Editorial: Adding a political dimension to business research

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1 Introduction

During the last decades, the world has changed dramatically. States and economies have become increasingly integrated and interdependent, *i.e.*, globalised, and the environment of international business has likewise changed. In Europe, barriers have been removed in attempts to create a single market with a free flow of people, products, services and money. Similar attempts to facilitate trade can be found in other parts of the world, such as NAFTA in North America, MERCOSUR in South America and ASEAN in Southeast Asia. Many issues which used to be solved on the national level are now elevated to supranational entities. Protection of the environment and fight against climate change are examples where joint action across borders is necessary. Further, laws and regulations regarding development and trade issues are often taken on a supranational level. Hence, large and small firms are more and more affected by political units in the international environment. Thus in addition to the influence of customers, suppliers, competitors, *etc.*, spread across borders in their business networks, firms' daily activities are influenced by political actors on different levels. The impact of political connections on the firm's business activities thus becomes a study topic of great interest.

This Special Issue of the *International Journal of Business Environment* brings together research that is concerned with political aspects of business life. The idea for this issue first emerged in 2007 and was further developed at the *2008 Industrial Marketing & Purchasing (IMP) Conference* in Uppsala, where a special track on 'Political embeddedness in networks' was arranged. Some researchers contributing to this special issue presented research on the topic there, and others were found later through other conferences and through the call for papers that was sent out in October 2008. The articles that are included raise various aspects of the political side to business, ranging from more traditional questions such as governmental influence on business performance to less self-evident ones, such as the development of large issue-based network structures. Common to all research that is presented, however, is an interactive view on the subject. That is, all articles are grounded in the belief that the political dimension of business life is based on interaction, and should therefore be studied using research tools that take into account interactivity between various actors, both business and non-business ones. This special issue puts forward the view that international firms do not always have a passive role in following political rules. The interaction view explored in the papers may also aid international firms not only in Western societies, but also in emerging markets with highly regulated socio-political structures.

2 Bridging the research gap

This special issue is derived from the recent acknowledgement of researchers interested in business networks who comment on the lack of research regarding how firms manage their political environment. Based on a business network view, the papers in this special edition aim to contribute to further understanding of how firms interact with political organisations. The inspiration for this special issue is not constructed on the presumption that the topic generally has not captured the attention of earlier researchers. On the contrary, research on such topics as political risk has dominated a large amount of text books and scientific articles since the 1960s. While these contributions put forward views in fields such as political risk and measurement of uncertainty, the papers in this volume choose a different theoretical view. Based on a network perspective, the papers contribute to a further understanding on business-political interaction and networks, which can also be useful for managers in managing their political environment.

Political environment is a broad concept and it is increasingly used in different disciplines covering political science, regional development, sociology and international business. The research has intensified during the second-half of the twentieth century. We have also witnessed a rapid and uninterrupted internationalisation of firms, markets and industries with the consequence that firms are faced not only with local but also with international political organisations that affect their businesses. This development is reflected in international business research and also in research in strategy, marketing, organisation, accounting and a number of other areas. The trend has provoked researchers in international business to address the increasing interactions between international firms and political organisations and to employ views from other disciplines. The former emphasis on political risk (see, for example, Miller, 1993) which has dominated this arena for decades, is increasingly challenged by institutional theory and governance (Powell and DiMaggio, 1991) and business network perspectives (Ford, 1980; Håkansson and Snehota, 1995; Axelsson and Easton, 1992). However, there are fundamental differences among these various theoretical perspectives. While some regard the political environment as exogenous, others conceive it as an indigenous aspect, which can be influenced by firms.

The political environment in international business has been popularised largely due to earlier studies on political risk by researchers like Kobrin (1982), Fitzpatrick (1983), Ghadar *et al.* (1983), Miller (1993), and Oetzel (2005). Risk perception and assessment still have some dominance, where risk is defined as decisions or events in a country that will affect the business in an international market (Howell, 2001). As Gao (2009) states, political risk originates from the negative actions of political organisations and the reason is that the firms cannot satisfy or balance the competing interests of different stakeholders. Researchers like Gao (2009, p.100) argue that "political risks are all non-business risks such as creeping expropriation". Gao (2009) refers to Hadjikhani's (2000) statement that: "Industrial organisation economics, transaction-cost economics, and studies of internationalisation (…) conceive of political actors as an external constraint." In further extending the view of political factors as exogenous, Frynas and Mellahi (2003) state that international firms can only play a passive role.

