

## SMALL AND MEDIUM-SIZED FIRMS' FIRST INTERACTION WITH GOVERNMENT: AN EXPLORATORY STUDY

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### ABSTRACT

*It is well known that, by either incentives or constraints, government has a substantial impact on business (Marcus, Kaufman, & Beam, 1987; Buchholtz, 1988; Scarborough & Zimmerer, 1993; Preston, 1990; Epstein, 1980). Over time, this impact has increased to where the political success of firm is considered by some to be vital to marketplace success (Marcus et al., 1987). As a result, firms often found that they needed to become involved in the public policy process if they were to gain influence with policymakers. As Irving Shapiro, former CEO of Dupont and former chairman of the Business Roundtable, put it, "...you have zero chance of scoring points unless you get into the game" (1980, p. 30). Historically, large firms were the first to get 'into the game,' often by investing in a Washington office, hiring one or more representatives to monitor issue areas of primary concern, and engaging a law or public relations firm to pursue company interests with relevant bureaucrats (Levitan & Cooper, 1984).*

### INTRODUCTION

Despite a mistrust of government and an unfamiliarity with the public policy process (Cook & Barry, 1993), smaller firms are also beginning to recognize the importance of 'the game,' in part because many laws and regulations apply equally to all firms, regardless of size. For example, in the area of tax withholding, smaller firms generally have the same compliance requirements as larger companies, resulting in circumstances where the smaller companies are likely to be the most adversely affected (Weidenbaum, 1979).

While it is true that the overall affect of government on an individual small company can be limited, collectively, it is not (Thompson, Wartick, & Smith, 1991); particularly since smaller firms are the most prevalent form of business organization in society today (Cook & Barry, 1995). For example, over 95 percent of firms in the US employ fewer than one hundred people (Executive Office of the President, 1994). Collectively, this group of over twelve million full-time businesses (Dennis, 1993) employs almost 54 percent of the workforce and represents over 53 percent of total US sales (Executive Office of the President, 1994).

However, despite the fact that smaller firms represent a large segment of the economy and are affected by government, the political activities of these companies are relatively unknown (Thompson, et al., 1991), in part due to a lack of information about small firms and a more traditional research focus on larger firms (Cook & Barry, 1995).

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The notion that much remains to be learned about smaller firms' public policy interactions is not meant to imply that scholars have ignored the business and government area altogether. Researchers have examined how firms can benefit from regulation, including the idea that regulation can be used by individual firms as a competitive weapon (Wood, 1986; Mitnick, 1980). They have described an issue's life cycle that demonstrates how issues evolve through distinct phases (Buchholtz, 1988; Post, 1978; Ullman, 1985), and proposed specific political interactions that focus on the most appropriate strategy given the phase or stage of an issue's life cycle (Bigelow, Fahey, & Mahon, 1991). Through the contributions of these and many other researchers, considerable progress has been made towards understanding business and government interactions.

Further, research into the impact that government has on smaller firms is also underway, often by examining specific issues like employment-at-will (Seidman & Aalberts, 1993), waste reduction (Hemmasi, Graf, Strong, & Winchell, 1994), or public sector venture assistance (Gatewood, 1993). However, even studies that offer suggestions on when small firms should become involved in the public policy process assume that a firm has experience with government and the question is merely one of timing (Cook & Barry, 1993). Further, these studies do not examine what triggers the firm's initial interest in public policy issues. This would appear to be an important research question given the following situation-- currently, in the US there are over twelve million full-time businesses which could be considered small, regardless of the measurement used (Dennis, 1993; Executive Office of the President, 1994) and, therefore, could potentially be involved in the public policy process. However, visit any trade association or chamber of commerce-- common vehicles for small firm political activity (Knoke, 1990; Cook & Barry, 1993)-- that professes to represent its membership politically and only a certain percentage of its members are politically active. Given that the issues pursued by chambers and associations are often public goods-- e.g., "enjoyed in common in the sense that each individual's consumption of such a good leads to no subtraction from any other individual's consumption of that good" (Samuelson, 1954, p. 387), and that "they must be available to everyone if they are available to anyone" (Olson, 1965, p. 14)-- why do some firms become involved?

It would appear that the vast majority of smaller firms, for whatever reason, can be considered free riders regarding public policy involvement. Indeed, at one time, the companies in this study were not involved in the public policy process. What happened to these companies that separated them from the "silent majority?" What did they do once they became involved, and what were the outcomes? With these questions in mind, we conducted a two-stage study of the public policy interactions of small and medium-sized firms (hereafter called SMFs). In subsequent sections, we describe the research methods employed, the findings, and offer suggestions for future research.

