and/or collective political behavior of small firms. The reasoning is as follows: the political relationship is explained by the coercive and supportive initiatives from political actors. A firm can either adapt to or influence the political initiatives. While adaptation applies to the political rules which firms have to follow, influence means negotiation and cooperation to gain specific support for business activities. To influence, firms need to invest in political relationships, at the local, national and/or EU level. These relationships can either be short-term or long-term. For political strategy, firms need to make political commitments, have/gain political knowledge and legitimacy. These are critical prerequisites for realizing a political strategy. Firms can gain advantages and thus reduce the risk of being forced to adapt to political initiatives. The actions by small firms can be individual or collective. However, as small firms are assumed to have less political resources and not act individually, they are assumed to rely on collective actions through intermediaries. The primary role of the intermediaries is to reduce the distance between small firms and political actors. Their specific activities are task oriented, i.e. related to specific issues brought up by the business actors and will thus provide a direct support to the firm whereas the long-term has a more general character, dealing with aspects such as opinion making and representation.
Figure 1: Small firms’ prerequisites and relationships with political actors, business actors and intermediating actors

Intermediaries

- Task oriented (direct support)
- Long-term (opinion making/representation)
- Distance reducing

Business activities
- Adaptation
- Influence
- Short/long term approach
- Individual/collective action
- Political strategy

Business firms

Firms prerequisites
- Political commitment
- Political knowledge
- Legitimacy

Political activities
- Coercive initiatives
- Supportive initiatives

Political actors

Intermediate activities

- National
- Local
- EU
3. THE RESEARCH DESIGN AND METHODOLOGY

In the autumn of 2006 a project called “Small firms and political actors within the European Union – an interactive approach” began. The project was a spin-off of a previous project in which multinational enterprises were studied. The new project focused entirely on small firms since they had been neglected in previous studies. The project involved senior researchers and the author of this thesis. An explorative approach was used to investigate political and business interaction among small firms in the EU. Several research methods were used for this thesis. In this following chapter, a description of how the research was conducted, that is, how interviews were performed, how the survey was designed and implemented, and the chosen analysis methods will be presented. The following section describes the three-fold research process: phase 1) pre-study, phase 2) qualitative study, and phase 3) quantitative study. Given the fact that the previous research in this particular field was mostly focused on larger firms, the first phase of the empirical process was rather exploratory. The second phase was structured whereas the third phase was confirmatory and aimed at an analytical-theoretical generalization rather than a generalization of the defined population. According to Tashakorri and Teddie (1998; 2004) and Hohenthal (2006), mixed methods e.g. qualitative and quantitative methods, take advantage of the operational level where the researcher aims to develop and test theories by looking at the same observable fact but in different ways. The section ends with a discussion of the validity and reliability of the studies.
3.1. Phase 1: Pre-study of small firms political behavior

My empirical journey began in 2006 after a thorough literature review. As the previous chapters have highlighted, there are few empirical studies of small firms’ political activities. Therefore, the purpose of this study is to explore the nature of small firms’ political behavior. The main and fundamental question that arose after the literature review was: are all small firms really passive receivers of political initiatives with no political resources? And if so, how does that affect their businesses? Is lack of resources the only reason for passiveness, or are there others? What is the role and function of trade associations and other interest organizations? The initial focus of the research project was to focus on 1) rules and regulations, 2) licenses and permissions, and 3) subsidies and grants. In an attempt to find small firms related to the focus of the project, a documentary study was conducted by reading newspapers, searching the Internet, EU-related documents, and other published material.

From that search, I found many potentially relevant firms. However, I decided to proceed with two small firms of particular interest. One of these firms was a micro-business, a spin-off firm closely connected to a large firm. The firm had been funded with EU grants jointly with the large firm and after interviews with both the firm and their business partner, it turned out that the role of the small firm was not particularly essential, since the specific fund required cooperation with other firms. Nonetheless, the preliminary case study served as an indicator of one of the problems that could face small firms. The other firm, a producer of outdoor furniture, illustrated how a small firm with 25 employees committed resources to a political issue. The Managing Director of this firm was an eye-opener, in that he was very passionate about business-political issues and active in his region. The Managing Director had a strong foundation in the political arena.
Since he is an active member of various political organizations, not only trade associations but also on the regional level, he had participated in processes aimed at facilitating business development and attracting new business to his region. As the research process was still at an early stage, I wanted to further examine the reality in which small firms operate and the difficulties they face regarding rules and regulations. I wanted to search for small firms that were politically active and had at least tried in some way to influence political rules and regulations on the local, national, and/or EU level.

In an attempt to find small firms that had been involved or had a relationship with political institutions and actors, a review of the Swedish government’s database in which letters to government agencies are documented was conducted. In this database, all letters that Swedish citizens write to express their points of view about a specific matter or ask questions about taxes, how to apply for a program, or any other concern are documented. We believed this would be a fruitful way of finding case study objects. The search was an attempt to identify small firms that had certain issues with the EU regarding their business. However, it turned out that this method was not as rewarding as expected for finding potential firms to conduct case studies on. The letters found in the database mostly concerned taxes or simply opinions about a specific regulation and mainly dealt with simplifications of administrative procedures related to their businesses. A new direction and other sources to search were therefore needed.

3.1.1 Interviews with intermediaries and political actors
As the search in the government database was not as useful as I was expecting, I decided to go through other channels. After the literature review, it was clear that small firms often turned to intermediating actors such as trade associations. First, some secondary information about various forms of associations was gathered: privately owned, public/private trade
associations, and national and local organizations. The main purpose was to get an overview and learn more about how the organizations and government agencies work vis-à-vis business firms, particularly small firms in Sweden. I wanted to get their perspective on this phenomenon, and also how they work towards national and EU institutions. Interviewing representatives from trade organizations was also a gateway to finding potential firms for further study. See Table 1 for a detailed description of the intermediaries that were interviewed.

Table 1: Pre-study interviews

<table>
<thead>
<tr>
<th>Organization/ Institution</th>
<th>Interviewee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confederation of Swedish Enterprise (Svenskt näringsliv)</td>
<td>Director of policy for services and SME matters Regional manager</td>
</tr>
<tr>
<td>The Chamber of Commerce (Handelskammaren)</td>
<td>Assistant vice president</td>
</tr>
<tr>
<td>The Swedish Federation of Business Owners (Företagarna)</td>
<td>Regional manager</td>
</tr>
<tr>
<td>The Swedish Agency for Economic and Regional Growth (Nutek)</td>
<td>Head of regulatory reforms</td>
</tr>
<tr>
<td>The Municipality of Enköping</td>
<td>Marketing director Advisor</td>
</tr>
<tr>
<td>The Municipality of Uppsala</td>
<td>Enterprise manager</td>
</tr>
<tr>
<td>The Ministry of Enterprise, Energy and Communication in Sweden (Näringsdepartementet)</td>
<td>Political Advisor</td>
</tr>
</tbody>
</table>

In addition to the interviews, several seminars were also arranged by some of these intermediaries in which I attended in my search for politically active small firms. What were the issues that the intermediaries addressed and were small firms interested in these seminars? The purpose was mainly
informative and to observe the interaction channels between organizations of various forms in Sweden and how they worked to induce and involve Swedish small firms to take advantage of all the supportive initiatives that EU institutions provide in terms of funding and joint collaborations between firms in other European countries. Seminar subjects included how to apply for EU’s seventh framework, efforts to decrease the administrative burden on small firms, and whether government initiatives correspond to business firms’ requirements and expectations, to name a few. Consequently, the interviews and seminars resulted in good insight into the organizations and were an avenue for feedback and possible ways to move forward.

