The behaviour of international firms in socio-political environments in the European Union

Hadjikhani, A; Ghauri, Pervez

Published in:
Journal of Business Research

DOI:
10.1016/S0148-2963(99)00106-X

IMPORTANT NOTE: You are advised to consult the publisher's version (publisher's PDF) if you wish to cite from it. Please check the document version below.

Document Version
Publisher's PDF, also known as Version of record

Publication date:
2001

Link to publication in University of Groningen/UMCG research database

Citation for published version (APA):

Copyright
Other than for strictly personal use, it is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), unless the work is under an open content license (like Creative Commons).

The publication may also be distributed here under the terms of Article 25fa of the Dutch Copyright Act, indicated by the “Taverne” license. More information can be found on the University of Groningen website: https://www.rug.nl/library/open-access/self-archiving-pure/taverne-amendment.

Take-down policy
If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Downloaded from the University of Groningen/UMCG research database (Pure): http://www.rug.nl/research/portal. For technical reasons the number of authors shown on this cover page is limited to 10 maximum.
The behaviour of international firms in socio-political environments in the European Union

Amjad Hadjikhani\textsuperscript{a}, Pervez N. Ghauri\textsuperscript{b,*}

\textsuperscript{a}Uppsala University, Uppsala, Sweden
\textsuperscript{b}Faculty of Management and Organisation, University of Groningen, Landdrienne 5, 9700 AV Groningen, Netherlands

Received 1 March 1998

Abstract

Most of the earlier studies on international business ignore the influence of the political actors and the environment on the internationalisation of the firm. The focus of this study is on the interaction between business and political actors and the main question deals with how firms standing in different stages of their internationalisation manage their relationships with political actors. By using network theory, the study presents a conceptual framework and aims to augment the knowledge on the internationalisation of the firms’ political activities. The variety in management actions are discussed by the two variables of influence and adaptation, which have become connected to the two fundamental variables in internationalisation of the firms, namely commitment and knowledge. By comparing the management behaviour of seven small- and medium-sized enterprises (SMEs) and three multinationals (MNEs), the study shows how smaller exporting firms vs. MNEs manage their relationships with political actors. The outcome of the analysis contains results elevating general aspects on the political behaviour of the firms in the European market. © 2001 Elsevier Science Inc. All rights reserved.

Keywords: Political environment; Internationalisation; Networking; MNEs vs. SMEs; The European Union and firms

1. Introduction

While models on management in international business have paid much attention to firms and their business interaction with business actors, the interdependencies between firms and political actors and the political activities of firms have attracted less research (Boddewyn, 1988; Ring et al., 1990). The studies that have paid attention to the management of political actors range from the presumption that management is a function of response to political environment (Korbin, 1982; Egelhoff, 1988; Conner, 1991; Kogut, 1991) to the design of coping strategies (Johnson, 1927; Ring et al., 1990). The coping strategies view is often dealt with as the management of risk (Miller, 1992), country risk ratings (Cosset and Roy, 1991), firm-state interdependencies and industrial structure (Ring et al., 1990) or corporate structure (Murtha, 1991; Lenway and Murtha, 1994).

While these studies explain the interplay by means of economic or institutional theories, this paper discusses the management of the political environment through behavioural theory (Cyert and March, 1963). It attempts to explain international enterprises’ political actions in managing the political environment. The management of political actors is explained in the context of the internationalisation of the firm (Johanson and Vahlne, 1977; Buckley and Ghauri, 1999) and network theory (Johanson and Vahlne, 1990; Kooiman, 1993; Håkansson and Snehota, 1995). Our aim is to describe and discuss the political behaviour of international firms in relation to the European Union (EU). The study analyses cases regarding the interaction between the EU and firms that are in different phases of internationalisation (in terms of export and direct investment).

Inasmuch as firms’ business activities are interconnected with political activities, knowledge of political behaviour can enhance our understanding of a firm’s market behaviour (Ring et al., 1990). Very closely connected to this inquiry is the research on lobbying and influence of business and interest groups on political actors (Austen-Smith, 1987; Potters, 1992; Andersen and Eliassen, 1996).
There is a large number of studies on pressure groups (Becker, 1983; Van Winden, 1988), bargaining (Crawford, 1982; Bolton, 1991) and bribery (Rose-Ackerman, 1978) which are concerned with the subject of influence that indirectly is the core of this study. But, these studies fall short of developing views on interaction interrelated to the management and competitive advantage. However, in line with the acquisition of Ring et al. (1990) and studies in lobbying, this paper attempts to study how smaller exporting firms and bigger multinationals (MNEs) manage their political relationships. While most studies deal with the unidirectional influence of the political actors, this paper observes international firms as active actors in the political scene and attempts to study their political activities and interactions with political actors. In Europe, for example, interest in these questions has increased during the last decade because of the development of the EU (Hooghe, 1995). The study employs a comparative view and discusses similarities and differences in political activities of the smaller exporting enterprises and large international investing firms, and emphasises how these firms manage their relationships with the EU. The political activities do not necessarily aim to gain direct financial support but can strive for goals like influence which will ultimately subsidise the business activities (Alt and Chrystal, 1983; Boddewyn and Brewer, 1994).