## METHODS

Given the complexity of the phenomenon and the scant work in this area, we chose a multi-method approach, utilizing a qualitative and quantitative research design to study the initial decision to become involved in the public policy process, the strategic choices of the firms, the outcomes of their interactions, and the frequency of their involvement. The research

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design consisted of two stages: in-depth interviews with SMF CEOs to define better their patterns of public policy involvement and, utilizing the findings from these interviews, surveys of other SMF CEOs.

Until now, we have used the term "smaller firm" as if it was a commonly accepted phrase. It is not (Cook & Barry, 1995), requiring a more detailed explanation of how we used the term. For example, the US Small Business Administration (SBA) defines a small business as "independently owned and operated and not dominant in its field of operations" (Hodgetts & Kuratko, 1995, p. 6) and has created the most often cited industry-specific criteria for size distinctions. Of these criteria, the most common cutoff point to distinguish smaller companies from larger firms is 500 employees. Smaller firms are then often divided into medium-sized businesses, which employ from 100-499 people and small firms, which have up to 100 employees (Megginson, Byrd, Scott, & Megginson, 1994; Longenecker, Moore, & Petty, 1994). In this study, we used employee size as the criterion and included both small companies (up to 100 employees) and medium-sized firms (100-499 employees).

The highly complex nature of business and government interactions argued for qualitative techniques that can help researchers understand better the smaller firm's initial decision to become involved. Given that the field is still in an exploratory stage (Thompson et al., 1991), formal hypotheses were not developed-- in such circumstances, hypothesis testing is not generally considered appropriate because there is little theory from which hypotheses can be developed (Kelley, 1991). Therefore, this study initially utilized the open-ended approach of grounded theory building (Patton, 1990; Strauss, 1987; Glaser & Strauss, 1967), and began with SMF CEO interviews.

### In-depth Interviewing

The initial bounding of the territory (Miles & Huberman, 1994) focused on small firms in the upstate New York area who were active in the public policy process. Sampling of firms was purposeful and intense, rather than random (Miles & Huberman, 1994; Patton, 1990), and firms were chosen with the support of local trade associations. The in-depth interviews involved CEOs of 22 SMFs that were active in the public policy process, and offered understanding as to the events that prompted these firms' initial involvement decision. The interviews uncovered a wide range of potential strategies and responses to government, which were then categorized and refined into groupings that ranged from individual, impersonal contact to interactive, group responses. Based on this data, we developed preliminary questions regarding the SMF's initial decision to become involved and utilized the interviewed CEOs as a pretest to help ensure questionnaire clarity. Specifically, the CEOs helped ensure that the questions were comprehensible and that response categories were not inadvertently omitted. For example, CEOs cited three possible objectives when they became involved in a specific issue: support, oppose, or provide policymakers with information/opinions. The CEOs agreed that supporting or opposing a particular issue meant that they had reasonable expectations that they might succeed. That was not the case when their objective was to provide information/opinions to policymakers. In those circumstances, the firms believed that it was important to, as one interviewee termed it, "go on record." However, CEOs acknowledged

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that, in these circumstances, it was unlikely that their views would prevail and termed these efforts "symbolic gestures."

### Questionnaire Design

Based on the data gathered from the interviews and the subsequent pretest, we refined the questionnaire to explore SMFs' initial and subsequent public policy interactions. The survey had three components: background information about the firm and the respondent, questions about the respondent's initial public policy involvement, and questions about subsequent public policy involvement. The background information ensured that the firm was indeed a SMF and provided data about the respondent/company. The questionnaire was sent to two groups of SMF CEOs: one from Central New York (CNY) and one from New Jersey (NJ). The CNY group was a chamber of commerce's government relations committee, and the NJ group consisted of firms who were also active in public policy through a statewide trade association.

### Response Rates and Non-Response Bias

These firms were targeted because one of the findings from the in-depth interviews was that SMFs often utilize trade associations for their political activities-- a conclusion echoing research by Knoke (1990) and Lad (1991). Accordingly, participating organizations (the chamber of commerce and trade association) were approached to solicit their cooperation for this study.

The firms received a cover letter, the survey, and a statement of support from the president of the respective sponsoring organizations. One month later, a follow-up letter and another survey was sent to all but the known respondents (firms had the option to identify themselves and receive a copy of the results; hence those who chose to do so were not sent a second survey). Overall, 375 firms received a questionnaire, resulting in 75 responses. The 75 returns yielded 62 usable responses, for a response rate of 16.5 percent. The remaining 13 were excluded because they had more than 500 employees, thus violating the criterion used for defining a SMF. Given the population, this response rate was anticipated based on earlier survey efforts and on the sponsoring organizations' response rates for their internal surveys. This response rate is also consistent with other surveys of smaller firms, which ranged from less than 10 percent (Chrisman & Archer, 1984) to just over 30 percent (Gomolka, 1978).