3.1.2 Field trip to Brussels
In spring, 2007, the regional office in Enköping of the Stockholm Chamber of Commerce arranged a field trip to Brussels. The regional office has a special focus on business firms’ opportunities to do more business, primarily through internationalization and increasing international trade. The purpose of the trip was to understand how EU institutions work and how they influence Swedish firms. During my pre-study interviews with the Managing Director of the outdoor furniture producer, we developed a mutual friendship based on our shared beliefs and concerns about the situation of small firms in the EU. The Managing Director suggested that I should join them on this field trip; he was one of those who initiated the trip along with the Stockholm Chamber of Commerce’s local committee in the city of Enköping. The participants represented eight firms, the marketing director of the municipality, and representatives of the Chamber of Commerce. During the three-day visit, the Chamber of Commerce had arranged meetings with representatives of the European Parliament, the European Commission Enterprise and Industry Directorate-General, the Stockholm Region (Brussels office), Kreab (a large lobbying organization), the Confederation of Swedish Enterprise (Brussels office), the Swedish Trade
Council, and the Permanent Representation of Sweden to the European Union. The meetings resulted in interesting discussions regarding small firms, their current situations, and opportunities. Interestingly, every representative we talked to stressed the importance of small firms and that politicians should work more specifically towards this group of firms to attract them to new markets and into the political sphere. The main argument was that politicians are not experts and need input from small firms to create a better business environment that encourages growth. The outcome of the field trip for me as a researcher was an overview of how EU institutions work with small firms and how lobbying organizations and Swedish trade organizations based in Brussels handle SME issues. It was also a good opportunity, under less formal circumstances, to discuss the issues I was struggling with in my research and whether the firms were facing some of the issues I was highlighting and if so, how they were managed.

According to the participating business owners, the trip contributed to their understanding of how EU institutions work. They learned about the interdependency among these institutions, trade organizations, and business firms and that even a small firm from Enköping can thus influence or contribute through its specific knowledge and expertise. The participating firms returned from the trip with the mission of spreading the word that the EU is of great importance. They also wanted to encourage other firms to actively participate and take direct contact with institutions – every firm can make a difference and cannot afford to just sit back and ignore developments. For me as a researcher, it was rewarding to share these lessons learned with these firms, since I saw how important political knowledge is and how increasing that knowledge changed the mindset of the firms regarding their future behavior. The importance of political knowledge was something I realized would be fundamental in my future work with the thesis.
3.2. Phase 2: A qualitative deep dive into small firms political behavior

3.2.1 Case studies
With the insights gained in the first phase, I proceeded with the second phase. I chose a case study design because I considered it to be most suitable in my explorative journey to understand relationships and interactions and to find explanations for processes, driving factors, and actors as well as dependency issues. Case studies are the preferred strategy when “how” and “why” questions are being posed, when the investigator has little control over events, and when the focus is on contemporary phenomena in a real-life context (Yin 1994).

This study is a case of both “how” and “why” questions. I used case studies primarily to gain deeper understanding of how some small business firms manage their political behavior and the possible impact of these actions on their business relationships. Another reason for using case studies in my research is that I want to explore why some firms take action and others do not within this group of firms previously considered to be homogenous. Case studies also contain a variety of data sources (Eisenhardt and Graebner, 2007). Case study methodology, through its narratives, is particularly good at generating novel analytical perspectives, exploring new theoretical relationships, and reframing old causal linkages (Eisenhardt, 1989). There are several data collection methods available for case studies, such as interviews and observations (Merriam, 1998).

Data collection for the case studies in this thesis involved both interviews to obtain primary data and various types of written secondary data such as brochures, government documents, and EU documents. It is worth noting that I would not have found out about my cases without the help of the organizations and trade associations that I interviewed in the pre-study phase of this process. When I later contacted the firms and referred to the
specific organization, they were willing to be interviewed. The informants were identified by snowball sampling (Biernacki and Waldorf, 1981). My intention was to capture an activity, that is, to gain a deeper understanding of how some small business firms undertake influential activities while others feel obliged to adapt, and the possible effects of these actions. Given that I have a business network perspective, my interest is not limited to getting the business firm’s point of view.

A challenge with case studies in network studies is the question of where to draw the boundaries within the network (e.g. Halinen and Törnoos 2005). Eisenhart and Graebner (2007) emphasize the importance of using numerous and highly knowledgeable informants who view the focal phenomena from diverse perspectives. For this thesis I have interviewed business firms and representatives of trade associations, municipalities, and national government institutions. The intermediating organizations I interviewed were those that dealt with matters concerning small firms and especially with small firms and the EU. During the interviews with representatives of trade associations, I mapped out the network and the actors involved. I then proceeded with interviews with the CEOs of the small firms and gained a more detailed view of the process in which they had been involved and other significant actors. Through this approach, the actors set the boundaries of the network. Naturally, some were very far reaching and strictly speculative, I set some boundaries of my own in respect to my research focus and available resources.

The main focus of the study is two small business firms located in Sweden. A third case is also concluded and data concerning this case are gathered by other members of the project. I selected the firms after having been informed in the previous interviews with trade associations that these two firms had been involved in a policy issue and had been active in the matter. Eisenhardt (1989) discusses critical cases and it was quite clear that both firms had something to say about the nature of business-political interaction. To
generate information concerning the business and their actions, in-depth interviews were conducted both at the focal businesses and with other parties involved in the business and political processes they described. I proceeded with other business and political actors involved in the narrative to get their perspective on the process. It is the actors who are identified and perceived as relevant and important to the focal firm in the context that are considered when studying the activities and operations of the firm. The other actors in the network were perceived as important to knowledge creation in the process due to supportive or coercive initiatives by political organizations.

There are several questioning styles that can be employed when working with interviews. Interview styles can be grouped into highly structured/standardized or unstructured/informal (Merriam, 1998). All interviews for this thesis were conducted using a semi-structured approach in which general questions were prepared and asked. The pre-formulated questions helped focus the discussion on the subject area while leaving room for adjusting the questions to follow up on the respondent’s answer and ask further questions on site. This flexibility was very fruitful as I only had limited pre-information about the respondents’ involvement in the process and wanted to map out the network and the actors involved. When it comes to the business firms, the questions concerned matters such as the political issue, identification of involved parties in the dealing with a certain political issue, the impact of supportive/coercive activities implemented by the EU on their businesses and business partners, etc. The questions to the intermediaries focused on questions such as their mission, organizational structure, membership, how they work towards small firms and specifically the impact of the EU on small firms from their perspective. When the interviews were held, much of the time was allocated to letting the respondents “tell their story” without much intervention.
A total of 21 interviews were performed with firms, representatives of various private and public/private organizations, and political actors. To limit bias, all respondents were highly knowledgeable individuals who view the focal phenomena from different perspectives (Eisenhart and Graebner, 2007). 17 interviews were face-to-face and three were by telephone. All interviews were held in Swedish and on the respondents’ premises. All interviews were taped, in addition to taking notes. Every interview was recorded with the permission of the respondent. Each interview took 60-90 minutes to conduct. During and after the interviews I took notes, which were used as background material for the analysis. Shortly after each interview a thorough transcript was done. The analysis began and questions arose during this process. What does this story tell us? Are there any patterns in the cases? Why did the firms act as they did? What kinds of resources did they possess? What concepts are essential in each case?