Within political science, some researchers, in opposite to the behold of this study, have studied this interplay from the point of view of the state. These studies have taken place in fields like development economics (Esping-Andersen, 1985; Maddison, 1991) and regional economics (Hanf and Toonen, 1985; Nowotny et al., 1989). In the same stream, business studies based on economic theory, such as Moran’s (1985) vertical integration of risk-sharing financial networks, tend to be led by economic terms and disregard the true political actions of the business actors. The concern of government and its impact on firms is the main topic of these studies. Contrary to this approach and in line with the frame of this study, later research on governance (see e.g., Fligstein, 1990; Streeck, 1992) explains the failure of the political hierarchy and discusses the internal dynamics and differentiated social system as factors which make centralised political control in the traditional juridical way more difficult. Following that criticism, some studies present the view of interest groups, as pursued by Yarbrough and Yarbough (1987) and Boddewyn (1988), suggesting a dyadic view for the analysis of relationships between political and business actors. The main contribution of the concept is that both sides, political and business actors, are seen as being active in influencing each other. Ring et al. (1990) also explain that the unidirectional influence suffers from an economic bias. In line with the outline of this study, some studies like Ghauri and Holstius (1996), explore this interplay within a network arena involving business and non-business actors.

2. Internationalisation and political environment

The business network approach, which has its origin in social network and behavioural theory, has been extensively explored in industrial marketing (Ford, 1990; Håkansson and Snehota, 1995; Ghauri, 1999) and international business studies (Buckley and Ghauri, 1993; Forsgren et al., 1995), and rarely touches the political relationships of the firms in their international market. This paper goes beyond this stream and explains that foreign enterprises are dependent on the actors in their political environment, and that these actors are also dependent on foreign enterprises, as firms make investments that affect groups like the media or others on which politicians are dependent (Jacobson et al., 1993; Ghauri and Holstius, 1996; Hadjikhan, 1996). Political actors, in seeking legitimacy (Eliasson and Kooiman, 1993), incorporate values from these groups into their decisions. Thus, in this network, the business and political actors (the focal actors) are interdependent, not only on one another but also on actors surrounding them as their activities influence each other, i.e., enterprises challenge the two interdependent areas of politics and business (Boddewyn, 1988; Boddewyn and Brewer, 1994).

The internationalisation model (Johanson and Vahlne, 1977, 1990) explains that the firm’s management activity is a consequence of its knowledge and market commitment. This view, as Keillor et al. (1997) explain, can be explored for an analysis of the behaviour of firms in their political environment. In this model, the principal obstacles are discussed in terms of the commitment, which is connected to learning about the foreign market. By increasing political knowledge, the perceived risk of market investment declines and market commitment increases. Commitment can be explained in terms of the size of investment towards the counterpart alone or by studying the links of tangible and intangible investments towards the partner and his connected actors (Becker, 1960; Scott, 1994; Denekamp, 1995). Intangible commitment towards the connected actors, referred to as ‘idiosyncratic investment’ by Anderson and Weitz (1992), reveals the fact that commitment in one relationship can spread to other relationships. The next aspect is knowledge, which contains the experiential knowledge of the firm (Blankenburg et al., 1997) and also the knowledge that the firm accumulates from others in the network (Johanson and Vahlne, 1990). Following this foundation, business actors, in their interaction with political actors, gain experience and information about the values and activities of others in the network — such as certain interested parties or the media — and behave accordingly. The variations in the degree of political commitment and knowledge among the firms explain the differences in managerial behaviour, which makes the relationship of each firm to the political actors unique (Lee, 1991; Keilier et al., 1997). This means that, each business actor has a specific relationship with political actors, which is interdependent to its political commitment.
and knowledge, not only to the focal but also to the other connected actors.

In this exchange relationship, enterprises require rules and supportive measures distributed by governments, and governments gain legitimacy as these enterprises satisfy the people and other groups to whom they are responsible. The interaction between the two requires the adjudication of conflicting interests, but also provides the condition for exploring options and sharing common values (Hult and Walcott, 1990). As Fig. 1 illustrates, the alternative behavioural options for the political actors are either coercive or supportive, and can contain general or specific influence (Korbin, 1982; Bodewyn and Brewer, 1994; Hadjikhani, 1996).

On the other hand, the behavioural options for the firms are those of adaptation and influence. Adaptation applies to the given political rules within which enterprises adapt their behaviour (Miller, 1992; Makhija, 1993). Influence means negotiation and co-operation (Bodewyn and Brewer, 1994), where firms aim to gain support for their business activities. By the development of knowledge and commitment, the process of change in political behaviour proceeds from adaptation to influence. Firms with a low level of knowledge and commitment rely on the first mode of political activity, which considers internal change in order to adapt business activities to the political rules. The alternative applies to the act of changing the counterpart’s behaviour, namely, in overcoming the political rules which govern the enterprise’s business activities. The final outcome of the management decision becomes an antecedent to the firm’s commitment and knowledge and the activities of political actors. The behaviour of the firms, as explained in Fig. 1, is a consequence of the enterprise’s political knowledge and commitment.

In the relationships with political actors, political knowledge is the knowledge on political decisions, the actors involved, and their embeddedness. For the business activities, adaptation implies understanding and following the already established political rules, whereas influence refers to changing the established political rules in the enterprise’s favour. While the former obliges the enterprise to follow the rules, the latter assigns an active role to the enterprise in manipulating the political actors before the political decisions are made. The adaptive measures are the outcome of the coercive political actions that generate organisational and production change, while the influence factor is aimed at obtaining supportive measures. The more generic the influence, the more specific the supportive political gain in an enterprise’s quest for handling the market imperfection.

