

## **Industrial Relationships with Foreign Firms:**

### **The Case of Government Impact in the Iranian Business Market**

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In studies of business markets two different tracks primary dominate the marketing disciplines. One dominating view, as stated by Hadjikhani (2000), has its roots in the microeconomic theory (See Kotler, 1967). The other track has, in contrast, its base in the system and behavior theory thinking (Arndt, 1985, Cyert and March, 1963; Thompson, 1967). The study presented in this paper takes its ground in the latter and focuses on local firms' behavior in its interaction with foreign firms. As both business and political environments affect this relationship, this study has the ambition to develop a theoretical model aiming at studying the impact of business as well as non-business actors on international business relationships. The paper is thus focused on the interfacing of two interconnected relations, the industrial and the political. The former concerns the interaction in industrial buying and selling of products and services and the latter the political rules affecting this relationship.

In the field of international marketing the main attention of the traditional research have been reserved for business behavior. A prevailing part of studies is based on the presumption that a) firms have ability to shape their market planning and have access to all market information, b) governments constrain businesses and that business firms cannot cooperate nor negotiate with political organizations. This perspective endows hierarchical power to governments making them able to exercise control over the behavior of the business

firms in their international business activities (Doz, 1986; Poynter, 1985; Jacobson et. al., 1993).

In another track, researchers argue that a) firms have interdependent industrial relationships and their strategy is related to the act of others in their network, b) business firms can undertake political actions and that these actions affects firms' market position (Ring et al., 1990 and Boddewyn, 1988). The foundation in this theoretical view is that business firms try to shape their political environment. In further explorations of the view, there has been an increasing amount of research studies exposing how business firms can exercise influence on government. These include studies on lobbying (Andersen and Eliasson, 1996; Austen-Smith 1987), creating bargaining competency to convince the political actors (Bolton, 1991; Ballam, 1994; Crawford, 1982), and on pressure groups, bribery and lobbying (Rose-Ackerman, 1978). According to this view, relationships between business firms and governments are an outcome of the fact that they need each other. Governments need both local firms and MNCs for economic development, and business firms need governments to gain support and stability in the markets.

The model proposed in this study is built on the industrial network theory. It examines the industrial relationship and its connection to political actors via foreign trade policy. A vast majority of studies of business markets focus on international firms in industrialized countries. They expose the relationship strength for the cause of long-term technological cooperation and that espouses the role of the economic exchange for the high industrial interdependence (Håkansson and Johanson, 2001, Ford, 1990). There are very few studies exploring the interaction from the local firms' in developing countries point of view. It would be interesting to manifest the strength of the industrial relationship for firms from developing countries. The empirical case presented here comprises information about 60 Iranian firms, who all are customers to foreign international suppliers. The present study can thereby expand

our understanding, not only through the usability of the theoretical notions evolved in this study, but also, hopefully, assist international as well as local firms in improving their understanding of their ongoing businesses and political environments.

### **Industrial Network Theory**

Industrial network theory is built on the view that a firm interact and has interdependent relationships with a number of firms and that a firm, without considerations of the effects of other firms, cannot make crucial market decisions. The network defined for this study is a set of actors—enterprises, competitors, suppliers, governments, unions, and branch industries—linked to one another in various exchange relationships. Every firm is acting in a network context of interdependency where any exchange has an impact on several other firms. When economic theories take their foundation in short-term economic transactions and opportunism, the network theory expand its view with the base in long-term relationship and mutuality. This study adjoins to the fundamental ideas of the network theory but also extend the context of networks to include political actors. The presumption in thus study is that business firms have an opportunity to manage political uncertainty even though the government exercises a high level of coercive power. The main arguments for extending the network theory in this study is partly that every business interact with political units in the society, but also that when focusing countries like Iran imposes issues connected to political factors and neglecting these factors affects the validity of the study. Unlike in many other studies of political environments, the network theory employed in this study gives unique identities to the political organizations and base its assumption in that political and business units need each other and that every action of one affects the other. Both have direct and indirect benefits in the interaction with business firms.

Thus, the two components that form the structure and analytical framework for the empirical study are, industrial business relationships between firms and the content of the

industrial relationship between them, i.e., a dyadic approach and political relationships between firms and political organizations and to the content and character of the connection affecting the industrial relationships.

### **Business Relationships**

Business relationship is the basic unit in the industrial network perspective. It is assumed that exchange contains mutuality and continuity. The content of exchange relationships can be specified in terms of two dimensions, *business exchange* and, *social exchange* (See also Johanson and Mattsson, 1988)

*Business Exchange:* This relationship refers to the flow of resources (such as product, service, technology, and finance) between firms. The flow of some exchange resources, such as finance or products, is from one to another; the flow of some other resources (such as technology and knowledge) can have one or two directions. Studying the flow of resources, however, shows that the firms, by whatever means, are interdependent in a network context. Thus, the interaction between buyers and sellers is constructed on the base of the resource causing interdependence among the firms. An ongoing business interaction, which proceeds with a large flow of resources, cooperation, and adaptation, creates an interface among the firms and a structure of high interdependency and strong relationship. A large number of studies manifest high cooperation and adaptation as necessary elements for technological development. In such cases, the strength of relationships is reinforced through the processes of mutual adaptation and mutual orientation (Demsetz, 1992). The strength is weak as parties aim at low level of technological cooperation or short-term benefit and abound cooperation and adaptation.