3.2.2 Data analysis
Notes were taken during and after each interview. Shortly after each interview a thorough transcript was done. For the purpose of the analysis, narratives of each interview were constructed as case stories. It is important to start with a “story telling” about a situation and progress in chronological order to see how the variables are connected (Ghauri and Firth 2009). Apart from personal interviews, various types of written secondary data such as brochures, government documents, and EU documents were used to gain a deeper understanding and acquire the necessary information about the specific case. Verification was primarily obtained through different means. The validity procedure used was member validation, where copies of the empirical section of the paper were sent to respondents for comments and feedback and to reduce the risk of misinterpretation and ensure the validity of transcripts.
3.3. Phase 3 - A widen study of small firms political behavior

3.3.1 The survey
To explore whether the leanings from the first two qualitative phases of the research were valid for a wider population group, phase three was quantitatively designed and a survey was performed. Certain critical elements and behaviors were revealed in the previous phases. Firstly, activities and issues differed in the case studies and each case was thus unique. What they had in common is that they had both tried to influence a political decision, at different levels, and in connection with different institutions and government departments; the outcome of such behavior was consequently different. The case studies also illustrated the underlying motives for political behavior and their respective embeddedness in various networks. Secondly, the experiences from the field trip and the cases highlighted the importance of political knowledge and other prerequisites for political behavior had emerged from the literature review. Thirdly, the literature review revealed that small firms took collective action but the cases showed the opposite and/or a combination of both venues. The previous phases contributed to the development of the survey construct. Moreover, the qualitative research was essential to designing the questionnaire due to the paucity of studies of the political behavior of small firms, and the aim of this study was explorative. Therefore, operationalization of the construct was substantiated by the findings of the qualitative research. The survey process was composed of a number of steps that will be described in this section and are illustrated in Figure 2.
3.3.2 Research objectives and target population

As previously stated, the qualitative data laid the foundation for the questionnaire. The questionnaire was developed for the purpose of evaluating the impact of EU on small firms’ core business activities, the effects on their relationships with intermediaries such as associations, municipal, and national organizations, and finally the impact on their relationships with their business partners. The target population for the survey was defined at a very early stage of the study. There are two main reasons for the population: lack of studies based on the political activities of small firms and the massive EU emphasis on the importance of small firms. Having specified the research objectives and populations, the next step was
to determine the mode of administration. A decision was made to use self-administered postal surveys. As Biemer and Lyberg (2003) point out, this is an important decision to make before designing the questionnaire, given that different modes of data collection often require different types of questionnaires. Face-to-face interviews might have been an option, but were not feasible because it was judged not cost-effective in terms of travel expenses, the number of persons required to perform the interviews, etc. Postal surveys are more cost-effective and less time consuming in that respect.

3.3.3 Sampling methods
The research project concerned small firms in a European context and some delimitation was therefore required. According to the Commission, “enterprises qualify as micro, small and medium-sized enterprises (small firms) if they fulfill the criteria laid down in Recommendation 2003/361/EC. The criteria for being classified as a small firm are the following: a headcount of less than 50, maximum turnover of € 10 million, and maximum balance sheet total of € 10 million. According to Recommendation 2003/361/EC, an enterprise qualifies as an SME if it meets either the turnover ceiling or the balance sheet ceiling in addition to the staff headcount ceiling. A sample was drawn from a Swedish database covering all firms of all sizes in Sweden. We followed the EU definition of small firms and used a stratified sampling method. Considering the total population of small firms and with the additional criterion that the small firms had to be active limited companies, the current population in Sweden is 12,428 small firms. Out of the total population, a list number was conducted and a random starting point between 1-10 was sampled. The starting point number was 9 and a sample of 995 small firms was ultimately selected from the database.
3.3.4 Designing and developing the questionnaire

In light of the decision to use a self-administered postal survey, certain factors were taken into account: respondents should be able to independently answer the questions and the questions thus needed to be clear and understandable by the respondents with no need for further explanation. The questions asked were deliberately of such nature that the respondents would not need to look up the answers. This was a challenge, since the questionnaire could not be too extensive or complex. Each section of the questionnaire included brief information about how to fill in the actual questionnaire and the considerations respondents needed to take into account when answering the questions.

The survey was designed as follows. Initially, the respondents needed to think about their primary product or service. Secondly, the respondents had to identify their most important business partner pertaining to their chosen product or service. The respondents had three options: customer, supplier, or other. This was necessary since some parts of the questionnaire included relationship-specific questions about the impact of decisions that departed from the EU. The purpose was for the respondents to have their specific business partner in mind when answering the following questions. Questions about the duration and recurrence of personal contacts in the business relationship and why the partner is important were also asked. The questionnaire consisted of four parts. The first focused on the EU’s influence on the relationship between the firm and the specific, chosen business partner. The questions were related to trust, commitment, uncertainty, expectation, cooperation, adaptation, and efficiency. The second focused on the EU’s influence on the focal firm. Questions in this section referred to supportive and coercive initiatives, level and type of political commitments, effects on business development, market activities, competitive position, performance, etc. The third focused on intermediaries, such as politicians at the local and national level, trade associations, and consultants. Questions
about political trust, advice, the importance or role of intermediaries, types and degree of commitment to these actors, etc., were asked in this part. The fourth and final part focused on the relationship with the chosen business partner with no interference from the EU. All measures were perceptual and measured on a five-point ordinal scale from 1 (completely disagree) to 5 (completely agree).

3.3.5 Questionnaire modification
After several months devoted to a thorough literature review and, based on previous case studies within the project, the questionnaire was finally completed and it was time for evaluation. In the first round, the questionnaire was distributed to peers for expert reviews. Peer reviewers were chosen on the basis that they had some experience of surveys in the past. Certain adjustments were made before the pre-testing process on potential respondents from the sample began. Initially six firms were chosen, all located in Uppsala. The structure of each test was as follows: the setting was face-to-face and the respondent was informed that he or she should complete the questionnaire with no interference from me and without my answering any questions. Upon completion, I used a “think-aloud” method where I asked the respondent how he or she understood and perceived each question and how they interpreted the wording, etc. I had also some questions that I had prepared in advance. The questions referred to the format of the questionnaire, the order of the sections, whether or not I should send a token of appreciation with the questionnaire as an incentive, the length of the questionnaire, and finally, what might induce more respondents to answer. I also timed each respondent. Each completion of the questionnaire took about 17-22 minutes. After the six tests were done, certain patterns were clear. The viewpoints were largely the same so a decision was made to not proceed with more tests. However, the test run revealed some unanticipated problems that will be discussed in the next
section. It is important to remember that some modifications can create an additional burden for the respondent or affect the original construct. This was also taken into account when deciding whether or not to make the modifications.

The purpose of the evaluation was to compensate for errors that arose and assure the quality of the questionnaire. The evaluation revealed some unanticipated problems with the clarity of the sections, such as clarity of wording, length of questions, and instructions. It appeared that some questions were repetitive and duplicates were deleted in order to prevent irritation. Another issue taken into consideration to decrease the respondent’s burden was to re-formulate some of the questions to make them more easily answerable. The questionnaire was thus based on theoretical preferences. Individual items were slightly adjusted in wording to fit the small firms and the political context of the study. All questions were also deliberately formulated in such a way that the respondent did not have to look up the required information. During the evaluation period with the potential sample, I raised the question of whether or not I should send a token of appreciation, such as a pen or lottery scratch card. The majority did not think this was necessary, with the reasoning “you can’t fool people with goodies; if people want to complete the questionnaire, they will, no matter what they get.”

3.3.6 The postal survey
An introductory letter was attached to the questionnaire. The letter was divided into four small sections. The first covered general information about the purpose of the study, the contributions to research, and the practical knowledge it will bring to the business community. The second section provided information about sampling procedures and the third explained how the anonymity of the respondents will be preserved and the deadline for completing the questionnaire. The last section informed respondents how the
results were going to be used in research and that the results would be
distributed to respondents upon request. A postage paid envelope for return
after completion was enclosed with the self-administered postal
questionnaire. A postcard was sent to the respondents two weeks after the
first mailing round. The postcard reminded the respondents of the survey and
its importance to the progress of our research. Contact details were also
printed on the card, in case there were any questions. Since it was
Christmastime, the selected postcard featured a picture of the main building
of Uppsala University covered in snow and a Christmas greeting.