3. Political decision process in the EU

The EU involves 15 European countries accepting the EU’s authority in finding ways to incorporate rules to create a Single European Market. Business-related policies are of three broad types. Firstly, there are policies designed to dismantle existing barriers to the free movement of goods, people and capital. Secondly, they aim to harmonise and replace many national standards such as those for business activities, for example. Thirdly, they aim to promote competition, remove restrictive practices, and prevent abuses of dominant trading positions; they are also directed towards the elimination of state subsidies which distort competition (Regulation 4064/89).

Of the eighth principal institutions responsible for the development and implementation of the rules (the European Parliament (EP), the Commission, the Council of Ministers (CM), the Economic and Social Committee, the Court of Justice, the Committee of the Regions of the European Union, European Court of Auditors, the European Investment Banks), this study is concerned with the first three. The EP musters the heads of governments at least twice a year. The CM is the EU’s principal legislative body and is also the EU’s decision-making body, while the Commission is the EU institution that deals mostly with business-related matters.

The political propositions are first suggested by the Commission. They are then discussed in the EP, and are finally delivered to the CM, which is the ultimate instance involved in accepting or rejecting a proposal. The Commission has a position in taking the initiative and formulating political questions, implementation and control. It is because of this function that the Commission is the most important section to influence in the entire EU. The more influence an international firm can exert upon this section, the more likely it is that the final outcome of the political policy will be beneficial to that company (Anderson and Weitz, 1992).

---

**Fig. 1.** The relationship between political and business actors.
But the Commission is also obliged to turn to the Economic and Social Committee for suggestions. The Commission is divided into 26 different Directorates General (DG) and offices, and each member of the Commission has access to several DGs or offices. When making a suggestion, the Commission refers to the expert committees. Some of these committees are permanent but others are ad-hoc groups. It lies within the duty of the Commission to gain information from experts and private firms and to engage them in the discussions. The Commission members have realised that the involvement of these groups increases the knowledge and the solidity of the proposals and also entails fewer problems with the execution of the proposals (Bern, 1994). The 626 members of the EP are also temporary and are elected by the people in the EU countries (Bernitz et al., 1998). The members of the EP consult the Commission before a decision is made. Their attitude will depend on the common ideology, and the final advice to the CM will depend on the composition of the group at any specific period. In most of the cases, the Commission’s proposals are accepted by the CM.

4. Method for data collection

The total number of firms being studied comprised of seven small and medium-sized firms (SMEs) at the exporting stage of internationalisation, and seven MNEs with direct investment in several EU countries. Only three of the MNEs are discussed in this paper since their behaviour was representative and covers that of the other four enterprises. The subject of “the firm’s” relationships with political actors” tends to be a sensitive area as many firms are unwilling to disclose information on this topic to outsiders. Firms that are satisfied aim to keep the relationship out of sight of public opinion and those who are dissatisfied are afraid of negative publicity. Accordingly, the study started with a survey of more than hundred firms who were asked about their willingness to disclose information on their political networking. The positive responses were few, and, accordingly, the study only focused on those who were willing to provide information. The information in the case studies is based on both primary and secondary data. For the MNEs, the primary information was collected via interviews with 11 Swedish managers in Brussels and with four politicians in the Commission. Beside these, other interviews were conducted with managers in Sweden and also with Swedish representatives in the EU. The secondary data were collected from brochures and information released by these firms on their political operations in the EU, and also through published information provided by EU.

The seven SMEs include three small (less than 50 employees) and four medium-sized firms (with 50–500 employees). Three are engaged in the production and sales of industrial tools and components, one in electronics, and three in industrial research and services. The total sales of these enterprises vary between 20 and 350 million SEK (7.50 SEK are equal to 1 US$). Data on these firms were collected via interviews with the Chief Executives. Interviews were also held with intermediary organisations, both public (like Euro Info Centre) and private (commercial consulting companies). Furthermore, interviews were held with hybrid organisations, such as the Export Commission and Stunds (a Swedish advisory organisation), both in Sweden and in Brussels, whose function is to support SMEs in the EU.

The three large MNEs presented in this case study, SAS, ABB and Ericsson, have made large market investments in the European countries, starting decades ago. The direct investments in more than 100 countries have also forced them to be active in their political environments. These firms, compared to exporting SMEs, organise their political activities in a completely different way.

5. The three MNE case studies

5.1. SAS

In 1992, when questions like deregulation became serious issues for EU politicians, SAS realised that there was a need to get closer to the decision makers. The head office decided to make investments in political activities and, among other activities, opened a political unit in Brussels. In total, the firm has engaged 14 people for this function, two of whom are located in Brussels, six in Sweden, and the rest in other European countries. The task of the unit in Sweden is to assist the unit in Brussels, for example by providing information or by negotiating with the Swedish politicians involved in the EU’s political decisions. The political questions with which SAS is concerned cover areas such as: the rules for flying time, consumer protection laws, taxes, competition law, pricing and environmental issues. Prior to Swedish entry into the EU, SAS had already had experience in political questions like deregulation because (a) of the deregulation of the airline industry in Sweden in 1987, which had created a new competitive arena (b) the company is a corporation of air companies from Sweden, Norway and Denmark and thus has to network with three governments.

