

Political and Business Interaction among Small Firms in the European Union

ABSTRACT

The large majority of firms are small enterprises. In the European Union they account for 99 % and politicians are increasingly emphasising their importance for job creation, technological development and prosperity. Consequently, the political focus is on these firms and a large number of decisions influencing their business activities are constantly taken by political actors at various levels. However, research on the role of political actors and their impact, both in the IMP-setting and other, has so far mainly focused on MNCs (multinational companies). Our attempt in this paper is to bring some knowledge on SME's (small and medium sized enterprises) behaviour towards political actors and the effect of that behaviour on their business relationships. In this discussion, the role of intermediaries is also included.

Previous studies have shown that small firms have been obliged to follow the coercive political decisions of the EU's political units. In this paper we indicate that there might be some changes in the interaction patterns in favour for political support to and influence by small firms. Using a theoretical network framework, we relate the possibilities to influence to knowledge and commitment. The paper is based on early research findings in a research project that was started in 2006. Some general statements concerning SMEs' role and interaction patterns within the political context of the EU will be highlighted and further discussed using a case study approach.

Keywords: political actors, European Union, small firms, interaction

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ABSTRACT

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Introduction

During the last decades, the world economy has become increasingly interdependent – a phenomenon that is commonly referred to as globalization. Parallel to this, the importance of and influence from supranational organisations, like the European Union, has also increased which means that firms nowadays not only are dependent on political decisions taken within their nation state but they are also influenced by decisions from another, higher, level. An interesting issue is then to study to what extent firms are able to influence the political decisions by interacting with political actors.

Interaction between firms and political actors has, so far, attained rather limited interest both in the IMP-setting as well as among other researchers in the fields of marketing and international business. And when the role of political actors has been studied, focus has mainly been on MNCs (multinational companies). This paper's originality lies in the attempt of bringing some knowledge on SMEs' (small and medium sized enterprises) behaviour towards political actors and the effect of

that behaviour on their business relationships. The paper is based on early research findings in a larger research project that was started in 2006. Using a theoretical network framework, it focuses on how small firms manage their relationships with political units within the EU.

Within the IMP setting focus has primarily been on inter-firm relationships, but as stressed by Welch and Wilkinson (2004), relationships with political actors may also be critical and should therefore be taken into consideration. Welch and Wilkinson divide IMP research into three “generations” with the first focusing on the *interaction model* and its exchange relationships between buyer and seller. In the second generation, the analysis has been expanded to *networks* which include connected relationships, and attention is directed towards actors, resources and activities (ARA). The main focus in this second generation is on industrial networks, i.e. interfirm relationships are studied extensively while relationships with other actors, such as political, are not emphasised. With reference to Hellgren et al (1993, p. 89) Welch and Wilkinson note that the ARA model “is rather weak in the contextual structure around the focal network.” They then put forward the third generation IMP research in which the researchers extend *the business network* to include a broader range of relationships, for instance political, arguing for their importance; “In this increasingly globally interconnected world of business and government an understanding of the ways business networks are embedded in political networks, and the nature of such political networks, are surely an important part of IMP interest and research.” (Ibid., p. 229)

The aim of this paper is to contribute to what Welch and Wilkinson call the third generation IMP research by a study that is concerned with the political dimension of business networks. More precisely we will look closer at political and business interaction among small firms in the European Union. Some general statements concerning SMEs’ role and interaction patterns within the political context of the EU will be highlighted and further discussed using a case study approach.

Previous literature

While models on marketing and management have paid much attention to firms and their business interaction, the interdependencies between firms and political organizations have attracted less research (Trim, 2001; Ring *et al.*, 1990). Studies that have paid attention to these interdependencies range from those that presume that management is a function of response to the political environment (Korbin, 1982), to those that deal with the design of coping strategies (Ring *et al.*, 1990). The coping strategies’ view is often dealt with as the management of risk ratings (Cosset and Roy, 1991), firm-state interdependencies and industrial structure (Ring *et al.*, 1990) or corporate structure (Lenway and Murtha, 1994). In these contributions, the focal perspective is on a one-dimensional impact, i.e., the hierarchical power of the political organizations and their impact on the firms’ market activities.

On the other hand, the topic of political decisions has been widely explored in political science studies. After the early work of Bentley (1908) there has been a large effort to elaborate on views questioning the hierarchy in the political power of governments. Researchers like Potters and Sloof (1996) who study interest groups and the effect of political uncertainty, are among those who examine this delicate issue, as are Berton and Salanie (2003) and Pecorino (2001) who study the economic aspect and achievement. Some research on governance (see e.g. Streeck, 1992; Fligstein, 1990) explains the failure of the political hierarchy. Others use economic and socio-political theories to demonstrate the problems of states in creating stable and consistent rules (Chaudri and Samson, 2000), the impact of the government on competition (Ramaswamy and Renforth, 1996) and heterogeneity of the firms and industrial policy (Barros and Nilssen, 1999). The researchers introduce internal dynamics and differentiated social systems as factors that make centralized political control in the traditional juridical way more difficult. However, these studies are mainly concerned with government and its impact on large companies while small firms are not in focus.