There are many different strategies for improving postal surveys and the
response rate. However, one must bear in mind that realistic steps must be
identified to achieve satisfactory response rates, which are highly dependent
on the situation and resources available to the researcher. As recounted in the
previous sections, some efforts were made to increase the response rate:
sending reminders to the respondents, including postage paid return
envelopes, and assuring respondents that they would remain anonymous.
Financial incentives were excluded since most of the respondents in the test-
run pointed out that people cannot be fooled by silly pens or lottery tickets.

3.3.7 Response rate
In total, 134 of the sampled firms returned the questionnaire for a response
rate of 13.5 percent. Even though a great deal of advance effort was made to
motivate respondents to return the survey, the result was lower than
expected. However, it has been reported that surveys of small firms,
entrepreneurs, and business owners traditionally produce low response rates
(Dennis, 2003). It should be kept in mind that this study was of an
explorative nature, in that no previous quantitative projects concerning
relationships with political actors had been reported specifically for small
firms. Therefore, it was hard to foresee the extent to which small firms were
politically active. Non-active firms may have found the survey irrelevant to
their business. Nevertheless, this exploration of the political behavior of small firms takes the first step towards mapping the types of firms that are exposed to political issues and the industries that are most affected by regulations at the EU level. Apart from this explanation of the relatively low response rate, a few additional comments should be made. First, the timing of the questionnaire was not optimal, since it was sent out about a month before Christmas. One can imagine that this is a hectic time and completing a survey is simply not a priority. Second, the questionnaire was sent out during the financial crisis and the respondents might simply not have had the time to answer because they were preoccupied with more important issues. The third and perhaps most critical explanation emerged in discussions with five of the sample firms. The stated reason for their non-response was that they did not see the relevance of the EU for their business. Instead, they argued that the political rules and regulations that affect them are national, and they trust political experts to make the right decisions for firms.

The relatively low response rate made it important to perform a non-response analysis. The suggestions of Armstrong and Overton (1977) were followed for this purpose. Thus, non-responders were compared with responders on known values. Table 3 provides an overview of the industry distribution of the sample and the responding firms. The shadowed rows presents the SNI (Swedish Standard Industrial Classification, based on EU recommended standards) classes whereas the non-shadowed row presents the sub-classes within each industry group. The table only discloses industries in which firms from the sample are found. In the two columns describing the sample, the number of firms from each industry as well as the share of the total sample is revealed. In the columns to the right, the number of responding firms from each industry is presented as well as the response rate for this particular industry. In the table, it is seen that the dominant industries in the sample are the manufacturing industry and the construction industry. There are also two large service related industries making up for a
large share of the sample, namely the transportation and storage industry and
the Professional, scientific and technical activities industry. Judging from the
response rates from the different industries, there seems to be no systematic
industry biases. Still, it is interesting to see that a noteworthy higher rate of
response was achieved for the Agriculture, forestry and fishing industry
which confirms some of the findings from the qualitative research, namely
that, in this particular industry small firms see political issues as important.
The geographical location was also compared. The comparison revealed no
significant differences between responders and non-responders. Apparently,
there seems to be no systematic errors in the data, when the responses have
been compared to the non-responses. In the last row of the table, the survey
is summed by showing the total sample (995 firms), the responding firms
(134) and the response rate achieved (13, 5 percent).
### Table 3: Sample and response

<table>
<thead>
<tr>
<th>Category</th>
<th>Sample N</th>
<th>Sample %</th>
<th>Response N</th>
<th>Response %</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Agriculture, forestry and fishing</td>
<td>17</td>
<td>1.7%</td>
<td>4</td>
<td>23.5%</td>
</tr>
<tr>
<td>01 Crop and animal production, hunting and related service activities</td>
<td>12</td>
<td>1.2%</td>
<td>2</td>
<td>16.7%</td>
</tr>
<tr>
<td>02 Forestry and logging</td>
<td>5</td>
<td>0.5%</td>
<td>2</td>
<td>40.0%</td>
</tr>
<tr>
<td>B Mining and quarrying</td>
<td>4</td>
<td>0.4%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>08 Other mining and quarrying</td>
<td>4</td>
<td>0.4%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>C Manufacturing</td>
<td>317</td>
<td>31.9%</td>
<td>44</td>
<td>13.9%</td>
</tr>
<tr>
<td>10 Manufacture of food products</td>
<td>20</td>
<td>2.0%</td>
<td>2</td>
<td>10.0%</td>
</tr>
<tr>
<td>11 Manufacture of beverages</td>
<td>1</td>
<td>0.1%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>13 Manufacture of textiles</td>
<td>4</td>
<td>0.4%</td>
<td>1</td>
<td>25.0%</td>
</tr>
<tr>
<td>14 Manufacture of wearing apparel</td>
<td>1</td>
<td>0.1%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>15 Manufacture of leather and related products</td>
<td>1</td>
<td>0.1%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>16 Manufacture of wood and of products of wood and cork, except furniture;</td>
<td>28</td>
<td>2.8%</td>
<td>1</td>
<td>3.6%</td>
</tr>
<tr>
<td>17 Manufacture of paper and paper products</td>
<td>3</td>
<td>0.3%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>18 Printing and reproduction of recorded media</td>
<td>27</td>
<td>2.7%</td>
<td>6</td>
<td>22.2%</td>
</tr>
<tr>
<td>20 Manufacture of chemicals and chemical products</td>
<td>4</td>
<td>0.4%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>21 Manufacture of basic pharmaceutical products and pharmaceutical preparations</td>
<td>4</td>
<td>0.4%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>22 Manufacture of rubber and plastic products</td>
<td>10</td>
<td>1.0%</td>
<td>1</td>
<td>10.0%</td>
</tr>
<tr>
<td>23 Manufacture of other non-metallic mineral products</td>
<td>6</td>
<td>0.6%</td>
<td>1</td>
<td>16.7%</td>
</tr>
<tr>
<td>24 Manufacture of basic metals</td>
<td>5</td>
<td>0.5%</td>
<td>1</td>
<td>20.0%</td>
</tr>
<tr>
<td>25 Manufacture of fabricated metal products, except machinery and equipment</td>
<td>105</td>
<td>10.6%</td>
<td>15</td>
<td>14.3%</td>
</tr>
<tr>
<td>26 Manufacture of computer, electronic and optical products</td>
<td>13</td>
<td>1.3%</td>
<td>1</td>
<td>7.7%</td>
</tr>
<tr>
<td>27 Manufacture of electrical equipment</td>
<td>12</td>
<td>1.2%</td>
<td>4</td>
<td>33.3%</td>
</tr>
<tr>
<td>28 Manufacture of machinery and equipment</td>
<td>35</td>
<td>3.5%</td>
<td>6</td>
<td>17.1%</td>
</tr>
<tr>
<td>29 Manufacture of motor vehicles, trailers and semi-trailers</td>
<td>5</td>
<td>0.5%</td>
<td>1</td>
<td>20.0%</td>
</tr>
<tr>
<td>30 Manufacture of other transport equipment</td>
<td>3</td>
<td>0.3%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>31 Manufacture of furniture</td>
<td>16</td>
<td>1.6%</td>
<td>2</td>
<td>12.5%</td>
</tr>
<tr>
<td>32 Other manufacturing</td>
<td>4</td>
<td>0.4%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>33 Repair and installation of machinery and equipment</td>
<td>10</td>
<td>1.0%</td>
<td>2</td>
<td>20.0%</td>
</tr>
<tr>
<td>F Construction</td>
<td>259</td>
<td>26.0%</td>
<td>33</td>
<td>12.7%</td>
</tr>
<tr>
<td>41 Construction of buildings</td>
<td>54</td>
<td>5.4%</td>
<td>6</td>
<td>11.1%</td>
</tr>
<tr>
<td>42 Civil engineering</td>
<td>10</td>
<td>1.0%</td>
<td>1</td>
<td>10.0%</td>
</tr>
<tr>
<td>43 Specialised construction activities</td>
<td>195</td>
<td>19.6%</td>
<td>26</td>
<td>13.3%</td>
</tr>
<tr>
<td>G Transport and storage</td>
<td>132</td>
<td>13.3%</td>
<td>14</td>
<td>10.6%</td>
</tr>
<tr>
<td>49 Land transport and transport via pipelines</td>
<td>113</td>
<td>11.4%</td>
<td>12</td>
<td>10.6%</td>
</tr>
<tr>
<td>50 Water transport</td>
<td>6</td>
<td>0.6%</td>
<td>2</td>
<td>33.3%</td>
</tr>
<tr>
<td>51 Air transport</td>
<td>1</td>
<td>0.1%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>52 Warehousing and support activities for transportation</td>
<td>12</td>
<td>1.2%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>H Information and communication</td>
<td>113</td>
<td>11.4%</td>
<td>20</td>
<td>17.7%</td>
</tr>
<tr>
<td>58 Publishing activities</td>
<td>23</td>
<td>2.3%</td>
<td>5</td>
<td>21.7%</td>
</tr>
<tr>
<td>publishing activities</td>
<td>7</td>
<td>0.7%</td>
<td>1</td>
<td>14.3%</td>
</tr>
<tr>
<td>61 Telecommunications</td>
<td>4</td>
<td>0.4%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>62 Computer programming, consultancy and related activities</td>
<td>71</td>
<td>7.1%</td>
<td>13</td>
<td>18.3%</td>
</tr>
<tr>
<td>63 Information service activities</td>
<td>8</td>
<td>0.8%</td>
<td>1</td>
<td>12.5%</td>
</tr>
<tr>
<td>I Professional, scientific and technical activities</td>
<td>153</td>
<td>15.4%</td>
<td>19</td>
<td>12.4%</td>
</tr>
<tr>
<td>69 Legal and accounting activities</td>
<td>15</td>
<td>1.5%</td>
<td>2</td>
<td>13.3%</td>
</tr>
<tr>
<td>70 Activities of head offices; management consultancy activities</td>
<td>42</td>
<td>4.2%</td>
<td>3</td>
<td>7.1%</td>
</tr>
<tr>
<td>71 Architectural and engineering activities; technical testing and analysis</td>
<td>54</td>
<td>5.4%</td>
<td>9</td>
<td>16.7%</td>
</tr>
<tr>
<td>72 Scientific research and development</td>
<td>6</td>
<td>0.6%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>73 Advertising and market research</td>
<td>26</td>
<td>2.6%</td>
<td>5</td>
<td>19.2%</td>
</tr>
<tr>
<td>74 Other professional, scientific and technical activities</td>
<td>10</td>
<td>1.0%</td>
<td>0</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