The main job of the unit in Brussels is to collect information and exercise influence on the rules before a proposal is sent to the CM. To gain support for the suggestions, the unit first of all works with committees from the Commission and then with the Parliament. The unit also discusses the proposals with Swedish and even Danish representatives in the EU. The manager explained that his duties are, among others, to engage in the formal and informal meetings and to follow the media and the protocols. He divided the activities into internal (within SAS) and external ones.
More than 40% of the staff’s time is spent in formal meetings, and 20% is devoted to informal activities like involvement in social arrangements (two to three times a week). The remaining time is devoted to studying protocols, media, competition and consumers. One fundamental area mentioned by the manager is that concerned with building and maintaining social relationships. For this, the manager explained, the contacts start when there is a concrete issue. This contact is later nurtured in social meetings aimed at assisting the co-operation. Knowledge about the politicians’ social beliefs and ideas, he explained, increases confidence when negotiating. Engagement in informal clubs or parties is recognised as being an important part of the political process. The establishment of contacts is easy, but the major task is, as the manager explained, to create confidence and to maintain it.

The acceptance of a proposal for discussion in a committee is related to the matter of how a proposal adopts the EU’s political values. If a political question is not actualised by the EU or the media, the managers should collect enough technical and market information to convince the Commission that there is a need for a political decision in the interest of the consumers. The case of ‘ground handling’ is a typical example. The aim of SAS was the deregulation of ground handling for flight slots. SAS aimed at acquiring the freedom to be able to buy flight slots from different sellers. In London, for example, the airlines could choose from seven to eight alternatives. The SAS argument was based on the economical effect of deregulation. The decision could reduce the costs for the airline industry and subsequently reduce the prices and increase the quality of the service to the passengers. The initiative was taken by SAS in 1992/1993, long before the issue was discussed in the media or in any political institution. The SAS manager realised that competitors like Lufthansa and KLM had a similar view and, accordingly, they decided to act together. They formed an ad-hoc group to put forward a suggestion to the DGVII and DGIV in the Commission. The committee involved in the question agreed and made the proposal to the Commission, since the proposal was in line with the consumer welfare policy. The proposal was sent to Parliament, but there, the Social Democrats and some other business groups resisted. The Social Democrats did this because they were against deregulation in general, while interest groups, like flying slots sellers, were against it because this type of deregulation would give more freedom to the airlines.

5.2. ABB

The manager of the political unit in Brussels explained that the relationship with political actors in the EU is one of the most important areas, especially for products such as the generation of power supplies. In 1993, ABB established a political unit engaging 15 people. Beside these people, 5 others in different European countries were taken on to deal with political matters. The main interest of the manager is to cover political issues like: (a) R&D and projects to develop new products, (b) deregulation and harmonisation of the market, (c) The White Paper — explaining the energy policy for the year 2020, (d) environmental questions like the reduction of chlorides in Central and Eastern Europe, the echo-audit, standardisation — especially ISO 2000, EMAS (environmental certificate), and even general social and economical questions like employment. The sections in the Commission which deal with these issues include DGIII for industry, DGXI for environment, DGXII for R&D, DGXVI for energy, and DGXIV for public procurement.

In ABB’s political unit, there are nine people whose main task is to collect the market, technological and political information needed to make proposals. The first important knowledge criterion mentioned by the manager is that concerning the EU’s bureaucratic function, i.e., the position of different people and the changes in their positions that occasionally happen. He follows the daily news and incidents, since questions such as those involving chlorides or nuclear energy risks or alternative energy sources are usually also discussed in the media. People show a great interest in these. The unit checks the public opinion in the media in order to give strength to the proposals passed on to the Commission. In addition to the influence that the unit aims to achieve in order to change the political rules, another primary goal is to obtain financial funds distributed by the EU for different projects.

The manager stated that one of the reasons for having a person responsible for political issues in Sweden is to maintain contact with the Swedish politicians engaged in the EU. Since the power of the EU Parliament is increasing, ABB’s political unit is also working towards a close relationship with members of Parliament from seven to eight EU countries which have mutual interests in questions like the energy policy and the environment. The task is to gain support not only in the Commission, but even in the EP and the CM. The effort is always accompanied by engagements in social meetings. According to the managers, this social investment is necessary in the periods both before and during negotiations. For an R&D project, for example, these contacts have both a continuous and a sporadic nature. They intensify when there is, or will be, a project.

ABB is a renowned international firm and one of the biggest companies in Europe. This facilitates social contacts and increases reliability in the proposals. At the time of the interview, Percy Barnevik, the former Managing Director of ABB, was the chairman of the Competitive Advisory Group in the EU. This naturally facilitated the negotiation of ABB’s proposals. The role of ABB, in the context of its high-tech products and declaration of social responsibility in terms of employment or environment and future vision, has strengthened the position of ABB’s political unit. When the political issue has a general nature and is for the benefit of several competitors, then ABB acts as an industry group. All the competitors co-operate in Euroelectrics to propose future general plans for nuclear power. External organisations that
are generally useful in political issues are R&D organisations, universities and the media; these are used by the ABB’s political unit to reinforce their argument.