The extrinsic view is constructed on the assumption that political organisations have the legitimate power to affect the business firms, while business actors have no such power. This unidirectional view, *i.e.*, the one-way impact of political organisations on business actors, has been broadly used to analyse the firms' political market activity. Focus is on passive firms using an adaptation strategy as a reaction to political rules and authority of the political actors. For this unidirectional view, some theories introduce strategies for management of the political environment. They have their basis in industrial organisation economics (Caves, 1982) or in theories of transaction cost economics (see, *e.g.*, Rugman *et al.*, 1985; Teece, 1985). Others follow Ghoshal (1987) and discuss the unidirectional dimension of political influence and interrelate the political aspect to the types of firms and risks. Miller (1993) presents a variety of risks and connects them to political influence: risks associated with political turmoil or major changes in the political regimes (see Ting, 1988), instability in government policies (Brewer, 1993; Kobrin, 1982), or risk through change in the interest rates, all of which influence internationalisation. For these studies, categorisation is a means of explaining homogeneity in the behaviour of firms within a group. Consequently, the matter of political or policy uncertainties are treated as a given condition and little space is given to the interactive relationships. Further, strategies of adaptation and avoidance in the management models of international political-risk studies are also based on assumptions of government authority and postulation of a passive role for international firms. Managerial actions of the firms are risk assessment, adaptation and avoidance. These are common even for the new trend of studies dividing political risk into micro and macro levels (Brink, 2004; Minor, 2003; Oetzel, 2005). The political risk in international business studies is commonly constructed on assumptions that the hierarchical power of political organisations is exogenous, coercive and has a homogenous effect on firms, while the firms have a passive role.

3 An alternative view

The papers in this special issue are in opposition to the research streams described above and follow other studies that criticise the simplicity of the traditional views. In one of these alternative research fields, an interaction perspective is in focus and the firms are given a more active role (Murtha and Lenway, 1994; Yarbrough and Yarbrough, 1987). The hierarchical view of the relationship between political and business actors is explicitly rejected and a wider perspective on the interaction context is identified. Yarbrough and Yarbrough's (1987) suggestion is to employ a dyadic view for analysis of political and business actors. Their main contribution is that both sides are seen as active in influencing each other.

This focus on interaction is found in all papers in this special edition. The theoretical basis in the papers is a business network perspective consisting of relationships between politically and economically interrelated actors. Some have a generalised and others have a specific exchange, in which reciprocity is not necessarily achieved through any direct benefit to one actor from another, but may be achieved through an indirect benefit provided by another actor that is embedded in the network (Bagozzi, 1975; Ekeh, 1974; Prasad and Ghauri, 2004). The business and political actors in this network have mutual interests. The business actors aim to gain business legitimacy resulting in business profit (Boddewyn and Brewer, 1994) while the political actors' aim is to gain political legitimacy in their own environment. The relationship between business and political actors may also satisfy connected actors such as consumers, institutions and/or other business actors.

The papers are also inspired by the statement that each business actor can enjoy a 'unique' relationship with the political actor and become influential. This influence, which is the main strategy of the firms, is explained by the ability of a business actor to relate its resources and knowledge to the values and norms of the political actors (Buckley and Ghauri, 1999; Keim and Zeithaml, 1986). In this 'political market', a firm sees every political suggestion or decision as a specific issue and aims to influence the political actors. A specific characteristic for this market is that each political decision activates the dyadic actors and others in the network. Thus, in gaining support and avoiding coercive actions from political actors, business actors mobilise resources to interact. Such interaction between political and business actors is also proposed by researchers like Ring *et al.* (1990) and Hadjikhani and Ghauri (2001), who integrate the social dimension into the political network to enrich the concept of political behaviour of business actors.

A presumption in some of the papers in this volume is that political actors have institutional legitimacy and therefore can take coercive and/or supportive actions in their relationships with business actors. Business actors are driven by business legitimacy based on profit and growth (Hadjikhani and Sharma, 1999). Their goal in this interaction is to convert the dependency on political actors to a mutual interdependency (direct or indirect) and to gain influence. Otherwise, dependency on political actors is the measure for the outcome of weak relationships and the option left in such a case is adaptation.