Following the researchers in political science, new directions in business and management studies have appeared. Contrary to the earlier hierarchical view, research constructed on views like institutional theory as well as that studying lobbying and the influence of business and interest

groups on political actors (Potters, 1992; Andersen and Eliassen, 1996) has opened new doors for marketing researchers. Those in favor of institutional theory (Di Maggio and Powell, 1991; Scott, 1994) elevate the interdependency of the firms to industrial structure and governments. Institutional theory directs attention towards forces standing beyond the organizational behavior (Hoffman, 1999; Clemens and Cook, 1999). In the institutional theory track, there are also large numbers of studies on pressure groups and bargaining and bribery (Pecorino, 2001) which are concerned with the subject of influence. These researchers put forward interesting views on research topics like the influence of interest groups (Hoyt and Toma, 1989; Lagerlöf, 1997; Potters and Sloof, 1996; Pecorino, 2001), firms' interaction at national level (Potters, 1992; Andersen and Eliassen, 1996), pressure groups and bargaining (Bolton, 1991) and bribery (Rose-Ackerman, 1978). This topic has also attracted some researchers in marketing with a focus on relationships. Yarbough and Yarbough (1987) and Brito (2001) pursue discussions on political market research and suggest a dyadic view for the analysis of relationships between political and business actors. The main contribution is that actors on both sides, political and business, are seen as being active in influencing each other. Marketing researchers like Brito (2001) also explain that the presumption of one-sided action of political organizations to regulate the market, suffers from being a passive perspective.

Research within the context of business network falls short of developing views on lobbying in relation to management and gaining a competitive advantage through political actions. Business network studies also fall short in developing notions on the interdependency and the relationship between the business and government bodies and other non-business actors like the media and trade unions. The efforts are mainly directed towards multinational companies and large firms' international business and the impact on small firms is absent. As noted by Hadjikhani and Ghauri (2001), empirical evidence shows that large firms have the ability to influence policies in the EU, while small firms feel powerless and consider the impact from EU as a burden. They conclude that due to lack of knowledge and commitment, small firms are forced to adapt. But they also indicate that this pattern is about to change and that small firms have started to allocate resources to handle their relationships with political units in the EU. Hence the concepts *influence* and *adaptation* are vital in this study. (see Figure 1, below). While adaptation applies to the political rules which firms are to follow, influence means negotiation and co-operation, where firms aim at gaining specific support for their business activities. In line with Hadjikhani and Ghauri, we relate the possibilities to influence to *knowledge* and *commitment*. Knowledge concerns aspects such as political decisions, political actors involved in the decisions and understanding the needs of the connected actors. Political organisations themselves are embedded with actors such as media, voters and unions, all of which drive the behaviour of political organisations in different directions. Knowledge about these actors can promote firms' influential activities. Commitment can be related to the size of investment towards the counterpart alone or towards the counterpart and his connected actors. This can require, for example, establishing a political unit in the firms' organisations or investing in lobbying organisations. Firms with a low level of knowledge and commitment most likely have to adapt their business activities to the political rules while a high level is a prerequisite for influence. As Figure 1 also illustrates, the political activities can either be *coercive* or *supportive*.

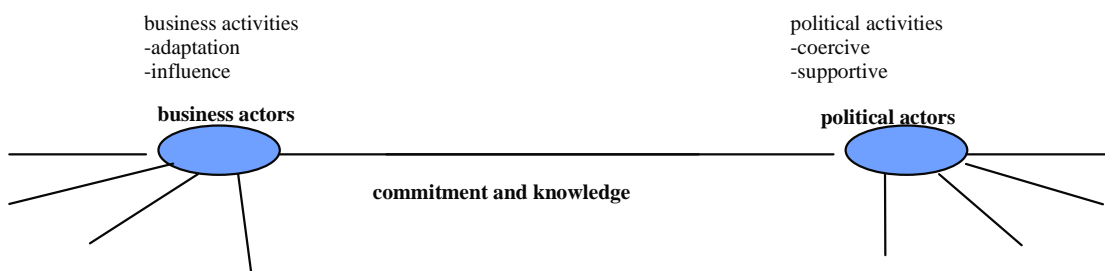


Figure 1: The Relationship between Political and Business Actors.

A challenge for firms is to convert *adaptation* to *influence* and *coercive* to *supportive*. A high coercive impact generates high adaptation cost. On the other hand, the higher the firms' resource commitment and knowledge is in the relationship with political actors, the higher the influence as well as supportive activities will be and the lower the adaptation cost.

Hence, with adaptation firms follow the established political rules, whereas influence refers to changing the established political rules in the firm's favour. While the former coerces the firm to follow the rules, the latter assigns an active role to the firm in creating interdependency to the political actors (see Hadjikhani and Ghauri, 2001).

Small firms in the European Union

"Think small first"

The European business environment has changed dramatically during the last decades as a result of the creation of a single European Market, with the aim to ensure the free movement of products, services, capital and people. Today, 27 countries with almost 500 million citizens belong to the union and about 1/3 of the world's GDP is generated here. In documents from the EU (see for instance "The European union on-line") the importance of remaining competitive and keep up with technology is stressed and it is also emphasized that there is a need for a policy that "promotes innovation, entrepreneurship and healthy SMEs, since small businesses are the backbone of EU enterprise." (Overview of the European Union activities) This focus on SMEs is understandable since there are 23 million SMEs, accounting for 99% of all enterprises and 75 million jobs, within the EU.¹ So, EU documents stress that it is important to "think small first" and to consider the needs and requirements of SMEs whenever a policy is formulated. "The policy priorities are to promote entrepreneurship and skills, improve SMEs' access to markets (including public sector contracts), improve SMEs' growth potential (by boosting their capacity for research and innovation), strengthen dialogue and consultation." (Ibid). Hence, when the European Union presents itself in central documents, they point to the importance of SMEs and emphasise that dialogue is essential.

From the perspective of the small business firms, it has been stressed that the development of EU with its new focus also on SMEs has increased the opportunities, but also the complexity faced. Political decisions that will have an impact on business are often taken further away – in Brussels - rather than on the national level. As already indicated above, previous studies have mainly focused on how MNCs have possibilities to influence political decision making. However, in the article by Hadjikhani and Ghauri referred to above, a comparison is made between how small and large firms manage their relationships with the EU. The cases in the article illustrates that while large firms, due to knowledge and commitment, were active and also exerted influence on their political counterparts in the European union, the small firms in the study were passive and their main interest was to gain information. Hence, it is illustrated how the large firms were able to influence the political actors, while the small ones did not have this possibility. The small firms also expressed uncertainty about where decisions affecting their activities were taken, i.e whether their national government or the EU was the source. They were also concerned about the large number of different political units with various supporting programmes and funds, and expressed that they did not have resources to manage their political relationships. Further, none of them were in direct contact with EU institutions. Instead they turned to national intermediary organisations, but since the number of organisations that provides information is large, it was often perceived as difficult to find the most relevant. The role of intermediary organisations seems thus to be of great importance to SMEs and will therefore be further examined in this study.