*Social Exchange:* The discrepancies, conflict, and co-operation in the relationships confer to the next element, namely social exchange relationships or atmosphere. The social exchange relationship has an important function to reduce uncertainties between parties and to

avoid short-term relationship. The higher is the strength in the social ties, the more probability that firms act for a long-term relationship. Difficulties in a short-term relationship, like, conflicts and opportunistic behavior, can be resolved by mutuality and trust. Weakness or strength are indicators of how the industrial firms, beside their resource exchange, are socially interdependent to each other. The most important function of social exchange is the long-term process through which successive social exchanges gradually interlock the firms with each other. This work as glue that binds firms to each other, and at the same time, facilitates the resource exchange. It makes the firms realize the potential mutual benefit and reduces the mobility of the firms. The fundamental acquisition in social exchange is an atmosphere of mutual understanding and the willingness of the firms to recognize each other's goal and conditions.

In sum, Figure 1 below exhibits the contents and the variation in the strengths of the interdependency. They expose how the firms are coupled to each other. High or low values in these factors pertain the degree of strength exposing the facts like how short or long the relationships are and will develop in the future.

*Figure 1: Scales for Evaluating the Strength of Interdependency*

<b>Simple</b>	Technological exchange	<b>Complex</b>
<b>Few</b>	Numbers of exchanges	<b>Many</b>
<b>Low</b>	Adaptation	<b>High</b>
<b>Few</b>	Number of firms engaged	<b>Many</b>
<b>Economic</b>	Base of the exchange	<b>Social</b>

### **Business Firms Relationship With Political Organizations**

The relationship between political units and business firms originates from the view that business firms are dependent on the political units as governments make political decisions to regulate the behavior of the business firms. The relationship view also exposes the fact that governments are dependent on business firms since they control financial and technological resources, produce products and create jobs. Governments control financial

and non-financial resources and possess power to make laws and provide business subsidies. Therefore, there are some few recent marketing researchers claiming that business firms undertake strategic actions to convert the dependency to the governments and bureaucrats to interdependency and gain influence. Political actions of business firms are to manifest the interdependency and that both can have mutual benefit from the relationships with each other. Thus, firms' political exchange relationship becomes important to business exchange as it can support/oppose industrial relationships of the firms. In political exchange, financial transaction with politicians is prohibited as the public recognizes it as corruption.

This study has the presumption that political organizations undertake coercive and supportive actions in their relationships with business firms. The purpose of the business firms in this interaction is to convert the dependency on government to mutual interdependency (direct or indirect) and gain influence (Hadjikhani and Sharma, 1999; Jacobson, Lenway et al., 1993). Otherwise, dependency to government requests adaptation of business. Adaptation of just one actor towards demand of another manifests the exercise of power. A high measure in the use of this political power signifies negative impact on industrial relationship. The alternative to adaptation of behavior call for actions like changing production process or organization structure and in case of a very high impact from the governments, the choice to exit from the market. While adaptations due to political circumstances are costly and remove the capital resources from core market activities, influence on political actors may leave capital resources to improve the core market activities.

Ultimately, business firms can exercise influence to gain subsidies and strengthen market positions by building industrial blocks, negotiations or partnerships with governmental units. Although, contrary to passive support actions, which are designed for unproblematic relationships (DiMaggio, 1988), business firms can actively undertake actions to build strong

interdependent relationships with political organizations. Influence embodies those activities intended to convince governments or other organizations interdependent to the governments to gain specific political support. The extent of influence varies and is strictly connected to the firms' business activities and the political power of governments and their interdependency to other political organizations.

In the next condition, business adaptations, the firms are dependent on the governments and have a very low influence. Firms' adaptive actions vary from smooth change in the production activities to overall modification in production or organization structure, purchasing and marketing behavior. In severe cases firms avoid new investments or are forced to leave the market to the supremacy of political forces. This portrays dependent or conflictive relationships. The unilateral influence of the political organizations makes the positions of business firms powerless.

### **Empirical Investigation**

The empirical study contains information from personal interviews with 60 Iranian firms. Before initiating the interviews some characteristics to be used in choosing the firms was defined. All firms selected to be interviewed were to be large and having had business experience with foreign international firms. The Iranian firms were asked to select a very important (for them) international foreign firm and answer the questions.

In the Iranian project, after five preliminary interviews questions were modified and the process of data collection eventually started in June 1998. The last version was finalized at the beginning of 1999. The questions were directed toward the individual relationships between Iranian firms and their foreign business partners. The survey also contained questions bearing on the relationships between political and business firms, which is a sensitive area. The survey used in the Iranian project is already been examined in another large project called

IMP2. IMP2 project started at the end of 1980<sup>th</sup> and continues. The aim is to investigate the network relationships between hundreds of firms in industrialized countries.

The survey document in the Iranian study consisted of more than 250 questions. The survey was first distributed to the managers, who were then interviewed personally. This ensured that questions were properly understood and that the information received from the interviewees was reliable. Personal interviews were necessary because there were so many questions and because many of them were different from what the firms were used to being asked. As it required several hours to cover all the questions in the survey, the questions were split up and each firm was interviewed a number of times. The interviews mainly involved purchasing managers, as the questions examined purchasing behavior. Each question had at least five alternative answers, thus creating tens of thousands of combination possibilities. The survey contained many more questions than those presented in this paper. The empirical section in the following contains only discussions on a few representative questions. In the first section the industrial relationships between the Iranian and foreign firms are examined. The next two sections present some facts about the political connection of the industrial relationships, i.e., the impact of the Iranian government.