| Total | 995 | 100.0% | 134 | 13.5% |
An overview of the 134 responding firms is provided in Table 4. Here it is shown that the average firm in this study has a turnover of € 2 990 000, a headcount of 18 and was founded in 1989.

Table 4: Descriptive statistics

<table>
<thead>
<tr>
<th></th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (€000)</td>
<td>113</td>
<td>9974</td>
<td>2990</td>
</tr>
<tr>
<td>Employees</td>
<td>9</td>
<td>44</td>
<td>18</td>
</tr>
<tr>
<td>Firm age</td>
<td>1</td>
<td>66</td>
<td>19</td>
</tr>
</tbody>
</table>

3.3.8 Common method bias
In addition to examining data quality by looking at the response rate, a few words should be said about the potential risks of a common method bias in the data set. In this case, there is a risk for biases related to having a single respondent. In some cases this is problematic, especially when the same respondent answers questions about both dependent and independent variables. In general, I agree that such situations should be avoided. However, when studying small firms the potential respondents are limited and it is often the case that only one person, normally the owner/head of finance is the only one in possession of sufficiently detailed information to participate in a survey. This was apparent from that I had learned in phases 1 and 2. Consequently, I soon realized that the potential risks of a method bias related to a single respondent could not be prevented while collecting the data sought for this study. Instead, I realized that available controls for the purpose, as suggested by Podsakoff et al. (2003), should be applied to the data set while running the statistical models. Another source of common method bias is context-induced mood, where a set of questions encountered
on the questionnaire induces a mood for responding to the remainder of the questionnaire (Podsakoff et al., 2003). To overcome this, positive and negative questions were dispersed throughout the questionnaire. Other possible sources were item complexity and/or ambiguity. To avoid this, all theoretical jargon was “translated” or reworded to be understandable to respondents and double-barreled questions were avoided.

3.3.9 Data analytical technique

The method used in this thesis to analyze the data was Partial Least Squares Path Modeling (PLS). There are a number of reasons why SmartPLS 2.0 (Ringle et. al 2005) was more appropriate than other techniques. PLS is a technique built on structural equation modeling, which is more appropriate when sample sizes are small (Birkinshaw et al., 1995), in exploratory stages of research (Tsang, 2002; Ainuddin et al., 2007), and/or assumptions of normal distributions are not satisfied (Chin and Newsted, 1999). The data used in this study are exploratory and the sample size, as noted, is fairly small (13.5 %). Use of PLS is especially suited to exploratory studies like this one, where the measures are new and the relationships have not previously been tested.

PLS is defined by two sets of linear equations 1) the inner model (also called structural model) that specifies the relationships between unobserved or latent variables, and 2) the outer model (also called measurement model) that specifies the relationships between a latent variable and its observed or manifest variables (Henseler et al, 2009). Employing PLS for analysis follows a two-step approach (Henseler et. al., 2009). First: the outer model or measurement model is assessed. This step comprises the reliability and validity of the reflective constructs, that is, based on the factor loadings of each indicator and Cronbach’s alpha. However, since Cronbach’s alpha has a propensity to provide a severe underestimation of the internal consistency
reliability of latent variables, it has been suggested as more appropriate to apply composite reliability (Werts et al., 1974) in PLS path models. The composite reliability can be interpreted in the same way as Cronbach’s alpha and it takes into account that indicators have different loadings (Henseler et al., 2009). Furthermore, two types are examined for the assessment of validity: convergent validity and discriminant validity. Fornell and Larcker (1981) suggest the average variance extracted (AVE) as a criterion for convergent validity and for the second subtype, discriminant validity, it is assessed both at the construct level and the indicator level. The second step involves specifying a structural model which is explained by the variance of endogenous constructs, effect sizes, and predictive relevance. The evaluation of the inner model concerns the $R^2$ value of the endogenous latent variables.
4. INDIVIDUAL PAPERS

This thesis consists of four papers; for the full papers, see Appendix (B-E). In the subsequent section, the papers are summarized and the respective focus, research methods, and main findings of each paper are described. All papers are marked in Figure 3 below. This section ends with a summary of all four papers in Table 5.

*Figure 3: Focus of the individual papers*
4.1. Summary of paper 1


This paper investigates small firms’ interaction with political organizations in the European Union (EU). Previous studies have shown that these firms have been obliged to follow the coercive political decisions of the EU’s political units. In this paper, we identify some changes which demonstrate political support and influence by small firms. The specified research question is: how do small firms interact with political organizations in the EU? The paper employs a business network approach with special emphasis on the political dimensions. Based on the findings of Hadjikhani and Ghauri (2001) a research model was developed. The research model addresses two central concepts: influence and adaptations. While adaptation applies to the political rules that firms must follow, influence means negotiation and cooperation, where firms aim to gain specific support for their business activities. The ability to exert influence is related to knowledge, where the level of knowledge is a prerequisite for influence. The political activities performed by political actors are supportive or coercive by nature. When small firms’ interaction with political organizations has been studied previously, intermediating actors were taken into consideration because they play an assistive role between business actors and political actors. The activities performed by intermediaries such as trade organizations were either task-oriented (direct support) or long-term (opinion making/representation).