¹ In Sweden, 99.2 % of all firms have fewer than 50 employees.

The article by Hadjikhani and Ghauri (2001) gives one indication of the problems facing SMEs, but more information is needed on the matter. In order to see how much interest there has been on the “political” dimension in academic articles in general, a search in Business Source Premier reveals an interesting picture. Business Source Premier covers more than 2, 300 journals, including 1,100 peer-reviewed business publications. Among these are the top-tier journals in marketing, international business and management. This makes the database suitable for an examination of how much the concepts of interest for this study has been in focus in academic journals. We choose the time period January 1980 - December 2007, and an advanced search in the database reveals the following:

Table 1: Number of articles with our main keywords

KEY-WORD(S)	NUMBER OF ARTICLES
Political	61 026
European Union	15 341
firm or business	259 019
small firm or small business	17 855
political and European Union	2 088
European Union and business	2 709
European Union and firm	739
European Union and small business	196
European Union and small firm	86
political and European Union and small business or small firm	5

As can be seen above, there is a large number of articles dealing with the subject “political” as well as with the “European Union.” The number of articles about firms or businesses is impressive, and also when we delimit the search to small firms/businesses, there is still a notable number. When the search is limited to a combination of “European Union” and “small business” or “small firm(s)” there is considerable less research, and when we combine the three concepts in focus in this study – “political”, “European Union” and “small firm” - only five articles are found. Among these five articles, the article by Hadjikhani and Ghauri referred to above as well as an article by Wilts and Meyer (2005) about small firms’ membership in national trade associations are found. These are the only ones dealing with issues related to interaction between small firms and political units in the EU. The other three focus on export market expansion strategies in a small EU country and accounting or financial matters in non-EU countries.

Hence, there seems to be very little research on the interaction between small firms and the political units in the EU. This is of special interest considering the emphasis EU, in their documents, puts on small firms and the importance of a dialogue with these. We found this paradox of great interest!

Methodology

To investigate the political and business interaction among small firms in the EU, a two step research method was used. First, we gathered information about various forms of intermediating actors, and secondly a case study approach was used in order to deepen our understanding of the phenomenon. Concerning the intermediating actors, a total of seven interviews was conducted with persons working in intermediating organisations in Sweden that deal with matters concerning small firms and especially with small firms and the EU.

The case studies contain data concerning three small business firms located in Sweden. These firms have been selected based on the fact that they have interacted with other units on political matters,

and therefore each has something to tell concerning the nature of such interaction. (Cf. Eisenhardt's (1989) discussion on critical cases.) 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 described business and political processes. In addition to the seven intermediary interviews, we interviewed six persons for the cases.

All interviews for this paper have been made using a semi-structured approach in which general questions have been prepared and asked. When it comes to the business firms, the questions concerned matters such as company profile, customers and suppliers, and identification of involved parties in the dealing with a certain political issue, while the questions to the intermediaries focused on questions such as mission, organisational structure and members. However, at the interviews, much of the time has been put on letting the respondents "tell us their story" without much intervention. After their story was told, we added questions and asked for more information on matters that were of interest to us given the focus on business and political interaction. Beside interviews, data have also been gathered through secondary sources, such as homepages on Internet, protocols and brochures.

The role of intermediating actors

Above we have indicated that intermediating actors play a vital role for small firms in their interaction with political actors. Intermediating actors perform an assisting role between actors in a relationships and this role means that they are bridging over a gap/distance which for instance can be geographical, cultural, psychical or technological (Ford, 1980; Hallén & Widersheim-Paul, 1979). According to Havila (1996, p. 3) their existence "is based on a specific reason for the repeated interaction of the actors". Havila points out that the role can be more or less critical and that the intermediary has more possibilities to influence when the contacts between the other two actors are limited, i.e. in situations when the other two parties are dependent upon the intermediating actor's performance.

When it comes to intermediating actors in the relationship between firms and political units, Wilts and Meyer (2005) point to the importance of business interest associations or trade associations representing especially small firms towards political actors, since small firms in general lack resources "to pursue political strategies independently" (p. 176). They also emphasize that the majority of smaller firms do not interact directly with EU institutions. SMEs rather rely on collective forms of business action in their interaction with political actors (ref. to Cook and Barry, 1995) and they often "maintain their membership in national trade associations to acquire information about the public policy process and as a way to interact with political institutions "(Wilts and Meyer, 2005, p. 177). Since the EU bureaucracy generally is so complicated and untransparent, Saurugger (2001) argues that it is difficult especially for small firms to establish contacts through which they can noticeably influence political decision-making.

Some intermediating actors of importance for Swedish firms

There are quite a few organisations, with different purposes, that may act as intermediaries between Swedish firms and the political environment. Some of them, such as the Confederation of Swedish Enterprise (Svenskt Näringsliv), the Chamber of Commerce (Handelskammaren), the Federation of Private Enterprises (Företagarna) and the Federation of Swedish Farmers (LRF, Lantbrukarnas Riksförbund) have a counselling and opinion making character and represent firms in different industries. Other organisations provide firms with financial and other types of supportive resources. Examples of such organisations are the Swedish Agency for Economic and Regional Growth (Nutek) and the Swedish Governmental Agency for Innovation Systems (Vinnova). In this paper we will look closer at the Confederation of Swedish Enterprise, the Federation of Private Enterprises and Nutek.