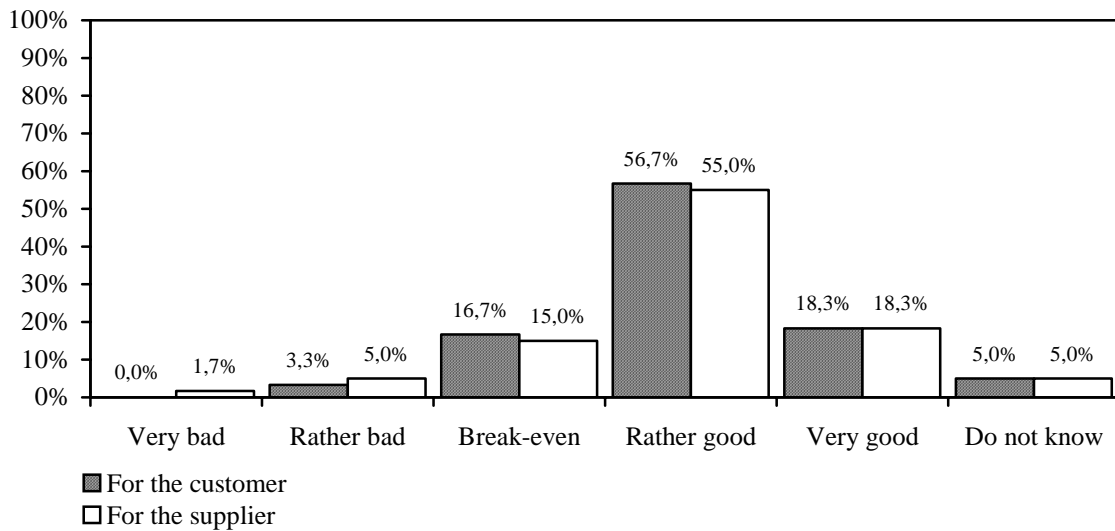
### **Industrial Relationship**

*Business exchange:* To examine the economic exchange between the Iranian and foreign firms a group of questions was used. Figure 2, below, illustrates the anticipated profitability for the coming five years using scale ranging from 'very bad' to 'very good'. As shown, the combined values given to the first two options of 'very bad' and 'rather bad' in the customer question are 3.3%. The same options in the question for the supplier have the score value of 6.7%. The values for 'break even' are higher at 16.7% and 15.0% respectively, but are much less than the next two options. The combined scores for the alternatives 'rather



good' and 'very good' are 75.0% for the customer and 73.3% for the supplier questions. These scores lead to several interesting conclusions.

Figure 2: Profitability for the Past Five Years



These measures concern the anticipated high level of economic gains over the next five years and the mutual benefit in the interaction. The first one has its basis in the high percentage scores for the options 'rather good' and 'very good'. This implies that the Iranian customers predict a high economic benefit in their exchange with the foreign suppliers. In another question examining the last five years, the Iranian managers gave similar values. Further, the Iranian firms as reaping high economic gains in this interaction also predict this for the foreign suppliers. Moreover, and this is crucial, the Iranian customers believe that this relationship is important not only because of the amount of the exchange, but also because of the mutuality in the economic gains. If the scores for the last two options had lower values, the relationship would have been viewed as having only weak economic ties; or the relationship could have been considered unimportant or imbalance.

The positive view held by the Iranian managers vis-à-vis the importance of the relationships emphasizes the fact that whatever the relative strength of the other questions,

both partners considered the exchange to be essential for their market activities in Iran. The result from the questions on past and future will later be used to support or reject other variables in the relationships. A crucial finding is that the role of the economic benefit of the partners in their interactions. The high value in the economic exchange can elaborate strong relationship if other links contains similar values.

The comparison of the values for future expectations with another question considering regularity in purchasing behaviour over the past five years underscores the above conclusion, as the combined value given to the options 'fairly regular' and 'irregular' is 65.0%. The answer for 'very regular' is extremely low (5.0%) and for 'very irregular' it is about 7.0%. The highest scores are given to the options 'fairly regular' (45.0%) and 'fairly irregular' (21.7%). Naturally, the interaction contains a lower degree of uncertainty concerning the past five years than for the future five years. With the results in the both of the above questions can be concluded that the Iranian firms interaction with the foreign firms contains stability and high economic gains. These two underlie the ground for interdependency of the firms and manifest a strong relationship. So far, the questions examined the economic and size of the exchange. Whereas conclusion on relationship strength requires support from other links, new measures need to be introduced.

To examine the strength in the technological cooperation, one question in this group was 'Suppliers are importance for technological development'. The answers given for the different alternatives where for; 'strongly disagree' 51.7%, 'partly disagree' 10.0%, 'uncertain' 11.7%, 'partly agree' 15.0%, 'strongly agree' 5.0%, and for 'do not know' 6.7%. The scores in these alternative choices reveal that 51.7% 'strongly disagree' with this statement while 10% choose the option 'partly disagree'. The development trend in the figures is digressive for the alternative options ('partly agree' and 'strongly agree'). This leads to the conclusion that the cooperation between them is less common. However, values like

15.0% for the 'partly agree' option can be questioned. Such a value is surprisingly high as the other questions arrive at different results. Connecting this question to the prior question can help us to understand these measures. The comparison gives the feeling that the fundamental ground in the cooperation relates to aspects connected to the quantity of the purchased products. Thus, the cooperation is shown through other variables, for example, quantity and price. This also means that for a relationship with only a low level of technological aspects, the role of price becomes paramount. Such a conclusion requires verification.