This paper is based on three case studies and survey data. Four propositions concerning small firms’ interaction patterns within the political
context of EU were discussed. The results showed that adaptation is not always the case for small firms, but rather that they are active and try to influence political actors on different levels when a political issue arises that affects their business. However, in their attempts to pursue political activities, they needed specific types of political knowledge.

The second finding of the paper was that even though a specific rule or regulation originated from the EU, the results indicated that the interactions and actual influence mainly took place on the local and national level. The study also revealed some interesting aspects of the level of knowledge possessed by business actors and intermediaries. In one of the cases, the firm owner had more knowledge about the political issue than did the intermediaries, allowing the role of intermediating actors to be reevaluated. The main contribution of this paper is the capacity of small firms to exert influence, and the importance of knowledge in this process.

4.2. Summary of paper 2


The second paper in this thesis focuses on how international organizations such as the European Union (EU) influence small firms conducting business in Sweden. The specific research question addressed in this paper is: How do coercive and supportive initiatives affect small firms’ business relationships? The theoretical view in this paper is based on the business network approach and is constructed in two analytical parts: the focal business relationship and political connections. The focal business relationships of small firms are
explored through the content of relationships in terms of economic and behavioral dimensions such as trust, commitment, uncertainty, expectation, cooperation, adaptation, and efficiency. Relationships are seen as a set of economic and political exchanges that interrelate: small firms are interdependent on the political actors because they can gain support/hindrance; political actors are directly and indirectly interdependent on small firms because they are the major source for increasing GDP, creating jobs, and developing local industries. This interaction has two types of connections: coercive and supportive. The view implies that small firms’ focal businesses are connected to the political organizations and that these connected relationships influence the focal business relationship dimensions.

Survey data were analyzed using PLS techniques. The findings of this paper highlight the impact of political units on small firms’ business relationships. While most studies of industrial networks are mainly concerned with the connectivity of the distributive industrial relationships, this study further extends the network context to include and emphasize the impact of political connections. The results revealed that the coercive connection had a negative effect on all dimensions, which could be explained by that the coercive connection is of a more specific nature. The dimension that had the highest negative impact was relationship uncertainty. This can be connected to the knowledge and resources of small firms for the management of political uncertainty. A highly bureaucratic political organization like the EU, backed by local governments in connection with the low level of management resources, leads to a high level of uncertainty in dyadic business relationships. Contrary to the hypothesized impact, the relationship dimension that gained a high positive impact from the coercive connection was the relationship’s cooperation. The explanation might lie in the decisions, such as standardization rules or financial support from international political units that facilitate greater cooperation between business partners. There were no significant effects of political initiatives on
trust and adaptation. It seems that small firms try to isolate these two dimensions from the impact of external international connections. This is explained by the fact that trust and adaptation are highly specific, implying longevity of the relationships and accordingly are costly to change. The implication of this paper was how supportive and coercive connections strengthen/weaken the focal relationships. Consequently, the results revealed that coercive and supportive initiatives had a heterogeneous effect on business relationship dimensions, that each relationship dimension is specific, and that some dimensions are more sensitive than others.

4.3. Summary of paper 3


The purpose of the third paper in this thesis is to further our understanding by studying how small firms can avoid or reduce coercive political impact and gain support for their businesses through direct political commitments and political commitments towards intermediaries. Previous research on this topic has stressed that the more political commitment and knowledge a firm has and the more influence a firm exerts, the more specific support it can receive to maintain and/or develop its competitive position. While the primary interest of previous studies has been to study firms’ individual political actions or collective political actions, where firms either commit direct internal resources and act individually or commit indirect resources to intermediary actors such as trade associations, national governments, consultants and lawyers to act collectively, the focus of this study is the combination of these. The research question posed is: how do small firms
combine their direct and indirect political commitments in response to coercive and supportive political initiatives?

The paper approaches the political commitment of small firms from a business network perspective, since it proposes that this interaction requires an understanding of small firms’ relationships with non-business organizations in their attempts to manage their relationships in a political environment. In this respect, the network and the use of the resources possessed by other actors in the network, such as non-public and public intermediating actors becomes evident. “Non-public actors” refers to trade associations and consultants, while “public actors” refers to municipalities and state-controlled organizations. The issue of managing the political environment in particular is just one of many issues that create uncertainty for firms in general.

Survey data served as empirical evidence and the hypothesis was tested in PLS. The originality of this study lies in the fact that 1) small firms actually do make direct political commitments 2) a distinction is made between the types of political issues (supportive and coercive) and types of intermediary actors (non-public and public). The breakdown of the two intermediary actors was interesting because it shows that political commitments to various actors clearly depend on the specific type of political issue and the dynamics in the triadic setting and 3) small firms combine different types of political commitment depending on the political issue (supportive/coercive). Evidently, small firms cannot rely only on one type of political commitments. They need to combine their direct resources with indirect resources, and thus make use of distance-reducing actors that operate in business and non-business networks. However, it is the long-term political commitments to trade associations and the political commitments to public intermediary actors that enable small firms to make larger direct commitments or to combine these with direct political resources when a critical political issue arises. This could be related to critical incidents. When
small firms need to manage the political impact of their external environment, that is, the political environment, they intensify and increase the degree of political commitments to reduce uncertainty or negative impact not only in their business relationships but also internally within the firm. The future state of the business relationships will be regarded as reduced uncertainty whereas relationships to non-business relationships (intermediaries and political actors) will be characterized by loosely-coupled issue-related relationships.

4.4. Summary of paper 4


This paper investigates how small business firms develop political strategies in response to coercive political initiatives from political organizations. Extant literature has mainly focused on large firms and has assumed that SMEs are passive adopters of coercive political initiatives. This paper is based on business network theory where business-government relationships have been studied in relation to small firms. The paper also takes some inspiration from the corporate political strategy literature. A framework of firm prerequisites built around three concepts - political commitment, political knowledge, and business-political legitimacy - has been developed. This analytical framework is used to explain how small firms take strategic political actions to change coercive initiatives into support for their businesses.

The case used in this paper was that of a veal producer in Sweden who had realized the devastating consequences of an EU regulation on the marketing of bovine animals. The findings indicated that even the smallest firm can form a political strategy and successfully influence coercive
political initiatives. Small firms still have limited resources but this study indicates that small firms can deal with their political environment individually by mobilizing direct and indirect resources. However, the focal firm’s internal resources would not have been sufficient to change the coercive initiative; it was in the network in which the producer is embedded that he had acquired the prerequisites to develop and execute a specific political strategy. The firm was dependent on the critical elements of political knowledge and competency, political commitment, and legitimacy in its strategy. The main reason for firms to influence other parties is to change their functions by trying to convince them of the positive effects of making changes and the negative effects of maintaining the status quo in terms of economic and development opportunities for the firm, its customers, suppliers, and even competitors. Political strategy then becomes a firm’s strategic political behavior aimed at either preserving or changing the status quo. However, political strategy is not about being opportunistic; it is more about business and political legitimacy, having political knowledge, political experience through various types of commitments, and simply being reasonable. Many times, this type of knowledge is gained through long-term commitments to trade associations.
### Table 5. Overview of papers