The Confederation of Swedish Enterprise is Sweden's largest business federation. As an opinion making, knowledge sharing organisation it represents 50 different member organisations and 54,000 firms. About 70 % of these firms have less than 10 employees and only 1.5 % have more than 250 employees (including all Swedish MNCs), which reflects the importance of SMEs in the Swedish industry structure. The Confederation has 21 regional offices and one office in Brussels. The regional offices are very local and interact directly with firms in the region – they organize, for instance, frequently lunch and evening meetings for information purposes. The Confederation performs lobbying activities continuously, both on the national and the EU level, and has an SME committee in which 35 firms from different industries are represented. The members of this committee meet four times a year. The committee has a consultative role and put forward current issues to the Confederation. *“It's a win-win situation: the SMEs receive information, they outline the question marks and come with suggestions on how these should be straightened out and by doing that, the Confederation knows where firms stand in the particular matter”* (Confederation of Swedish Enterprise, 2007). Between the committee meetings, seven project groups work with issues brought up in the committee and the project group members proceed interacting with other actors, such as governmental representatives. Members of these project groups are, in addition to some experts from the Confederation, a few voluntarily firm representatives that are interested in the specific issue. Firm representatives vary from time to time depending on the issue. *“The project groups work in a very good way, communicating our standpoints. But it is not always possible to turn to firms, and as an organisation we shouldn't. One member once told me; we shouldn't do this, we pay you for doing this for us! That's why they have joined us, for forcing their questions”*. (Confederation of Swedish Enterprise, 2007).

The role of the office in Brussels is to represent the Confederation by participating in meetings and act as a bridge between the headquarters and regional offices in Sweden and members of the European parliament. The main responsibility is to inform and guide members and experts of the Confederation as well as to perform influential actions towards EU institutions. The office in Brussels also participates in policy formulation in Sweden towards the government and other actors.

The second intermediary organisation that we look closer at is the Federation of Private Enterprises (“Företagarna”). This is Sweden's largest organisation for business owners and they represent 55,000 firms in 21 industry associations. The organisation is represented at three different levels: national, regional and local. A main objective is to promote entrepreneurship and the federation performs opinion making activities on all levels in Sweden but also on the EU level since an important issue is to improve and expand cooperative ventures there. *“The rules and regulations are becoming more European, many of those decisions that are taken are not taken here in Sweden but in Brussels. These rules influence our members' daily activities”* (The Federation of Private Enterprises, 2007). The Federation is a member of UEAPME (European Association of Craft Small and Medium-sized Enterprises), a European umbrella organisation that represents the SMEs interests towards the EU commission and parliament by coordinating and enforcing better conditions and simpler rules for small firms. UEAPME represents 85 national federations and the Swedish Federation of Private Enterprises is much involved in the lobbying activities.

The most common way of interaction with the firms is when firms contact the Federation due to a question that they need an answer for. The Federation provides free counselling service and they have a lawyer and an economist on duty in Stockholm for assisting the firms. *“It's through these channels we find out about those questions that are most frequently asked”* (The Federation of Private Enterprises, 2007). The Federation also has a business panel, where firms can volunteer to participate. Through this business panel, questions regarding rules and regulations are sent out via email to the registered firms and the organisation can in this way find out the firms' standpoint in different matters. The regional and local offices also arrange different activities for their members but a major problem is that most firms do not have time to participate. *“SMEs have their hands full running their companies; they don't have time to go to different meetings. They are modern people with families and responsibilities, for this reason, it's hard to reach this group. Their main focus is to*

run their business and earn money". (The Federation of Private Enterprises, 2007). So why do they belong to this intermediary organisation? *"Everyone knows that 1/3 of our members are with us because they want to support a good cause, that is opinion making, simplification of rules etc. 1/3 are members because they want to take advantage of our member services such as health insurance. 1/3 are members only to be a part of the business network"* (Ibid.)

The third intermediary organisation presented here is Nutek, an expert authority within trade and industry in Sweden². When it comes to collaboration with trade and industry, Nutek works with organisations like the Confederation of Swedish Enterprise and the Federation of Private Enterprises. They consider such collaboration with other intermediaries from trade and industry necessary for example when they are structuring a program for support (financial, information etc), for product development or when reference groups are needed. However, the large number of intermediaries might be a disadvantage: *"The problem in Sweden is not that there are few organisations, instead, there are too many!"* (Nutek, 2007).

Three empirical illustrations

In this section three case studies are presented concerning three SMEs and their interaction with other actors on political matters in a European context. Despite the fact that political interaction at times has been of great importance to each of the companies, the nature of their businesses vary. One of the companies is specialized on laser and water cutting details, another in life science, whereas the third is involved in the meat industry.

The environmental damage claim case

Our first case concerns a firm that is located in the small city of Enköping not too far from Stockholm. It was started in 1994 by two companions and specializes on laser and water cutting details. Today the firm has 13 employees. Since 2000 it has a subsidiary that is concentrated on welding, with the firm as its largest customer. Our focal firm has customers in Norway and in Estonia, even though their main market is national.

In year 2000 the firm was about to ISO-certificate their business regarding environmental aspects (ISO 9000) and quality aspects (ISO 1400), and therefore hired a consultant to deal with the complexity of the matter and to make sure that it would be done in a proper way. When the work was finished, a representative from the environment department in the municipal looked through the consultant's work and found that some rules and regulations were not followed. This violation concerned a yearly, mandatory report regarding environmental damage release (i.e. a CFC-report), in this case regarding release of Freon from the cooler machines in the repair shop, that had not been sent to the municipal. This requirement was based on one out of a very few legal changes in the environmental area in the late 1990s. In January of 1999 all existing environmental laws in Sweden were for the cause of simplification brought together into one act, called "Miljöbalken"³. With a few exceptions no new laws were added in this process. These exceptions concerned a more severe view on sanctions and charges against environmental violations, which are based on a principle formed by OECD in the early 1970s that states that the polluter pays (the Polluter Pays Principle, PPP). Before 1999, the law requested that a certified consultant needed to verify different types of Freon in different facilities like heating systems and climate system like a cooler machine. After Miljöbalken had been taken into force, however, not only was it necessary to verify these facilities by a certified

² According to their homepage, Nutek contributes to the creation of new enterprises, more growing enterprises and more strong regions - and consequently to promoting sustainable economic growth and prosperity throughout the country (<http://www.nutek.se/sb/d/113>).