Another two questions focused the degree of specificity in the uniqueness of technological adaptations made by suppliers and purchasers. The results are depicted in Figure 3 below. The accumulated value for the measurement of 'large' and 'very large' in the question whether the adaptation was unique to the supplier was 58.4%. The accumulation for the same alternatives in the question related to the supplier's degree of adaptation was 53.3%. This value becomes much higher if the value from the alternative 'neither nor' is included, although the managers explained that adaptations made by the two focal actors were of a general nature. The discussion becomes more interesting if the values in the alternative 'unique' are also studied. In almost none of the answers was the adaptation described as 'unique'. As illustrated, in both of the questions the values for a unique adaptation was 3.3%. Even this value does not necessarily mean that this group of the firms (3.3%) had made a sophisticated technological adaptation. It could be that these so-called 'unique activities' were actually standardized, but considered by the firm to be specific (although regular) activities. They may refer to administrative areas, such as a specific agreement connected to the product delivery.

*Figure 3: The Extent of Adaptations in Form of Changes Made*

Unique	Rather common	Neither nor	Large	Very large	Don't know
3,3%	18,3%	16,7%	30,0%	23,3%	8,3%

As illustrated in Figure 3, partners have changed their routines and non-adapted technology. But the dominating values reflect the change with a general or standardized response. The generality in the adaptation leads to a conclusion. As far as these firms have not made large specific changes, they potentially have a high mobility in their relationships. The ability to change partners and interrupt relationships manifests a weak technological relationship.

In further examination of the technological exchange, one question focused on the feeling of mutual dependence. It was to examine whether technological adaptations were made more frequently by the customer than by the supplier (See Figure 4). The topic relates with a clearer phrasing to mutuality. In their responses, the majority of the Iranian firms selected the alternatives 'partly agree' (41.7%) and 'strongly agree' (13.3%). It seems that the firms' managers recognised mutuality as the base for the interaction. Combining these categories shows that 55% of the managers were positive regarding the interaction. In the question concerning frequency of adaptations, the accumulated score for the alternatives 'partly disagree' and 'strongly disagree' was not more than 30%. Adaptations in this context refer to the suitability of the partners' input into the technological and organizational bonds of the relationship.

*Figure 4: Feeling of Mutuality and adaptations*

Strongly disagree	Partly disagree	Uncertain	Partly agree	Strongly agree
20,0%	33,3%	16,7%	26,7%	3,3%

In one hand the answers for the technological uniqueness manifest a low a weak type of technological relationship and on the other hand the examination of the mutuality by technological adaptation elucidate satisfactory relationship. The answers show that in spite of a weak technological relationship, the actors to some degree have a balance in their relationships, although, mutuality has no direct connection with the strength of the

relationship. In cases where actors have weak relationships, they may perceive the relationship as balanced. The aspect of balance is important, as it has impacts on continuity in the relationships. Imbalance in the relationship can be recognized as opportunism and can lead to short-term relationships. An imbalanced long-term interaction is a result of the exercise of power. This reflects a condition in which the relationship is coercive because of the power exercised by one interacting partner on another. The field of mutuality in the relationship between Iranian and foreign firms is discussed in further detail in the following section.

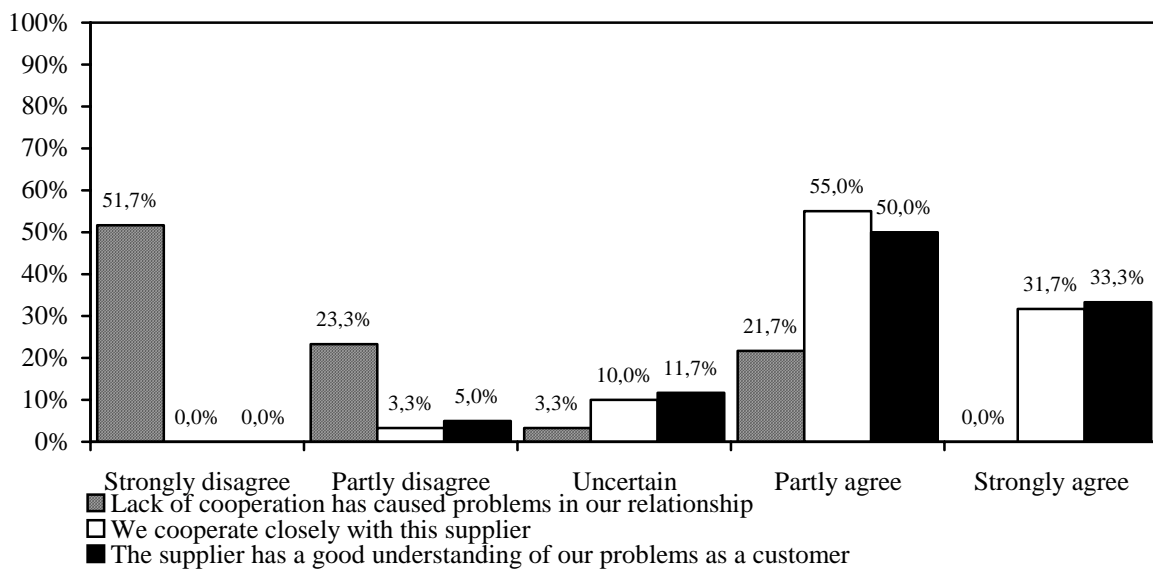
*Social Exchange:* In this study, more than 60 questions in the survey specifically examined the factor of social relationship. The first three questions considered cooperation in general; whether there have been problems in the cooperation and the customer cooperated closely with the supplier, and if the supplier had a good understanding of Iranian customer's problems.