The group in Brussels spends 50% of its time collecting information and also informing groups and units related to the issues in question, and 50% of its time to external meetings and discussions. According to the manager, the relationships with these organisations and the social contacts with politicians are necessary, but it is the specific knowledge of the market, the industry and the technology that is the basis of affecting any political decision. One major task of the unit managers is to identify and explain the socio-political benefits of the proposals. In the case of ‘Success story 95’ for example, the technical solutions, along with the political and socio-economical applications of the proposal ensured that ABB succeeded in receiving 15 billion SEK from EU funds. The manager explained that it was because of these and the position of ABB’s managing director in EU’s political organisation that the firm received such a fund.

5.3. Ericsson

At the end of 1990, due to the increasing political role of the EU in the telecommunications market, Ericsson decided to establish a unit in Brussels. The main task of the unit was to collect information and exert influence on strategic issues like: (a) the liberalisation of the telecommunications (TELC) market, which started at the end of 1980s, (b) the rules applying to the merging and acquisition of TELC companies, and (c) the harmonisation of TELC product standards — for example, if a product is tested in Sweden, it should also be accepted in other EU countries. One person with experience on foreign political affairs is responsible and he co-operates with 10–20 market co-ordinators/experts in Sweden. To develop a proposal, the manager involves those experts who possess the relevant technical and market knowledge. The manager’s political task is (a) creating and maintaining relationships with the EU’s political units, i.e., contact with politicians, the treatment of political issues, and also the supervision of political decisions concerning the TELC market in countries like the USA and (b) mobilising resources in Ericsson when a political proposal or decision is being dealt with.

On each issue, the manager deals mainly with the specific political section of the Commission. For telecommunication and the treatment of the product and the future telecommunication market, he deals with DGXIII; for the international branch, with DGI; for industry in general, with DGIII; for competition and customs duties, with DGIV and DGXXI. The political members of the committees lack detailed knowledge of the TELC market and technology, and thus depend on Ericsson and other companies in this field. Ericsson’s technical knowledge of, for example, IPR, compelled the Commission to ask the company to co-operate and to make technological suggestions.

The manager studies official journals, financial releases and cover reports on IT. This task takes up more than 15% of the manager’s time. Some duties have a social nature, such as the engagement in formal social arrangements and meetings, specifically those that are arranged for people from TELC. But the manager explains that these contacts are mainly activated when a political issue is at stake, i.e., there is a problem of continuity in the contacts. The time spent in social and official meetings is 50%, and 10–15% is devoted to phone calls. The crucial factor lies in his and his colleagues’ technological and market knowledge when explaining problems and suggesting solutions. Accordingly, the manager has to gain information on issues such as: the customers’ needs, the competitive rules, customs duties and new political suggestions and decisions.

The name of Ericsson as a big international firm, in conjunction with its established social contacts, facilitates the initiation of an issue. The concept of GSM, which has more than 50% of the TELC market, and the technical development of the mobile phone, which has now become more adapted to the consumers’ needs, are well known to the political members. These elements facilitate negotiations in issues such as those dealing with the technical standards for sub-contractors and the future development of products and the market. Since the committees may also involve competitors, the more technological and market knowledge a company can apply in order to convince the committees’ political members, the more influence it can have on the content of the proposal suggested by the committees to the Commission and to the Parliament.

When a decision will produce benefits for several companies, they set up an ad-hoc group and involve industry groups in Brussels to reinforce the proposal. Competitors in the TELC market can, for example, co-operate temporarily on political questions like liberalisation and state subsidies. The case of ITA (Transatlantic Business Dialogue), for example, which was to eliminate the customs duties for IT products between the USA and the EU, involved all the competitors in Europe working together to influence politicians to draw up new customs rules. A committee with 30 people from different countries was established. The committee engaged political groups, industry groups and experts from firms like Ericsson and Nokia. The result was presented by representatives from DGXIII and DGI to the Parliament and CM, and finally led to the political decision between the USA and the EU. Fig. 2, below, displays a diagram of the organisations involved in the political activities of Ericsson.

6. The case of smaller exporting firms

At the Madrid European Council in December 1995, the Commission advocated the need to encourage export activities which mainly involved SMEs. Since the initiation of Article 5 of the Council decision (1993–1996), the
Commission has adopted an integrated programme in favour of these firms. The aim is to apply measures like the simplification of the political rules and other supportive measures and means, to facilitate co-operation between these firms in different countries. DGXXXIII is responsible for the implementation of this policy, working closely with other DGs in matters involving the improvement of these firms’ political environment.

The important areas for the managers to deal with were the legislation on product standards, transportation and the environment. The crucial political matter for these firms was to gain relevant information about: (a) EU financial support given to exporting enterprises, (b) the rules supporting co-operative activities with foreign firms, and (c) the adaptive measures that these firms needed to undertake to conform to the EU’s political rules. Managers claimed that the first two areas were very important since their international activities were greatly limited.

In practice, these firms could not influence the rules, and had to suit their own specific circumstance to these rules. The managers’ main task was first of all to collect information and understand how the rules concretely affect their operative system. None of the firms knew how the EU politicians had approached decisions concerning the smaller firms. The managers stated that because of the largeness of the decision units in Brussels, the complex decision process and the cultural differences, they experienced remoteness between them and these units. For example, before Swedish integration into the EU, the companies could exert some influence on Swedish politicians via the political unit assisting these types of firms. These intermediaries have lost their political influence as they have become merely one of a large number of organisations in the EU. Furthermore, the managers experienced confusion in the question of who does what. Prior to EU integration, the firms were familiar with the foreign nation’s bureaucratic system, its interest groups and the means that could be used to influence political decisions. Now, the firms do not know the main source of the rules — are they made by the government or are they EU rules?