³ How is Swedish environmental law related to EU? There are two types of EU regulations; EU directives, which are guiding principles that are incorporated into national laws, and EU ordinances, which are applied directly (www.naturvardsverket.se/sv/Lagar-och-andra-styrmedel/Lag-och-ratt/EUs_miljobestammelser/).

consultant, a CFC-report was also to be sent to the municipal. The difficulties that faced our firm were due to the fact that information on this new procedure had not gone through to them nor to all other firms in the municipal.

The owners of the focal firm had had their business since 1994, and thought of it as odd that they all of a sudden had broken the law by not sending in a report that they were not even aware of regarding release of Freon from their cooler machines. Due to the oddness of the matter, they did not worry much, thinking that hiring an expert on cooler machines and then send in the requested report would solve their problem. Soon, however, they realised that they had underestimated the magnitude of the problem. This so because, when it earlier in 2000 had become obvious to the municipal environmental board that some firms in the county had not sent in a CFC-report, they had decided to turn a blind eye to the matter and thus not to file police charges on these firms. The decision was based on the fact that the law in their opinion was too strict. However, the legal change made room for different interpretations and a few inspectors in the municipal had felt that the law needed to be followed without exceptions and had therefore contacted the Swedish Society for Nature Conservation, SSNC. It was then SSNC that wrote a letter to the Director of Public Prosecutions. Soon after, he wrote a letter to the environmental judge and a court process began that our focal firm became part of. Besides our firm, twelve other firms in Enköping that had not sent in their reports on time and the six members of the municipal environmental board were prosecuted. The prosecuted firms differed a lot. They were bakeries, bank offices etc. with just the one thing in common that they had some kind of climate system like freezers, refrigerators etc in their business facility.

Facing these difficulties, one of the firm owners, who is a board member in the local unit of The Federation of Private Enterprises (“Företagarna”), contacted the regional director of the Federation in Uppsala and explained the situation. The director advised the owner to contact some lawyers in Stockholm that specialise on environmental matters. All of the lawyers were, however, busy with other clients. Their clients were the entire municipal environmental board in Enköping. Instead one of the lawyers advised the firm owner to defend himself, considering that it would have a bigger impact in the court. The owner had no other alternatives and therefore decided to pursue, on his own. Later on, in court, the owner was found free of charge. Instead it was claimed that it was the municipal environmental board that had not utilized their executive power on these violations and it was these members that were evicted and charged with a monetary fine.

After the incident, the members of the board, all part time politicians, lost their confidence and their mission for the task. The firm owner perceives the business climate in Enköping as friendly and therefore claims that it was easy for him to contact the head of the municipal environment and construction department. After some meetings and inputs from the owner, the municipal in Enköping community changed their routines regarding the CFC-reports. Today a group from the municipal is in charge of contacting all firms that have not sent in their CFC-reports before the estimated time instead of waiting until after April first and then file for a police charge. As counts for our focal firm, they now have, on regular basis, hired a consultant to keep up with laws and other matters that the owners do not have time or knowledge to figure out on their own. An illustration of the actors – both political and business – involved in the description above is presented in figure 2 below.