The scores in Figure 5 indicate that Iranian firms have a very positive perception of cooperation with their foreign partners. For the first question, concerning lack of cooperation causing problems, more than 75% of the scores were given to the alternatives 'partly disagree' and 'strongly disagree'. The value for the first alternative, 'strongly disagree', was more than 51%. None of the respondents strongly agreed with the statement, and only 21.7% partly agreed. Thus, about one out of five of the firms realize that lack of cooperation is a source of relationship problems. For this group, the cooperation problem will naturally elevate distrust toward the foreign firms. In comparing this with the values in the following two questions, this was the highest score given which can be related to distrust.

When examining closeness in cooperation and good understanding in the partnership, the accumulated value for the equivalent alternatives of partial and strong disagreement was in the one case 3%, and in the second 5%. That is to say that the degree of distrust for the two

statements was similar, and stood at a very low level. The reason for the degree of distrust being higher in the first question is difficult to understand. One explanation could be that the last two statements examined the cooperation and understanding of the foreign sellers but not the content. The first statement examined the achievement of cooperation in terms of whether there had been moments of distrust. The first statement was more specific than the latter two, which aimed to measure the cooperation more concretely (See Figure 6).

Figure 5: Cooperation with Foreign Firm



The statement that examined the closeness in cooperation had a score of about 87% for the combined alternatives ‘partly agree’ and ‘strongly agree’. The alternatives ‘strongly disagree’ and ‘partly disagree’ had a total of only 3.3%. Similar values can be found for the statement that measured the understanding of the foreign partner. The alternatives ‘strongly’ and ‘partly agree’, with a score of 83.3%, shows that the Iranian firms believed that the foreign firms understood their problems. This means that a very large number of Iranian firms experienced a trustful relationship, as they stated that their foreign partners cooperated closely and had an understanding of their problems. However, the number of uncertain firms in relation to both the latter statements was large (more than 10%). The score for the

'uncertain' alternative was much less in the first question, about 3%. The difference could be related to the nature of the statements. As mentioned earlier, the first statement was more specific than the latter two.

These three questions examined the perception of the Iranian firms regarding cooperation with their foreign partners. The questions measured general aspects in the relationship and the results show that Iranian firms generally trust their foreign partners. They believe that their foreign partners understand them and act to satisfy them.

The earlier questions on business relationship, which measured specific issues such as technological cooperation, have provided different results. They show a much lower percentage for the willingness of partners to cooperate. In contrast, with the results from the above questions it can be concluded that Iranian firms seem to have a strong belief in their partners' willingness to cooperate.

A result, contradictory to this, was obtained when analysing the questions designed to measure the functional aspects of the relationship. In the following question, the focus was on measuring two specific areas in the content of the trust. The first was whether the supplier puts cooperation with customer before short-term profits. The statement was a response to a crucial area in trust building, namely the actors' mutual benefit in a long-term relationship. Mutuality requires an equal gain and understanding of each other's needs and ability. The values for the alternatives 'strongly disagree' and 'partly agree' were 5% and 11.7% respectively, thus, very few Iranian firms, 16.7%, understood that the foreign firms' behaviour was opportunistic. On the other hand, the majority of the Iranian firms, 61.7%, believed that foreign firms preferred cooperation to short-term profit. The belief may be grounded in the presumption that these foreign firms aim to stay in the relationship. On the other hand, those firms that selected the alternative 'strongly agree' were confident of a long-term relationship, which was verified by the group who answered the alternative 'strongly agree'. This value

was not quite as high when only one of the five interviewed firms had a strong belief that foreign firms prefer mutuality in the cooperation.

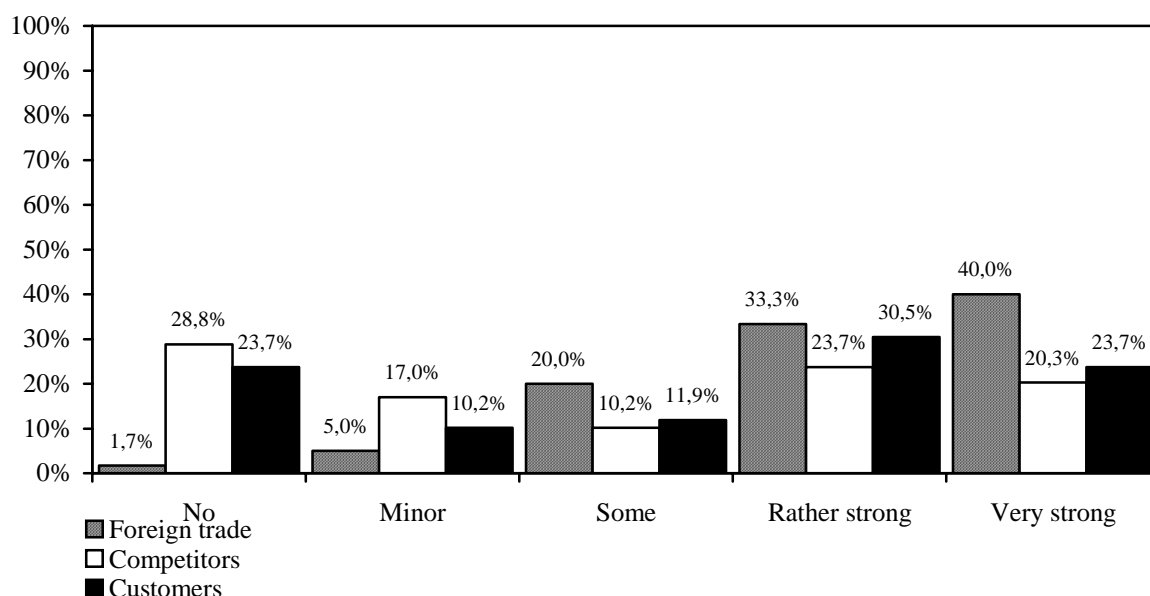
### **Business Connections to Political Organizations**

*Importance of Connections:* In the empirical study, linked to the political aspect the first three questions examined how political and business connections affect the focal relationship. The respondents were asked to give a value to the importance of the role of a number of actors following in their relationship the supplier. In this group, one of the questions was related to the connections of the political actors, i.e. the managers' opinions on "foreign trade" and referred to its impact on the focal relationship. The next two questions referred to the connections of the business actors and related to the customer's "competitors" and "customers". Figure 6 below illustrates the scores received for these questions.