The EU’s political measures in supporting these firms can be divided into enterprise and union policies. For the enterprise policy: (a) Euro Info Centres are information centres in all member countries. Their task is to provide information about EU rules; (b) co-operation programmes are developed, aimed at creating situations for inter-enterprise co-operation; and (c) pilot actions are organised, aimed at specific smaller firms involved in technological or market areas which are regarded by EU politicians as being sensitive and important. The support measures in the second field, that of union policies, are structured through financial contributions via the European Investment Bank, European Investment Fund, Structural Funds and so forth. The funds are aimed at supporting projects which affect technological, production and employment areas in small business enterprises. There are too many different supportive programmes and political units. All the interviewed companies stated that the numbers are large and impossible to understand and manage. Besides the difficulty in getting to know what kind of projects, funds and programmes were supported by EU, another problem for these firms was to understand what the EU really required before giving support. Some of the firms critically stated that they have to find projects that fit the EU’s project funds. The supporting measures are not for projects that fitted the firm’s internal or market situation. The firms believed that, if subsidies are to exist, the suggestions should come from the firms themselves. None of the enterprises were in favour of state support measures, especially not those offered in the form of projects pre-determined by the public institutes, as they were too costly.
and complicated to understand. Instead, they supported standardised rules.

All the managers stated that their major occupation is with the operative system and that they do not have the resources to engage a specific person or unit to manage the political relationships. Therefore, none of these firms were in direct contact with EU institutions or had been in contact with any intermediary organisations like the Euro Info Centres or the Swedish Programme Office, which belong to the EU’s political units. All the managers, except one, preferred to turn to Swedish intermediary organisations with whom they had had previous contact. Only one manager had the ambition to exert influence on the Commission. His enterprise had a large market share in Europe. The duties of the Swedish intermediaries were: (a) to offer information services, (b) to assist the firms in establishing contacts with other enterprises in Europe, and (c) to provide information about different supporting funds. These intermediaries are divided into three types: (1) public organisations like the Board of Commerce, NUTEK, County Administration, etc., which offer information about EU rules on subsidies; (2) hybrid organisations like Export Commission and Stunds, which are auxiliaries of the government but receive fees for a part of their services; (3) private intermediary organisations who receive an annual fee for giving information services. The last group also includes other private organisations like WINCO or the Chamber of Commerce which is a member of Euro-Chambers (a lobbying organisation). In all cases, it is the intermediary organisation that contacts these firms and not the other way around.

The managers claimed that there are a large number of organisations that only provide general information and this creates confusion. Managers did not know which one to choose or how to investigate which one had the ability to provide certain information or other resources. In an attempt to meet such a need, the EU has created the electronic EIC system to provide information. But, the managers stated that they really do not know how EIC functions.

As Fig. 3 illustrates, there is no direct relationship between the firms and the political actors. The managers explained that, due to their limitations in both time and resources, they could not become familiar with all the material or engage in the breakfast meetings etc., arranged by these organisations. In most cases, the information released by different intermediaries turned out to be similar and therefore the managers realised that some meetings were meaningless. The large amount of information has created the risk that firms miss the specific and relevant pieces of information. When considering private intermediary organisations, all managers explained that the price was too high for the firms. The intermediary organisations had more competencies in market knowledge since they had more knowledge about the industrial structure in these countries. The managers’ interest in the EU was primarily geared towards understanding the political system and obtaining information on certain aspects that could facilitate their export activities. In contrast to large enterprises, these managers do not have much interest in traditional lobbying activities. The purpose was mainly to approach the foreign market and to expand business activities. These firms had problems in finding enterprises that had both (a) a mutual business interest in political affairs and (b) political experience. In all their efforts, only one of the firms had had some success in affecting political decisions.

7. Discussion

As described in the case studies, firms displayed different managerial behaviour. SMEs had a reactive behaviour whereas MNEs acted in advance to exert influence before

![Fig. 3. Exporting firms and their relationships with political actors.](image-url)
the decisions were made. While the aim of the SMEs was to understand which rules were applicable to the specific business sector, MNEs undertook political activities to gain specific political support. The reasons that the firms proceeded in a certain manner, as explained in the cases, depended upon the firms’ commitment and knowledge. However, the results will now be discussed in more detail under three different themes: (a) the commitment and knowledge in terms of the political investment and experience, (b) the variation in the behaviour of the firms, and (c) ‘political agenda’ and idea generation.

7.1. Political investment and experience

As illustrated in Table 1, all the investigated firms recognised political activities as a critical part of their market interaction. The three MNEs had several years of experience in political matters. Compared to smaller exporting firms, all three investing firms made large organisational commitments. This commitment extended not only to Brussels, but also to other European countries. SAS and ABB, for example, had organised groups and people in several foreign countries to influence the politicians. The three cases illustrated how political units in their relationships with EU politicians mobilised both internal and external resources to affect the political decision. The investment in a unit in Brussels and other countries was claimed to be necessary in order to come closer to the political actors.