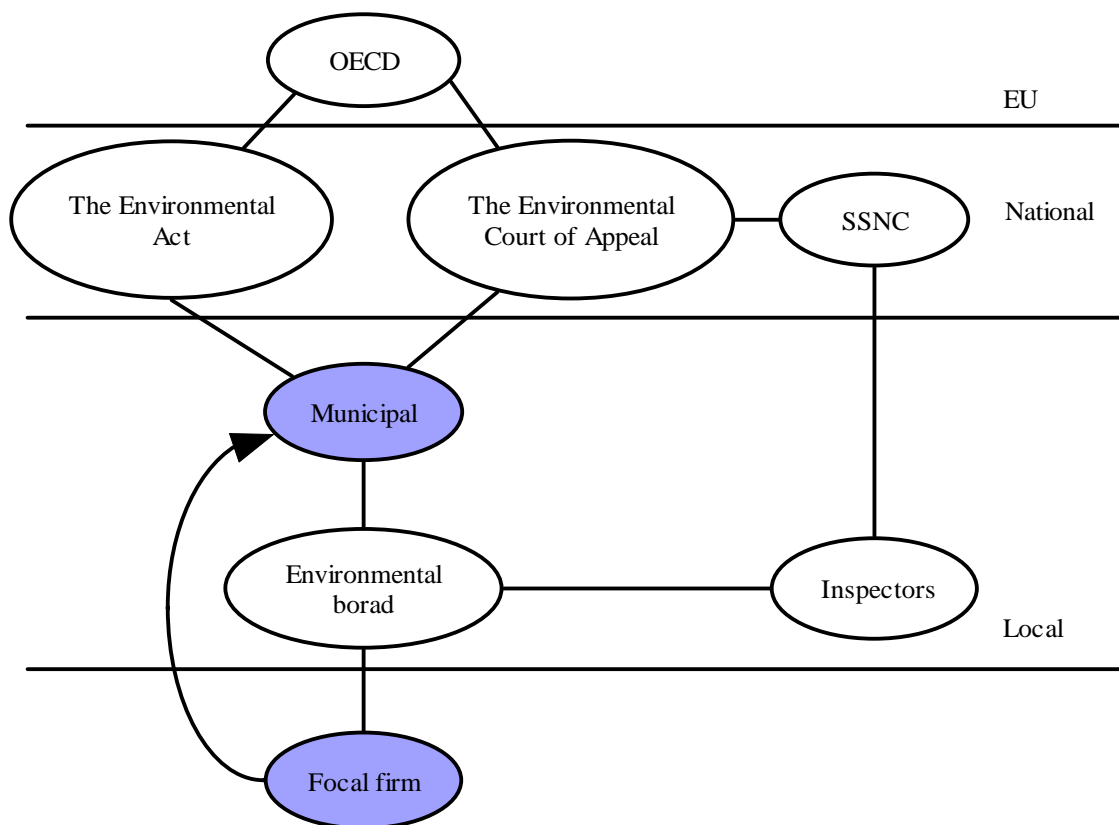


Figure 2: Actors involved in the environmental damage case

The orphan drug designation case

The second case study centres on a small business firm involved in the life science industry. The firm, with just a handful of employees, can be described as a real network company. All production has been outsourced to another, bigger life science company. The biological raw material is supplied from one of the owners, the second owner is employed by a large university and brings in much of the basic research needed, whereas the third is a retired professor in medicine, providing the company with patients that uses one of its products.

Our focal business firm has been struggling for many years to get one of its products out on the market. The process has involved several steps of basic research, documentation, patent applications, further development and documentation with the goal to finally obtain a general permit from the authorities in order to be able to sell the product on the market. The final goal has still not been reached. The first user licenses for individual patients were granted from the national pharmaceutical authorities in 2003. Today the product is used on a patient group of around twenty individuals for whom individual user licenses have to be applied for and granted each year. In order to bring the product to an open market more testing and documentation is still needed, a process that requires access to more patients and a need for more financial resources to protect the development efforts and to invest in both technology and marketing. Recently, the firm became aware of possibilities within the EU in this process.

The development of medicinal products/drugs is generally a very expensive process and for the pharmaceutical industry the focus is consequently on products for common diseases that can generate substantial profits. Hence, drugs for rare (“orphan”) diseases, such as this one, do not normally attract sufficient interest from these companies since the number of patients is limited. In the European regulation (Regulation (EC) No 141/2000) it is, however, stated that patients suffering

from rare diseases should have the right to the same quality of treatment as other patients, which makes it necessary to encourage the research and development of appropriate drugs. As a result, the European Commission in July 1998 proposed the Orphan Regulation, which since 2000 now is in force. Hence, companies like the one studied here with the intention to develop medicines for rare diseases can apply to the European Agency for the Evaluation of Medicinal Products (EMA) and get help to prepare orphan designation applications. If a product, after assessment by experts and decision by the European Commission, is granted marketing authorisation, the company gets a 10-year market exclusivity in the EU. In addition to this important incentive, the company is also provided with scientific advice and fee reductions for activities that have been carried through during the application process.

In late 2007 our business firm sent a letter of intent for Orphan Drug Designation to EMA in London. A few weeks after the letter of intent had been posted, the firm received a reply from EMA in which they explained that they were willing to help the company in producing an application. Representatives from the firm therefore went to London and were given advice on how it could be approved. They were happy about the opportunity, but admit that they perceive the application procedure as “unnecessarily difficult”. They need, for example, to prove that the disease that the medicine will be used for is rare and life threatening despite the fact that more than twenty applications have been granted for other drug developments in the same medical area. The final decision on whether they will be granted the designation or not will be given a few months after the final application has been made. The firm does, however, have great expectations for the future, as explained by one of the owners; *“I believe that the financiers will line up once they find out that we have been granted Orphan Drug Designation. Then we can negotiate.”* The actors involved in the case are illustrated in Figure 3 below.

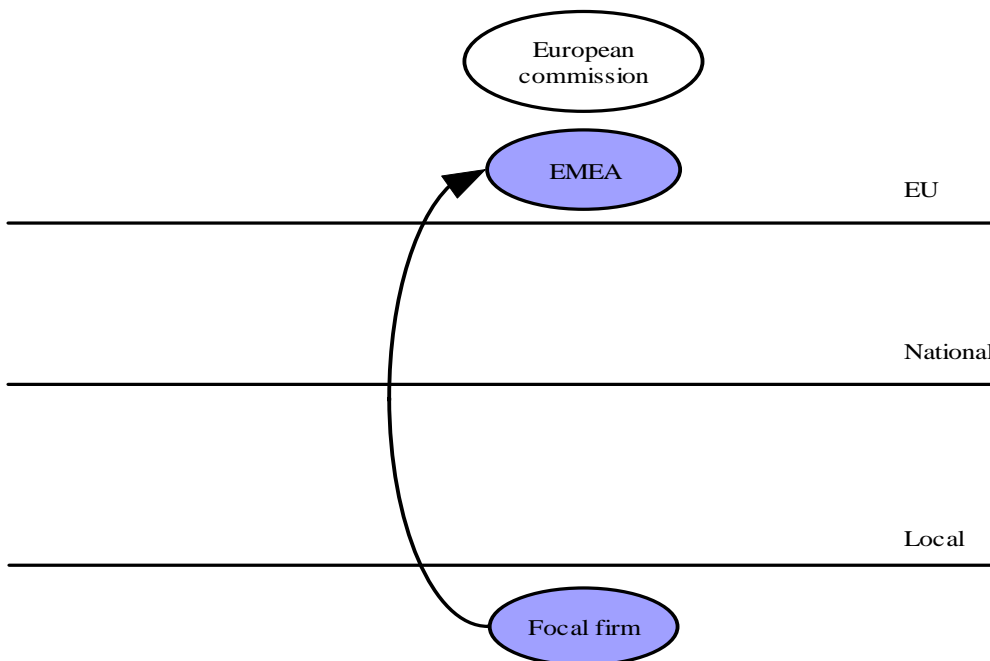


Figure 3: Actors involved in the orphan drug designation case

The meat classification case

Our third case study concerns a farm with four employees also located in Enköping. Calf breeding has been the core business on the farm since the turn of the millennium, and each year 1600 calves, 6-10 month old, are sent to a slaughter house and the meat is sold to a cutting up firm. The cutting up

firm has contracts with three farms from which it gets all its meat. The meat is then delivered to selected shops, market halls and restaurants on various locations in Sweden.