Looking at the responses on these three questions, the managers appeared to be knowledgeable about the environment in which they operated. This conclusion is drawn from the fact that none of the managers selected the alternative 'do not know' in response to these questions. All the managers selected one of the alternatives ranging from 'no' to 'very strong' importance. None of the firms mentioned having difficulty in evaluating the actors and their actions.



Figure6: General Opinions on the Importance of Connections



As depicted in Figure 6, very few (6.7%) of the respondents saw the impact of foreign trade as having ‘no’ or ‘minor’ importance. Only one firm (representing 1.7% of the total) selected the alternative ‘no importance’. For the question relating to competitors 45.8% selected no or minor importance, and 33.9% selected these categories in relation to customers. These answers indicate that the managers assigned a lower importance to the market actors (i.e., customers and competitors).

A closer examination of the answers in the last three alternatives strengthens the arguments above. In the question concerning foreign trade, the answers in the last three alternatives ‘very strong,’ ‘rather strong’ and ‘some’ importance are interesting. They disclose two important aspects: one is the distinction of the degree of importance assigned to each relationship, namely with government (for foreign trade), competitors, and customers. The next manifests the role of the Iranian government in the business market.

The answers given to the importance of competitors is interesting. The comparison between the first two alternatives (very strong and rather strong 45.8%) and last two

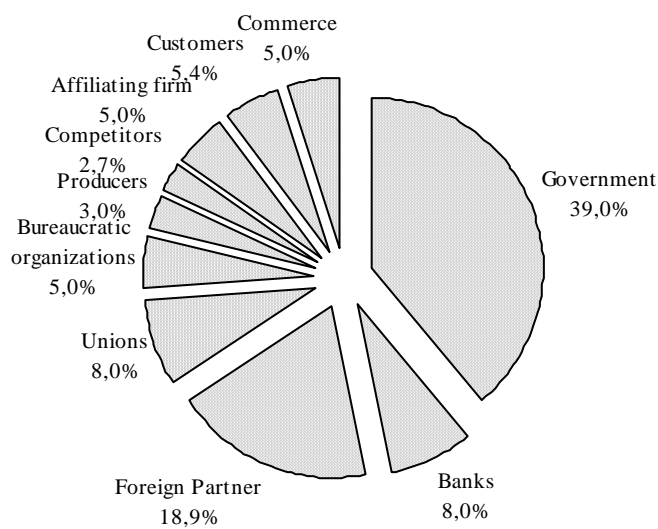
alternatives (some and none importance 44%) shows that the managers did not give a high value to the importance of the competitive market. By applying network theory, one may speculate that the competitors are less important because of a high interdependency between the Iranian and foreign firms. In this study, such speculation can easily be rejected by reference to the earlier answers. The results contain enough information manifesting a weak technological relationship between the Iranians and their foreign partners. On the other hand, in the question concerning the customers. This simply implies that the managers had a higher dependency on their customers than on their competitors, although, the negative connection to the competitors was weak.

The answers concerning the impact of the government are much more interesting. The cumulative value of the first two alternatives 'no' and 'minor' importance in the question on trade policy was only 6.7%. However, the cumulative value of the importance in the last three alternatives ('some', 'rather strong', and 'very strong') was 93.3%, meaning that the managers see the actions of government as a very important element in their market activities. Government play a crucial role in the Iranian market and this was borne out by the fact that only 1.7%, of the managers chose the alternative 'no' importance.

The differences between the values above have such a degree of significance that it is not difficult to draw the conclusion on which connected actor has the strongest influence on the focal relationship. The survey contained several other questions that could verify the strong influence of the political connection. One of these which had a general nature the Iranian managers were asked to compare private and public sectors and allocate a value. In another question the aim was to measure the influence that each business and political connected actor has on the Iranian firms. The first question was 'Which sector has the most influence on the focal relationship?' In this question the actors under observation can be classified into two groups: business and non-business actors. When ranking these two groups,

81% of the Iranian firms viewed the political actor that most influenced their business with the foreign partners. This indicates that the Iranian managers are more dependent on the connected political actors than on the connected business actors. In further developing the question above, another question arose. Iranian firms were asked to compare and evaluate relationships with each of the business political units. As shown in Figure 7, non-business actors also include intermediary actors, such as the union.

*Figure 7: Evaluation of Focal Business and Connected Political Relationships*



The score verifies the results introduced in Figure 6. The score for government was 39%. This can be compared with the focal relationship (between Iranian firms and foreign suppliers) that had only 18.9%. The value given to competitors was only 2.7%. For the connection with business actors, the difference between customers (5.4%) and competitors (2.7%) is easily noticed.