The cases also illustrate that the more progress the firms had made in their internationalisation of business activities, the more advanced their political commitments were. Besides this, there was also a relationship between the firms’ business and political commitments. The higher business commitment of three firms became an idiosyncratic investment leading to, for example, an increased reputation (Anderson and Weitz, 1992) that affected their political relationships.

7.2. Variations in behaviour

In earlier studies, companies are generally seen as homogeneous units constrained by governments (see e.g., Jansson et al., 1995; Ghauri and Holsti, 1996). Our case studies present a completely different picture. The homogeneous behaviour can only be seen as referring to smaller firms as they all displayed rather defensive behaviour. The three MNEs, on the contrary, had an offensive proactive strategy. Their activity was geared towards influencing the decisions before they were actually made. Co-operation and negotiation tactics were used to obtain the desired results. In more detail, the discussion of the cases also reveals the fact of specificity in the managerial behaviour of the firms. Each of the three MNEs had a specific question and the task was to gain specific political support. The aspect of specificity is different to that proclaimed in studies on risk (Shubik, 1983; Ting, 1988; Miller, 1992) or on firm/state interdependence (Egelhoff, 1988; Porter, 1990). As illustrated in Table 2, these firms had, for example, different types of political questions, different administrative commitment, and they were connected to different groups of actors.

Similarities in the behaviour of the smaller firms also have their basis in the factors explained. Low levels of knowledge and commitment forced the firms to select management by adaptation. The major effort of the managers was to find out and understand the new rules and to make changes in organisational or bureaucratic procedures. As internationalisation process models (Johanson and Vahlne, 1977; 1990) have proposed, the restrictions of resource and knowledge capacities created obstacles for the move from adaptation towards influence. While the

| Table 1 |

| A summary of the firms’ political activities |
|-----------------|-----------------|-----------------|-----------------|
| SAS             | ABB             | Ericsson        | Exporting firms |
| Major questions | deregulation of flight industry, environment | environment, R&D projects, deregulation, energy policy | liberalisation and harmonisation, rules for merging |
| Organisation for political action | 14 people, 2 in Brussels, 6 in Sweden, 6 in other European countries | 15 people in Brussels, 5 people in other EU countries | 1 person in Brussels, co-operating with 10–12 experts in Sweden and several people in other countries |
| Place of action | Brussels, Nordic countries | Brussels, active in 8 EU countries for political questions 1993 | mainly Brussels and Sweden |
| Establishment in Brussels | 1992 | 1990 | no one in Brussels |
| Forms of behaviour | alone, ad-hoc with competitors | mainly alone | alone, ad-hoc with competitors |


Table 2  
Political knowledge and commitment and variety of actions

<table>
<thead>
<tr>
<th>Commitment</th>
<th>Three MNEs</th>
<th>Seven SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge</td>
<td>High foreign political organisational and social commitment, idiosyncratic investment.</td>
<td>Low political commitments in organisational and social areas, both in Sweden and foreign countries.</td>
</tr>
<tr>
<td>Knowledge</td>
<td>High previous political knowledge, high social and technical knowledge, high knowledge on institutions and high knowledge on specific questions. High knowledge of how the rules will affect the firm’s business operation.</td>
<td>Low business and political knowledge. High psychic distance to intermediaries in Brussels. General information from Swedish intermediaries. Difficult to find out how specific rules can support their business activities</td>
</tr>
<tr>
<td>Political actions</td>
<td>The major activity is to influence. Political interactions with Swedish and foreign political actors in Brussels and other countries, interaction with other technical and legal units.</td>
<td>The major activity is how to adapt production activities to the rules. No interaction with political units in EU or their intermediaries. Informative relationship between managers and Swedish intermediaries.</td>
</tr>
</tbody>
</table>

The smaller firms were followers of the political rules and lacked the resources to make a political commitment, and their networks could not generate the knowledge to build a dyadic relationship. The committees and Commission members had shortcomings in the technological knowledge required to generate ideas that could reflect the needs of business and social groups. This made them dependent on the MNEs’ and their specialists’ having this competence. The matter of influence of these firms in the interaction with political actors was not only related to technological competence.

The view of a political agenda basically divides the entire business activity into two different but interwoven areas (Boddewyn, 1988). One is the business arena, which considers the interaction with business actors, and the other is the political one, which involves the interaction of business and non-business actors. The outcome in the latter situation can be influenced or adapted accordingly. The political outcome is attractive to MNEs for several reasons (Etzioni, 1988). It creates winners and losers (Alt and Chrystal, 1983), and can reduce the organisational or marketing costs (Boddewyn, 1988). A lack of activity to provide a unique suggestion makes the political actors coercive. As the cases indicated, even when the EU politicians undertook supportive actions towards smaller firms (through the allocation of financial resources for small businesses), the firms could not gain any benefit since they were not able to develop a political idea.