The papers are also concerned with the matter of management of political exchange relationships. Some of the papers discuss both the coercive and supportive nature of political behaviour. The strategy of the firms is often to convert the coercive actions to influence and gain support. Admitting the initial primacy of the political actors, the objective of the business actors is presumed in these articles to establish an interdependent relationship. The strategy of influence is ultimately to gain subsidies or strengthen their business positions. Influence embodies those activities intended to convince political actors to provide specific political support. As the articles disclose, the extent of influence varies. With high influence, enterprises gain resources or supportive rules, which rely on strong exchange relationships. Influence and adaptation are thus outcomes of cooperative or conflicting exchange relationships. This topic has been the concern of other researchers. Some like Henisz (2000), Henisz and Swaminathan (2008) and Scott (1995) discuss managerial actions, like lobbying and legitimacy and connect them to the management ability. In this manner, Henisz (2000) and Hadjikhani and Lee (2006) go further and introduce the idea of a firm's network and connect it to the behavioural action of lobbying (networking) and influence. It is stated that business actors use their direct and indirect ties to strengthen their legitimate position in the market. In the context of managerial capability, Hadjikhani and Lee (2006) introduce concepts like legitimacy, lobbying, knowledge and influence. Hence, the theoretical views go as follows: firms are dependent on the political units because these units, by their legitimate position in society, can support firms or act against them (Henisz, 2000; Henisz and Swaminathan, 2008) by creating trust/distrust. At the same time, political units are dependent on large firms because they have resources and commit investments that, in turn, affect groups like the media and the public at large, on which the political units are dependent.

4 Outline of this special issue

Six papers have been selected to illustrate the importance of taking the political context into consideration. Some common characteristics are:

- Unlike the political risk studies which are based on economic theories, these papers are based on the social science theory.
- Political issues are not exogenous factors, but are related to political units in different political environments.
- Firms are actively aiming to affect the political decisions.
- Business firms and political organisations are interdependent.

A main point in this issue is that local, national and international issues are becoming increasingly intertwined. Issues on the local level are affected by and also influence higher levels and vice versa, and consequently the borders between 'national' and 'international' become less relevant.

The papers mainly have a basis in the business network perspective, but insights from the neo-institutional theory are also included. One of the papers is strictly conceptual while the others include case illustrations or results from a survey. In the first paper, a health problem of international interest is in focus; in the next two papers, the impact from the European Union on small firms is studied, while the remaining three papers deal with issues related to foreign market entry and internationalisation. The situation for small firms is in focus in some of the papers, while Multinational Companies (MNCs) dominate in other contributions.

In the first paper, Ritvala and Salmi explore how different types of actors can be mobilised to participate in solving a common societal issue, in this case, fighting heart disease in Finland. This issue is also of great interest in an international context. Their longitudinal case study illustrates that in this complex process, a variety of actors representing different sectors of society was involved, such as firms, political actors and NGOs. By integrating the neo-institutional theory with the IMP network approach, the authors develop an analytical framework for investigating the initial mobilisation process of such a network. They stress the importance for network mobilisers to frame the issues and operate across sectors in order to link different networks. Hence, they put forward network relationships as the key resource for creating institutional change and solving common issues.

The main contribution of the article is that it incorporates political actors and issues in business networks and illustrates the importance of such a broader perspective for the understanding of network dynamics. Further, the authors add to the literature on institutional entrepreneurship and institutional change by indicating that network relationships are key resources for transforming institutions.

The importance of including the impact from the political environment is illustrated in the paper by Bengtson and Pahlberg. They focus on how political embeddedness in the business network influences technological development processes and illustrate this by a case involving a small, entrepreneurial Swedish firm. By following the development of a product in the life science industry, they illustrate the impact from local, national and supranational political actors. The impact from the European Union proves to be vital for the further development of this lifesaving product. In a broader context, the issue raised is that of the role of politics and policy in stimulating entrepreneurship and technological development in society in general, and in small firms in particular. The authors end their article by concluding that "by interacting in policy matters, small firms will learn how to utilise their resources better, just as this interaction will put political resources to better entrepreneurial use".