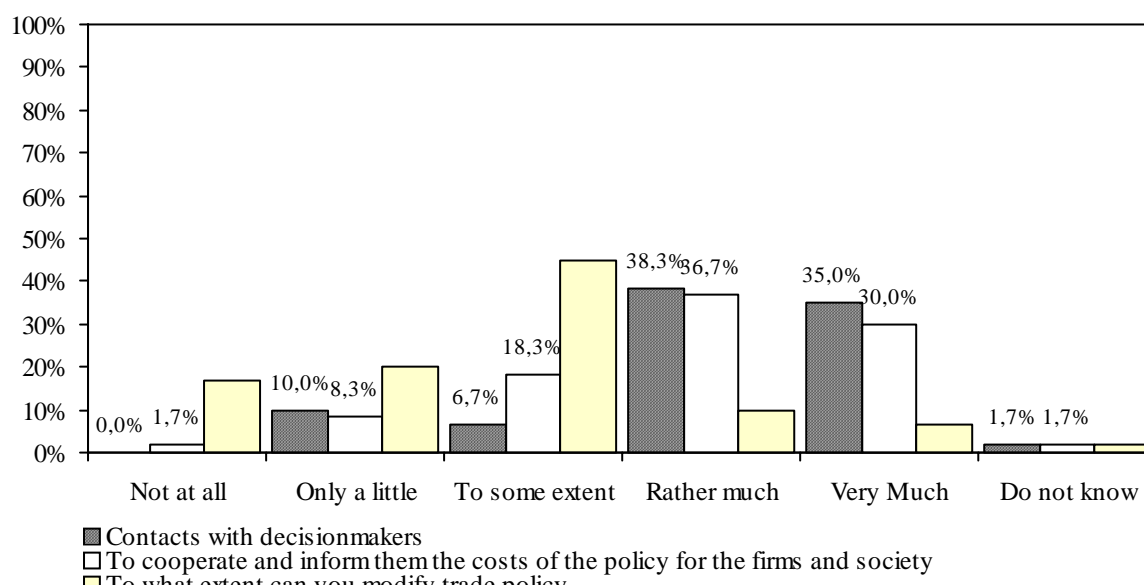
As discussed earlier, it seems that the Iranian firms consider the impact of local customers to be double that of competitors. The comparison of the actors in the intermediary group with business actors shows that even these groups have a higher influence on the focal relationships than the business actors do. The cumulative value for an intermediary group, such as a branch organization, was higher than the scores for customers or competitors. The

score for connected intermediaries (chamber of commerce and unions combined) was 13.5%, which was more than for competitors (at 2.7%) or customers (at 5.4%).

The review of the questions above provides a picture about the influence of the connected actors on the Iranian firms. The picture reveals the high degree of influence of the political actors. It also provides general and even specific information about the role of the different political and business actors in the sphere of the connection. The purpose of the following sections is to understand the strength of these connections in relation to each separate type of connection. The concentration, however, is mainly on the connection with non-business actors.

The next group of questions was focused on the management of the political connection by influence or cooperation. In this group, two of the questions were simply concerned with the exchange of political knowledge between the Iranian government and Iranian firms. The first reflects the exchange of information about the consequence of the government's political decisions. The next examines the knowledge of the politicians about the consequences of their actions on the Iranian firms' foreign relationships. In the first question concerning contacts with decision makers, as Figure 8 below shows, it seems that the majority of the managers had tried to establish contact with the government. Ten percent of the firms reported no effort to build even a simple relationship. In this question, the cumulative value for the first two alternatives of 'not at all' and 'only a little' was 16.7%. On the other hand, more than 81% selected the three alternatives of 'very much', 'rather much', and 'to some extent'. This implies that most of the Iranian firms intensively discuss the political decisions that concern them. The high intensity in the exchange of information reflects the seriousness of the political issues. This can also be verified by the fact that not more than 1.7% chose the alternative 'do not know', although, the Iranian firms were more certain about the content of this question when evaluating the alternatives.

Figure 9: Management by Exchange of Information



The cumulative value of 73.3% for the alternatives ‘rather much’ and ‘very much’ shows the general tendency in the Iranian firms’ political behaviour. In a sense, the firms did not just accept political decisions, but also made an effort to contact the political actors. In the first question, adding these two alternatives to the alternative ‘to some extent’ produced a score of 83.6%, and in the second question, the score reached was 85%. This means that in these two questions the Iranian firms behaved very similarly. The only major difference in the scores reflects the alternative ‘to some extent’. The aim of the firms is to convince the political actors by reasoning about the consequence of their actions. In spite of these differences, these questions together manifest a high degree of investment by the firms in influencing the government through the exchange of information. This score also signifies another fact: That even the state-owned firms are obliged to employ the same management strategy as the private firms.

These two questions examined the actions undertaken by the Iranian firms, but the questions did not explore how effective their activities were. In this respect, the first question (to what extent can you modify trade policy by contacting decision makers) displayed in

Figure 10, a few firms (16.6%) selected the alternatives 'rather much' and 'very much'. These firms are state-owned firms that exercise their legitimate position to affect the political actors. However, the influence of these firms comprises simple relationship areas. Considering the alternatives 'not at all' and 'only a little' in the first question, the score was 36.7%. The comparison of the score in the first two and last two choices shows that twice as many firms cannot exercise influence on the government as can. However, 45% of the firms selected the alternative 'to some extent'. This is quite a high score. It means that almost half of the Iranian firms can, to some extent, interact with the government to modify their decisions.

However, the majority of the Iranian firms have a high dependency on the government. The government uses its coercive power to such a degree that the firms cannot even use avoidance strategies. This means that the elaborated control system has blocked the firms into specific and given positions. Their relationships with their foreign partners have to follow a specific track dictated by the connected political actors. The majority of the firms seem to be unable to manage the political connection through avoidance or negotiation.