<table>
<thead>
<tr>
<th>Paper</th>
<th>Title</th>
<th>Research question</th>
<th>Key constructs</th>
<th>Method</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Small firms’ interaction with political organizations in the European Union</td>
<td>How do small firms interact with political organizations in the European Union?</td>
<td>Knowledge, influence, and adaptation</td>
<td>Qualitative study</td>
<td>Three Swedish cases.</td>
</tr>
<tr>
<td>II</td>
<td>Impact of international political units on small business firms’ relationships – the case of EU and Swedish small firms</td>
<td>How does coercive and supportive initiatives affect business relationship with political organizations?</td>
<td>Coercive and supportive initiatives, interdependent relationship dimensions: trust, commitment, cooperation</td>
<td>Quantitative study</td>
<td>Data from Swedish SMEs. Sample: 134</td>
</tr>
<tr>
<td>III</td>
<td>The Political Commitments of Small Firms to Intermediary Actors: In Response to Supportive and Coercive Initiatives</td>
<td>How do small firms combine their direct and indirect political commitments in response to coercive and supportive political initiatives?</td>
<td>Coercive and supportive initiatives, direct and indirect political commitment</td>
<td>Quantitative study</td>
<td>Data from Swedish SMEs. Sample: 134</td>
</tr>
<tr>
<td>IV</td>
<td>Political Strategies of Small Firms</td>
<td>How do small firms develop political strategies in response to political initiatives?</td>
<td>Political strategies, political knowledge, legitimacy</td>
<td>Qualitative study</td>
<td>One Swedish case.</td>
</tr>
</tbody>
</table>

#### Key findings

- Knowledge, both about the issue and about the EU, is important to small firms in their attempts to exert political influence at the EU level. Firms perceive the impact from the EU as coercive rather than supportive. Although small firms are put under coercive pressure from the EU, there is a possibility for them to exert influence.
- Coercive and supportive initiatives have heterogeneous effects on business relationships. The coercive connection had a negative effect on all relationship dimensions. The effects of supportive connection is stronger than the coercive connection in certain relationship dimensions. Political strategies, intermediating activities, and coercive and supportive initiatives affect business relationship dimensions: trust, commitment, cooperation, and efficiency.
- The political commitments to intermediary actors depend on the specific type of political issue (supportive/coercive). Due to the long-term political commitments to intermediaries, small firms were able to make larger direct commitments or to combine with direct political resources when a critical political issue arises.
- Small firms can manage their political environment individually by mobilizing internal and external resources to influence coercive political initiatives. It was through the network that the firm was embedded in and had acquired prerequisites to develop a specific political strategy.
5. CONCLUSIONS

The purpose of this thesis was to challenge certain problematic assumptions about how small firms manage their relationships with political actors concerning EU-related rules and regulations in their home markets. In essence, the thesis has questioned whether 23 million firms in the EU really are a homogenous group of firms that are passive receivers of political initiatives and have no political resources. The main objective was to understand how these types of firms manage coercive and supportive initiatives and the effects of such on their businesses and business relationships. To fulfill this purpose, four questions related to the overall question were asked in the four individual papers (see Table 5 and Appendix B-E). With a framework anchored in business network theory, the thesis investigates small firms’ interaction with non-business actors. The purpose of this section is to integrate the findings of the four papers and address the research questions. More in-depth discussion of the theoretical contributions of the findings can be found in the four papers respectively.

In general, the thesis makes several specific contributions to the existing literature and contributes to an enhanced understanding of how small firms manage their political environment. Theoretically, this thesis has contributed to the field of international marketing and business regarding firms’ political behavior (Boddewyn, 1988) and the political embeddedness of firms (Welch and Wilkinson, 2004; Halinen and Törnroos, 1998; Granovetter, 1985). By extending the network and involving political actors in dyadic relationships and intermediary actors in triadic relationships in the business network, it contributes to the work of other researchers with a business network
perspective (Hadjkhani and Ghauri, 2001; Welch and Wilkinson, 2004; Havila, 1996). The conclusion of this thesis is that the business network is inseparable from the political network. Previous research has shown that “no business is an island” and a firm cannot exist in a vacuum (Håkansson and Snehota, 1989), that is, firms are always dependent on other firms’ resources. The findings of this thesis extend the extant literature on the network perspective. As a matter of fact, the conclusions here show that the island metaphor does not go far enough. I recognize that no business is an island and clearly agree that firms are part of a network. While most studies on industrial networks are mainly concerned with the connectivity of industrial relationships, this thesis further extends the network context to include and emphasize the impact of political connections. In this vein, the actors identified have been small firms, political actors, and specific types of intermediaries. These political actors and intermediaries are seen as part of the firm’s business network.

I have also divided the political impact into two separate categories: coercive and supportive initiatives. These relationships have been characterized by both long-term commitments and loosely-coupled issue-related relationships. The findings in this thesis confirm that no business is an island, but more importantly the study also shows that no business network is an archipelago. Instead, we need to incorporate the network’s surrounding and influential environment – the sea surrounding the islands of an archipelago. This metaphor is used to substantiate the significant importance of 1) the political impact on business firms and 2) the intermediating actors (non-business). Consequently, these issues need to be integrated in the same network and not separated. Relationships between firms and non-business actors are embedded in other business and political relationships due to the interdependencies between the actors and the fact that the activities are interrelated and the political connections affect their business.
Except for this general contribution of the thesis, three more specific aspects have been revealed: resource heterogeneity and prerequisites in the network, the role of intermediaries, and the political relationships of small firms, which will be discussed in the subsequent section.

5.1. Resource heterogeneity and prerequisites in the network
The foregoing study of small firms’ relationships with political actors prompts us to reflect upon the heterogeneity characterized by a number of combinations of changes in the business environment consequential upon changes in the political environment. This thesis has proven that small firms are not a homogeneous group of firms, as previously argued. Firstly, political initiatives are homogeneous by nature but affect small firms heterogeneously for a number of reasons. Small firms differ according to the industry they belong to, their resources, and their embeddedness in various networks. While non-public and public intermediary actors acknowledge the heterogeneity of small firms, they do not have the resources to take this into account. Therefore, they act homogeneously when they represent small firms in political matters. One difficulty, however, is that the small firms are so numerous and, like most firms, so heterogeneous, each facing its specific problem that often needs a rapid solution. For the intermediaries, it is often difficult to reach the firms, and identify their issues in order to represent them in the political environment; consequently, some firms act directly with the political units. Paper 2 clearly demonstrated the heterogeneous political effect on small firms’ business relationships. Papers 1, 3 and 4 showed that small firms are embedded in networks and thus make use of network resources or in conjunction with them to handle the effects of political initiatives. This resource-heterogeneity became evident in paper 4, where the
firm’s prerequisites determined whether or not the firm’s could have a political strategy.

Consequently, by making political commitments firms increase their political knowledge and thus have the prerequisites for developing a political strategy, regardless of whether short-term or long-term, individual or collective action. Once they have actualized a political strategy, firms will gain new political knowledge from that process or experience. The more a firm’s political knowledge increases, the more political commitments they will make, and thus uncertainty about future commitments will decline. The likelihood of increasing the level of political commitments lies in the understanding of the importance of political strategy; consequently, allocating resources to specific political activities becomes a natural part of a firm’s overall strategy. Perhaps the most important conclusion of this thesis is that small firms have the capacity to formulate a political strategy depending on their prerequisites in the network. One implication is that economic competition is not seen as the only competition; political resources, such as knowledge about the political market, become equally important and yet another condition among others for survival in the market. Political behavior complements economic behavior (Boddewyn and Brewer 1994) and should be integrated in the firm’s business strategy as the two are interdependent.