8. Conclusions

This study gives some indications to argue that there is a mechanism of parallel existence of the two processes of business and political networking. While the process of commitment in business is explained by the level of involvement, i.e., from export to direct investment (Johnson and Wiedersheim-Paul, 1975), the process of commit-
ment in the political market is identified as one ranging from adaptation to influence. This study also pinpoints a firm’s management activities which can apparently be divided into business and political areas (see also Boddewyn, 1988). The political activities are an essential and distinguishable part that supplement the business activities. As the cases illustrate, the two types of activities are complementary and exist side by side. As an outcome of idiosyncratic relationships, the commitments in both areas diffuse and affect the relationships in each area. The higher the international business commitment, the greater the firm’s legitimacy among people and political actors in the foreign markets, and the more influence the firm will gain. The higher the influence, the more privileged the firm is in its business activities. Consequently, while some studies refer to the homogeneous (Miller, 1992) or unidirectional impacts of governments (Kogut, 1991) and others concern the economic model for the dyadic view (Boddewyn, 1988; Ring et al., 1990; Jacobson et al., 1993), this study provides a different dimension. Following the role of specificity in the network, the variation in managerial behaviour is explained by the differences in the firms’ commitment and knowledge in the network, which, to some extent, is based on the size of the firm.

Contrary to studies like those performed by Boddewyn (1988) and Jansson et al. (1995), the paper discusses the influence on decisions before they are made, and not after. The act of exerting influence, either as a result of political actors’ shortcomings or the acquisition of certain people, for example, is explained as being connected to the aspect of specificity in the relationships of the commercial and political actors. The more political knowledge and commitment an enterprise has, the more influence it gains and the more specific support it can receive. On the other hand, a low level of political knowledge and commitment leads to low levels of influence and the enterprise will perceive the relationship as coercive. Furthermore, distinguishing the political network from the business network leads to another conclusion that concerns the aspect of the political agenda.

In gaining specific support from political actors, the management function of the business actors is to generate a proposal that can convince political actors. The uniqueness of this agenda can be explained by the management’s ability to incorporate the business resources into the needs of the political actors and others in the political system.

The network defined for this study is a set of actors — enterprises, media, governments, specialists, public opinion — linked to one another in various exchange relationships. The interaction of these elements is explained to create a loose network (Weick, 1979; Orton and Weick, 1990). Contrary to an industrial network (Ford, 1990; Axelsson and Easton, 1992), the network in this study is contingent upon a situation in which the position of political actors is not stable, in which the values of the connected actors are changing. More than 30% of the managers’ time was devoted to finding out about the political actors’ positions, about newcomers and new ideas released in the media, and even about the competitors’ political activities. The incessant commitments to new relationships, such as social relationships, is one managerial device to keep relationships alive. In this respect, another conclusion can be discussed for cases (as with smaller firms) in which such a network is weak, and the business and political actors are related to each other by means of ‘gatekeepers’ or intermediaries. In such a case, the relationship loses its direct mutuality and authority compels adaptive behaviour.

9. Managerial implications

The findings suggest several strategic managerial implications. First of all we can question those who identify the political actors as producers of given business rules. The view of unified and hierarchical power of political actors is true for cases when a firm comes short in its political knowledge and commitment or disregards the benefit of the management of the political actors. Those firms that have a high level of commitment and knowledge also have the opportunity to manage their political environment effectively. This finding is related to the political competency that outlines the ability of the firms to mobilise resources in dealing with political actors. When a firm, in cases like small business enterprises, is confronted with a lack of political knowledge and commitment, the competency includes the ability of the firm to accumulate resources by ad-hoc or co-operation with other firms.

Another managerial implication is the influence on political decisions. Studies in international business mainly pertain to discussion on coerciveness in the political actions. In this track, adaptation strategies are presented as means to respond to the coercive actions of the political actors. Following that presumption, the major efforts of a large number of studies has been to present a variety of calculation modes to measure political risks. To challenge the impact of political actors, another group of studies, having empirical bases, concerns lobbying. This study does not reject findings of these studies, but puts the emphasis on co-operation between the political and business actors. Co-operation, as discussed earlier, is based on the mutual needs of these actors for each other. Political actors have shortcomings in, for example, market and technological knowledge and business actors need stability and rules supporting their business. This view illuminates the aspect of mutual gains and influence in cooperation between these two different types of actors.

The third implication, related to the second one, is the influence before the decisions are made. The matter of idea generation for political agenda implies that management develops activities to convince the political actors. It is to enlighten the mutual benefits of the two parties and gain influence prior to political decisions. Otherwise, business actors were obliged to follow the rules and adapt themselves to the given political condition. Firms applying such influ-
ence aim to gain specific support and protect themselves from political impacts. Knowledge about the needs and inquiry of those that become influenced by new political rules can give a privileged position to the firms when managing the political relationships. The more political knowledge and commitment the firms have regarding the interaction, the more influence they will gain. When a firm, like a small international firm, individually lacks such political competency, building ad-hoc organisations or collaborative actions are means to build relationships with political actors and obtain influence.

The fourth managerial implication relates to the utility of the political network, which, as discussed earlier, has a loosely coupled structure. The view permits to recognise those business and non-business actors that each political agenda encompasses, and the means that firms can use to manage the political actors. In this vein, the management of political actors extends its field of actions beyond just relationship with political actors. It integrates other business and non-business actors that somehow contribute or hinder the management activities. This also means that firms in their international business, besides managing their business networks, are also to manage their political networks. These two networks are interwoven, but clearly, management of political network subsidises the business activities. The more political competence the firms have to manage the political network, the more specific will be the support and the business benefit that firms can gain.

References

Korbin S. Managing Political Risk Assessment: Strategic Responses to