It was on a study tour to the Netherlands that the farm owner became aware of a suggestion made by the European commission of a new, uniform classification of meat that he felt could endanger his business due to a change in product classification. One of the main goals of the EU is to facilitate the trade of all goods and services within the union, and the time had now come to modify the meat classifications of its member countries in order to uniform these. When it comes to the, from a consumer perspective, attractive veal, the core product for our farmer, the breeder models differ in the European countries. In south Europe the calves are breed solely on milk powder which results in faster growth and a whiter meet in comparison to calves that have been given another diet. This breeding model is prohibited in some countries, such as Sweden, according to the animal protection legislations since it does not provide the calf with a balanced diet containing grain, hay etc. The Swedish calves therefore grow slower and will at the time they are slaughtered be both older and have a redder meat. According to the proposed classification the meat from these calves would therefore no longer be classified as “veal” but in the less attractive category of “young beef”.

Back from the Dutch study tour, the farmer contacted his interest and business organisation, the Federation of Swedish Farmers (LRF, Lantbrukarnas Riksförbund), concerning the matter. LRF was perceived by the farm owner as uninterested. They felt that the question had gone too far and that there were no chances to influence the matter at this point. Unwilling to give in, the farm owner, however, pursued the matter on his own. Searching on the internet for more information on the EU-commission and on the classification proposition, he found out how other countries had dealt with the matter. Strengthened by these findings, he wrote a letter to the Swedish Ministry of Agriculture explaining the problem and suggesting a model for veal classification that had already been adopted in Denmark. The Danish model proposed that meat from calves less than eight months old are called bright veal and meat from calves over eight months are called veal. The ministry responded quickly that the problem had been drawn to attention. A few months later the farm owner received a letter in which he was told that the ministry had adopted the suggestion. The actors involved in this case are illustrated in Figure 4 below.

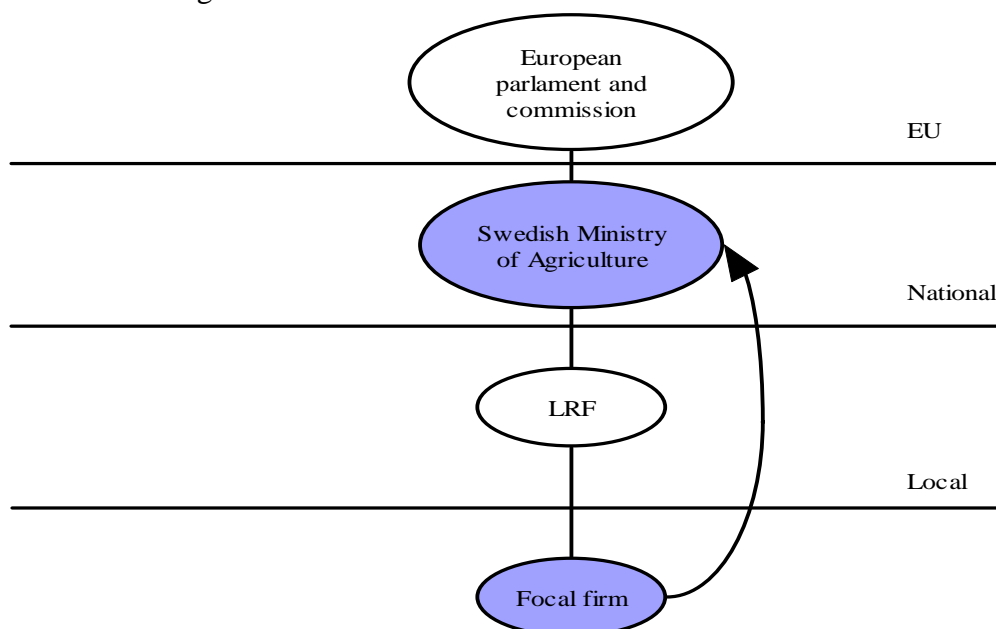


Figure 4: Actors involved in the meat classification case

Discussion

It is often stressed from political sources, such as the EU, that small firms are important for the welfare of the states. Given this stated importance, it is strikingly little that has been written on the nature of the interaction between small firms and political organisations such as the EU. In the research that can be found it is often emphasised that small businesses find it difficult to “navigate in the political jungle”. It is also argued that intermediaries have an important role to play in such matters. These statements are just partly supported by our study. Interestingly enough, however, the three cases do show that adaptation is not the only alternative. All three firms are able to act, interact and to have an influence over their new situation. In a situation in which the alternative had been bad for their business they all find ways to influence the matter that they are facing. The firms acted differently in all three cases. In the first case the intermediary played a rather counselling role, in the second, the intermediary was absent, whereas in the third case were the intermediary lacked interest. Small firms are numerous, each facing its specific problem; consequently it seems difficult for the intermediaries to handle all the problems that these small firms are faced with. So what is the actual role of an intermediary? The firms in the first and the third case had strong faith in the intermediaries initially. However, since the responses were vague, they had to handle the situation on their own. In a way, it was partly the lack of interest from the intermediaries that led to further action taken by the firms. This illustrates that small firms have possibilities to influence politically without an intermediary.