The impact from the European Union is also illustrated in the paper by Thilenius, Pourmand and Hadjikhani. Using a business network perspective, their aim is to develop a theoretical view to study coercive and supportive behaviour of the EU and how it affects small firms' business relationships. In the paper, 17 hypotheses are developed and discussed, based on data from a survey involving 134 small firms in Sweden. The results highlight the diversity in the impact of international political units on the relationship dimensions. It is, for example, illustrated that coercive and supportive connections impact differently on dimensions such as efficiency and trust. Hence, as stated in the paper, international political actors can exercise the role of being both 'sticks and carrots'.

The importance of taking political context into consideration when entering a foreign market is discussed in the following three papers. Foreign market entry is often described as a process emphasising the establishment of relationships across borders. Gebert Persson and Káptalan-Nagy stress that in addition to developing relationships, it is important to consider how perceptions of legitimate behaviour within the host country affect the foreign market entry process. Their initial position is that a firm entering a foreign market will encounter a liability of foreignness (Kostova and Zaheer, 1999) related to the industrial environment (*i.e.*, lack of information about network actors such as customers, suppliers, competitors, *etc.*, in the host country) and to the institutional environment (lack of information and understanding of legal, political, socio-cultural and economic restrictions in the host country). A firm must understand the expectations of behaviour both in the business network which it is about to enter and in the political environment, and make sense of what is being perceived as legitimate.

The authors stress that legitimacy is formed through interactions between actors in a market and that it is essential for a firm's survival. The main contribution is to increase the understanding of legitimacy by focusing on how different factors such as degree of internationalisation, position, and pressure from governmental authorities, network actors and the society can facilitate or hinder a firm's foreign market entry process. When it comes to pressures from governmental authorities, these are not always coercive but can also support the foreign market entry process when the entrant firm is expected to contribute to the local market, for instance by creating jobs and developing local industries.

The following paper discusses MNCs and their effects on the local economic environments in emerging markets. When a MNC enters a new country – especially an emerging market – positive results, such as the creation of new jobs and development of knowledge are often expected. Since relationships that MNC subsidiaries establish with firms in the host country may be beneficial to the whole economy, the political environment often acts in order to attract firms to enter. Both tangible and intangible assets can be transferred from foreign subsidiaries to the local firms, thus stimulating local economic activity.

In the paper written by Salciuviene *et al.*, a model is developed describing factors that have an impact on relationship formation between MNCs and local firms – in this case in the emerging market of Poland. Based on interviews in two firms in the service sector, it is suggested that government policies as well as incentives, in addition to the MNC mode of entry and subsidiary autonomy, affect the formation of relationship linkages. The objectives of the study are twofold, *i.e.*, to investigate:

1 which MNC factors and which host country factors have an impact on relationship formation

2 how backward relationship linkage between the MNE subsidiary and local firms generates benefits to the local socioeconomic environment.

The study suggests that government policy should promote infrastructure and skills needed by MNCs and that incentives should be given to long-term projects, as well as to the identification and acquisition of newer technology by local firms. It is also indicated that although the Polish government has established a positive climate for foreign direct investment, the MNCs' expectations are not always met. Further, the protection of data and intellectual property rights must be improved.

The importance of government is also illustrated in the paper written by Freire de Sousa and Figueira de Lemos. They describe how the state, by interacting with the banking sector, took a very active part to enable the internationalisation of 28 Portuguese firms. Because Portugal has a rather small domestic market, internationalisation is a way for Portuguese firms to grow and minimise risk. Lack of knowledge and resources, however, hinders the internationalisation process. The theoretical base in the paper is the internationalisation process model (Johanson and Vahlne, 1977) in which knowledge and commitment are central concepts. In contrast to this model, it is shown that the firms' internationalisation does not necessarily come from their internal push or from other firms in the industrial context, but rather that firms' internationalisation sometimes is about lack of resources that can only be solved through effective collaboration with non-business actors.

The case also stresses the interdependency of firms and governments. While the firms contribute to employment and GDP, which the government is dependent on for attaining political legitimacy, the firms need support from the political actors. The case clearly illustrates the complexity of the internationalisation process, with non-business actors involved in supporting the firms to avoid the constraints of internationalisation.

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