## **Results and Conclusions**

The model presented in this paper recognizes the relationship's strength as antecedent to the contents in the dyadic bonds and also connected relationships. Among the criteria that have received low values in the Iranian case is, for example, product technology, technological development and uniqueness of the products sold by foreign firms. According to many researchers product complexity is a determinant factor that affects the relationship strength. Studies covering industrial relationships in industrialized countries reveal a strong technological relationship between the firms (Håkansson, 1985; Axelsson and Easton, 1992). As discussed above, in the Iranian case, the technological exchange indicates weak values. The facts also manifest that the focal technological and relationship organizational cooperation contained low adaptation. The common prerequisite for a strong relationship, a

complex product exchange, is absent in the Iranian case. The exchange of products has, with some minor exceptions, a very standardized character.

*Long-term Relationship:* The critical question is why these actors still cooperate and why the relationships are not short lived. The results indicates to the conclusion that the partners are satisfied and have a very positive view for their past and future relationship, despite the fact that the technological and product exchange does not receive high values of strength. This means that there are other factors beside adaptation, technological cooperation that bind the actors together. The high values for the expectation in the exchange also indicate that the actors are bounded strongly and aim to continue cooperation. The measures on social exchange also provide evidence by showing mutuality and interdependency. Thus, the empirical observations in the Iranian case put two contradictory facts forward. While the cooperation concerning product and technological matters shows low strength in the bonds, other values provide evidence for strong bonds. One observation is that quantitative measure, like the amount of financial transactions, has bounded the actors strongly to each other. Both actors in the relationship have a high mutual economic gain from the interactions. The price is set to a level that creates gains both in the past and in the future, and has strongly bounded the firms to each other. Furthermore, the product exchange in the Iranian case has a large volume. This means that the financial and product volume together with economic returns in the interaction can tie the actor strongly to long-term interaction.

*Impacts of political organizations and competitors:* One problematic issue in the Iranian study is that the competitors have a weak position (in terms of network, the negative connection is weak). Further, the focal relationship that normally has to have a very high value has a low value in the Iranian case. Although, Iranian and foreign firms are facing low level of competition and low level of relationships with other local or foreign business firms. Thus, firms are acting in an *isolated market*. As far as the market permits a high level of

economic profit, there is no reason for these firms to act to widen their relationship with other firms or demand for an increase in the competition. Iranian firms are satisfied to conduct their businesses in a limited market space with no competition. The business network context of the Iranian firms, for example, is constrained by the political actors. The political actions curtail the territory of the business activities, as they regulate the market by a high control of the foreign exchange. The firms' resources and activities are concentrated towards the political and a few specific business actors isolated from the Iranian purchasers' network. While the activities in the business context are bounded, the territory of the political context is spanned. Iranian firms are acting towards few market actors and this has made the firm to exist with few

*Firms' Political Ability:* The Iranian firms are apparently facing challenges on two fronts, the business and political. The empirical observations illustrates that there is a larger amount of activities directed toward the political organizations than toward the business counterparts. This means that firms indeed devote resources to confronting the political field. The firms' political activities build up a competency that is essential and distinguishable from business competency. In the Iranian case it is evident that the coercive actions of the political actors have caused a high level of uncertainty forcing the firms to make large commitments to challenge the burden. But the firms have also accumulated a high level of political knowledge, such as how, when, and where to adapt or influence.

In the Iranian case, the influential activities generated a low degree of results concerning the government but higher influence is exercised on bureaucrats and branch organizations. It is misleading to assume that because of low influence the firms have a low level of political competence. The Iranian firms' prior experiences with different types of adaptation have extended their political ability. Since adaptive actions are costly, selection of appropriate actions is sometimes decisive for the firm's continued existence in the market.



Some firms follow the procedures and highly adapt; others can maneuver and find simple bureaucratic adaptive or influential solutions. The latter behavior limits the negative impact and the business actors can manage uncertainty at lower costs.

When political actors control market activities, like in the Iranian case, firms have to rely on their ability to maneuver. Otherwise, the high control exercised by political actors could force the firms to exit from the market. In markets with a high level of political uncertainty, the firms, for the sake of their existence, create a competency to avoid confrontation by using different untraditional means. These means—here called indigenous strategies—are different types of marketing inventions that business actors undertake in order to cut across political barriers. The ingenious strategies are not a long-term strategy. They are employed until normal conditions return.

While the government is exercising high power, the firms act through connections to intermediaries and bureaucrats. The personal interviews disclosed a high engagement in developing indigenous strategy directed towards intermediaries and specifically, bureaucrats. It is because of these indigenous untraditional actions that the firms have survived. The indigenous behaviours reflect political competence, which is an essential component of political markets. No matter what the content of the indigenous strategy is, the wanted outcome of using political competence is to reduce the costs of the for the cause of political impacts. The higher the firms' political competence, the more genuine and effective the solution. The connections to unions, branch and industry organizations, and specifically to bureaucrats are strategic means to challenge the uncertainty.

This also describes the specificity in the political competency. Conditions with high political uncertainty require a unique political competency and therefore the threat from competitors will be comparably low. Other aspects of complexity in the political connection, as outlined above, are the number of political rules and the level of instability in political

positions. Non-business actors in the political context do not hold long-term political values or positions (Hadjikhani, 2000). In the Iranian case, the reasons for the high level of formal agreements or the purchase of large quantities of products rather than adopting a 'just in time' approach, is a consequence of such uncertainty.

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