5.2. The role of intermediaries
As discussed previously, there are different kinds of political resources, and small firms differ from MNCs. In the business-political network, knowledge is vital. But knowledge is not only important to firms: intermediaries are dependent on the small firms and their experiences in order to know what issues they should focus on in their relationships with political actors. Papers 1, 3 and 4 clearly showed that small firms are not as passive as previously
assumed. In fact, there are alternative venues for lobbying for small firms: 1) non-public intermediary actors (trade associations and consultants), 2) public intermediary actors (municipalities), and 3) direct approach to the Commission via national government bodies. Papers 1 and 4 showed that due to their resource commitments, small firms had the prerequisites to have a political strategy. The small firms acted in response to political issues to reduce adaptation costs and save their businesses. However, small firms do not always passively react to given conditions in their political environment. Small firms thus need to allocate resources or invest resources internally and externally through intermediaries so they can be better prepared for potential coercive initiatives. Paper 3 showed that small firms make political commitments to private and public organizations, such as trade associations and the local municipality. These are actions that even the smallest firm can afford. By making these commitments, small firms take a more active, or in some cases even proactive, approach to the political environment. They gain insight into how political markets and the actors within them work and how the political system is built up and functions. They can participate at an early stage of policymaking and monitor developments. In some cases, they can also have an influence, not necessarily on the EU level, but via the local municipality and/or on the national level.

In general, small firms have relied on business associations and their resources in terms of knowledge and relationships. This thesis has shown that small firms have the resources required to pursue political activities on various levels and vis-à-vis various actors, but most importantly, they can mobilize resources internally and/or externally to manage upcoming issues. However, with these political commitments, small firms can make use of the resources possessed by others in their network and in so doing have the knowledge base and resources available to them when the issue arises. So, although there are a large number of intermediary organizations, papers 1 and 4 indicate that small firms in some instances choose to act directly. The
main reason for acting was when the small firms had more knowledge about the political system than did the intermediaries. It is essential for a firm in its political strategy to have political knowledge and competency. However, this type of political knowledge and competency is only acquired through various types of political commitments. These are fundamental prerequisites in political strategy and by fulfilling them firms of any size can act individually and/or pursue the matter jointly with actors who share the same beliefs and agenda.

5.3. The political relationships of small firms
Small firms have previously been assumed to have no direct relationships with political actors and thus the have been regarded as passive adopters of political rules and regulations. A second central contribution of this thesis is the opening of the black box: small firms’ relationships with political actors. Relationships are the core of the network view and firms become dependent on the critical elements of political knowledge and competency, political commitment, and legitimacy in their political strategy. These elements have been shown to be closely connected to firms’ ability to successfully develop a political strategy in the network. The main reason for firms to influence other parties is to change their functions by trying to convince them of the positive effects of making changes and the negative effects of maintaining the status quo in terms of economic and development opportunities for the firm, its customers, suppliers, and even competitors. Political strategy then becomes a firm’s strategic political behavior aimed at either preserving or changing the status quo.

However, in this context, firms are perhaps not entirely dependent on specific relationships with policymakers at various levels identified in this thesis, that is, the local, national, and supranational levels. Small firms’ interaction with political actors is issue-based and changes continuously
depending on the specific issue. A variety of activities are required and identified along the way during the process and the exchange and mobilization of resources becomes essential. At the initial stage, these relationships are not intended to be long-term. The most important thing is that small firms know that the possibility of influence exists and have the knowledge and know-how to proceed with the help of various business and political actors. Paper 1 clearly demonstrated that when there is a need for influence, small firms act and are no longer passive followers who adapt to coercive actions. This can be explained by paper 3, where the results showed that small firms make political commitments, not by investing in specific units in Brussels like several MNCs do, but by committing resources, mainly to non-public intermediary actors, such as trade associations and consultants, but also to public intermediaries. In so doing, they make use of their resources and can through these intermediary actors be more proactive and increase their political knowledge. Just as Gray and Lowery (1995) stated that most lobbying firms are short-term visitors to the policy process, entering the world of politics for quite specific reasons and then leaving as the policy cycle is completed.

5.4. Managerial implications
The findings reported in this thesis suggest some practical implications for small firms. This thesis cannot provide a clear-cut answer, but some suggestions towards a wise strategic approach are possible. These implications do not only address local small firms, but also international small firms. Just as firms have business strategies, they need to consider the impact of political actors and thus work with this interaction strategically. In this respect, it is important to bear in mind that international rules, such as those of the EU, are institutionalized in the Swedish system. These types of firms often believe that a single actor cannot influence policy. This is not
true, as the findings of this thesis have shown that small firms have the capacity as individual actors to influence political actors. This is an insight that may prove valuable to firms that find themselves in an unfortunate situation due to political intervention. In addition, the study indicates that small firms should make internal and external long-term political commitments and thus have better prerequisites in the network when a political issue arises and utilize internal resources as well as their counterparts’ resources by mobilizing the network. This can become possible by making commitments to private and public actors, such as trade associations, consultants, and local municipalities. Finally, the study has shown that managerial awareness of the fact that capacity to influence political matters can also make a difference in terms of firms’ knowledge-related strategies. Avenues for obtaining abundant and early knowledge about matters that may impact business capacity can prove important for the firm to progress and develop.

5.5. Policy implications

Additionally, these findings open the door to an interesting discussion regarding policy implications, since political organizations and actors on the national and supranational levels are highly dependent on small firms for job creation, contributions to GDP, and technological and economic development. Considering that 99 percent of all firms in the EU are small firms, policymakers should prioritize and make an effort to single out small firms’ knowledge and expertise because they can contribute to the development of the union, and encourage them to make use of the supportive initiatives provided by the EU. This is essential, since millions of Euros have been invested to create jobs and new opportunities. Hence, political actors would benefit from focusing more on small firms and make better use of the
funds that have been invested in these areas in order to fulfill their purposes and get greater returns on their investments.

Politicians and trade associations seem to be well aware of the heterogeneity of small firms. However, the interviews indicate that they either do not know how to handle them or perhaps lack the preferred tools. Massive funding is invested in small firm growth in terms of innovation, enhancement of research, and business cooperation with other firms and/or EU institutions. This is, of course, very good, but the problem is that small firms do not seem to make use of these funds as they should. This implies that policymakers are not reaching these firms in the right way. There seems to be too many associations and organizations in Sweden, both private and public/private partnerships, and many small firms do not know where to turn. This must change on the national level but also within the EU. The relevant bodies within the EU and the Member States must find new ways to reach out to small firms. EU institutions must begin working closer with trade associations to better inform firms about coercive and supportive political initiatives, in terms of funding and other facilitative actions. National intermediaries need to cooperate with each other and thus have a more unified and specialized approach towards small firms and political actors.

5.6. Future research
Further theoretical and empirical research is needed in this area to explain the objectives of small firms in a business-political environment. A great deal of theoretical and empirical work could be focused on the interaction between business actors and political actors. For example, Swedish small firms were just an example in this thesis. It would be of interest to compare small firms in different countries and whether the transparency of political systems differs, and to study industries and rules and regulations in order to
determine whether small firms have a dispersed degree of political activity and resource commitments.

As most small firms in this thesis were active only in their home markets, but were affected by international rules and regulations, one query emerging from the work of this thesis is how small firms in their internationalization process handle political initiatives and the role of sociopolitical actors, such as the media and non-profit organizations.

This thesis has shown that influencing political issues is not the sole province of central actors, such as large firms. Peripheral actors, such as small firms, are also bringing about change in their coercive environment. Contrary to this, new institutional theories identify firms as passive receivers of the coercive environment, and through coercive isomorphism. Small firms’ interaction with their political environment can also be studied based on lobbying literature, where small firms’ relationships with trade associations is central and, more specifically, how trade associations lobby on behalf of small firms. Another angle is to study these phenomena from the standpoint of political actors and how they work and reason when making proposals in respect to the “Think Small First” principle.

The conclusions of this thesis pave the way for future studies on small firms’ response to and management of political impact from a longitudinal perspective. Further theoretical and empirical research is needed in this area to explain the objectives of small firms in an integrated business-political arena. Small firms are the backbone of the EU and this study has contributed with knowledge not only to the research community but also to small firms, managers, and practitioners, who thus gain a more systematic understanding of their relationships in the business-political market.
List of references