It is, however, important to keep in mind that a relationship is characterised by interdependence, i.e. the intermediaries are also dependent on the SMEs. For example are representatives from SMEs often brought to Brussels by the intermediary when they want to influence a certain rule or regulation. This, because, as told by one of the respondents; *“When a business firm owner tells his or her story, no one can question it since they have been through that.”* An interesting aspect to note concerning the interaction between the small firms and intermediaries, however, is that the interactions that are started in the cases described are not necessarily based on the firms’ strongest or most obvious ties to political actors or to intermediaries. Especially in the meat classification case it seems as though the first intermediary that is contacted on the matter (LRF), to which the firm has a strong tie, is rather uninterested. Instead it is the firm owner’s stubbornness to continue his effort by contacting other, weaker ties that bear fruit. The same goes for the environmental case. Granovetter’s (1973) discussion on the strength of weak ties seems thus to be applicable.

There are three different cases with three different ways of handling these issues. The fact that the firms in the environmental damage claim case and the meat classification case were not aware of the changes initially implies that they had not been able to influence the matter at an early stage. The orphan drug designation case shows another, more proactive, starting point for the interaction. Common to all three cases, however, is the fact that continued non-interaction with the political units or intermediaries that are described in the cases would have given them a much less fortunate outcome from a business point of view. The laser and water cutting firm would perhaps have been convicted, which could not only have resulted in the direct costs for fines, but also with reputational consequences. The life science company had tried for a long time to find financing for its product development and would perhaps have given in. The meat producer would have been faced with a situation in which his products that had up to the time been classified as veal would have been reclassified as the less attractive category of young beef, and could thereby have lost in profit. Adaptation to the situation that had come up was thus perceived by the involved firms as a less attractive option.

In two of the three cases described above (the first and the last), the difficulty that the business firms faced, which brought them into the political business interaction, were perceived by them as exogenously given, i.e. at a certain point in time the firms were faced with a situation or a problem that they had not been able to predict or foresee. However, what we have noticed in our study is the fact that changes brought about by political units will not only have an impact on small firms, but will also in some cases, such as the ones described in this paper, cause interaction and thus further change of both political and business nature. The considerable difference that Hadjikhani and Ghauri

(2001) found between the action of MNCs and SMEs on political matters, i.e. that MNCs were able to interact and influence based on commitment and knowledge in their relationships to political units, whereas the SMEs passively adapted to political changes, is thus not supported here. Our cases rather indicate that the network arena, “in which business actors are related to non-business actors in handling political agendas that impede or support the business activities” (Hadjikhani and Ghauri, 2001) also includes small business firms. However, it is important to remember that we have used a research design in which small firms that had already been involved in political matters are in focus. Asking about the political issue that they dealt with, as described in the cases, opened up for an understanding of their political interaction. These cases also manifest the crucial fact that the relationships to political units were issue related. (Cf. Hadjikhani and Ghauri’s, 2001, discussion on MNCs.) The level of influence varies however, in all three cases. In the first case the influence where on local level, in the second the interaction was with an EU agency, the EMEA whereas in the third case the influence where on national level.

A common feature from the three cases is that all three firms stress that knowledge was an important success factor. Knowledge is, however, a rather broad term. From the cases we can distinguish between at least three types of knowledge that became useful to the firms in handling the issues that were raised. Knowledge about the issue, knowledge about opportunities in the political landscape, and knowledge about how to network and influence in the political landscape. The farmer in the meat classification case was able to influence because he learned more about the issue, i.e. about how the question had been handled in other countries. Based on that knowledge he was able to offer an alternative to the suggested classification system, and it became legitimate through the fact that the Danish government had adopted it. In the orphan drug designation case it was when the owners learnt about the opportunities presented by the EU unit EMEA’s Orphan Regulation that they found a way to solve their financial difficulties. In the environmental damage claim case, as well as in the other two cases, it is visible how the firm needs to interact with several parties of political and intermediary nature in order to handle the situation. The knowledge that they possess and earn through the process of whom to contact regarding what is of course valuable for the outcome of their efforts. Most important, however, might their willingness to interact be. As illustrated by a small story told by the calf farmer; *“Before the meat classification case, I had never tried to influence in EU matters, it was my first time. But I remember when I was a board member of the local board for the Federation of Swedish Farmers. We discussed a regulation and I said to the others: this is decided by the EU. One of the other members then told me: you can not reason like that. Of course you can influence even though it is decided by the EU.”* We agree and suggest that through network interaction, small business firms can influence also on the EU level.

Conclusion

In this paper, we have pointed to the importance of taking small firms into consideration when the interaction between political units and firms is studied. We suggest that the former emphasis on MNCs and their possibilities to influence is too restricted. Our cases have indicated that small firms not always are passive adapters of political decisions, but rather are active and try to influence political actors on different levels. Obviously this is an area that so far has attracted only limited research interest. In this paper we have only presented three cases, but further studies in the project, both qualitative and quantitative, will hopefully contribute to a better understanding, both theoretically and empirically.

In the introduction we referred to Welch and Wilkinson (2004) and their remark that the business network research should be extended to include for instance political relationships. We fully agree and stress that there is not a sharp dividing line between the business and the political world. Hence, we do not separate the political network from the business network. Rather than two separate networks, we see the political actors and the intermediaries as being part of the firm’s business

network. In this network, knowledge is very important. But knowledge is important not only for the firms. The intermediaries are dependent on the SMEs and their experiences in order to know what issues they should focus on in their relationships with the political actors. And for the politicians, who increasingly stress the importance of SMEs ("think small first"), knowledge about the situation for these firms is essential. A difficulty, however, is that the small firms are so numerous and so heterogeneous, each facing its specific problem that often needs a rapid solution. For the intermediaries, it is therefore often difficult to reach the firms, identify their issues in order to represent them in the political environment and consequently some firms act directly with the political unit. So although there are a large number of intermediary organisations, our study indicates that a small firm in some instances choose to act directly. This is clearly illustrated in our last case. The main reason for acting was that the farmer had more knowledge about the political system than the intermediaries. This importance of knowledge and interaction will be further developed in the project.

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