Non-response bias is a concern in survey research (Fowler, 1988), particularly given the overall response rate. Using wave analysis (Judge, Griffiths, Hill, Lutkepol, & Lee, 1985), characteristics of the initial respondents were compared against firms which responded after follow-up activities. In addition, using the sponsoring organizations' data, responding firms were compared to the total sample by number of full-time employees and sales. In both cases, no significant differences were observed between the two groups. Therefore, it was concluded that the respondents were representative of the sample.

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## FINDINGS

The survey results provided an interesting first look at a profile of the initial public policy interaction of SMFs. Because these interactions occurred in relatively uncharted territory, the analysis was exploratory, rather than testing formal hypotheses (Kelley, 1991). This exploratory analysis was built around the following three questions:

- (1) What were the characteristics of the respondents?
- (2) What were the characteristics of the first instance of involvement in the public policy process?
- (3) What factors led to a successful outcome in the first instance of involvement in the public policy process?

### Characteristics of the Respondents

This section provided background information about the respondents and their firms (such as age, gender, education level, firm size, etc.) that were, for the most part, uncontrollable by the executives. The results indicated that an overwhelming majority of the respondents were male (84%). The current average age of the respondents is 51.61 (standard deviation=11.74). The average age of the respondents at the time of first involvement in public policy was 37.56 (standard deviation=8.40). Most of the respondents were highly educated with over one third possessing a graduate degree and only 8.1 percent without a bachelor's degree.

Of the 62 respondents, 45 were at the very top of the organizational ladder with 22 being either the owner or the co-owner of the firm. The remaining 23 of the 45 had job titles such as president, CEO, and/or chairman. Seventeen respondents came from the level immediately below the top. Four of the 17 were government/public affairs directors. The remaining 13 had a wide variety of job titles. The responses of these 17 individuals were compared with the remaining 45 for possible differences based on position within the firm. No significant differences between the two groups were found and, therefore, the findings reflect all respondents.

The mean size of the firms, measured in number of full-time equivalent employees (FTEs), is 116.84 with a standard deviation of 91.87. Table 1 presents a more detailed breakdown of the size of the firms.

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Table 1  
**Size of Firms**

Number of FTEs	Frequency	Percent
< 25	13	21.3
26 - 50	9	14.8
51 - 100	8	13.1
101 - 200	20	33.8
201 - 300	9	14.7
> 300	2	3.2

Frequency Missing = 1

### **Characteristics of the Initial Public Policy Involvement**

The first instance of public policy involvement for the respondents spanned a period of more than three decades. The year of involvement provided a reference point for understanding the overall political climate that the firm faced at that time and provided a measure of the executive's experience in the public policy process. The median year for initial involvement was 1982, suggesting that, for the majority of firms, enough time has elapsed for them to determine if their efforts were successful or not. In characterizing the first involvement in the public policy process, the type of issue, the stance of the CEOs (support vs. oppose), the level of government involved, and the strategies chosen were examined.

When characterizing the type of issue, the respondents described the specific issues that prompted their initial involvement. Analysis of this open-ended question revealed that the responses could fall into one of five categories: general economic issues (issues related to general economic concerns that went beyond a specific firm or industry, 23 responses); industry specific issues (issues with a narrow focus that related to a specific firm or industry, 16 responses); workplace issues (issues that directly affected the relationship between employees and the firm, eight responses); social issues (general issues affecting society at large, like education, civil rights, etc., seven responses); and unknown (some firms were unable to recall the specific issue that prompted their involvement, eight responses). There has been a trend away from general economic issues, which dominated in the 1980s, to industry specific issues which were found in the more recent legislative agendas. This has implications for the outcome of the interaction (see discussion).

A key issue regarding the first involvement in public policy process was the stance of the executives. Thirty-three percent of the respondents initiated their involvement in support of an issue. A slightly higher percentage (42%) became involved because they opposed an issue. Ten percent became involved as a symbolic gesture to register their opinions with the policymakers while 15 percent became involved for a variety of other reasons. A closer examination of the data revealed that issue type influenced the initial objective, as shown in Table 2.

Table 2

**Response Probabilities- Issue Type vs. Stance**

Issue type	Stance			
	Supported	Opposed	Symbolic Gesture	Other
Social	.429	.142	0	.429
Economic	.286	.476	.143	.095
Industry Specific	.4	.467	0	.133
Workplace	.286	.571	.143	0

Given an issue type, conditional probabilities of the firm's stance revealed that for general economic issue, a firm was about one and a half times more likely to oppose it than support it. If the issue was social, a firm was three times more likely to support it than oppose it. With industry specific issues, the chances of support or opposition were approximately the same whereas workplace issues prompted twice as much opposition as support.

The next analysis examined the level of government where the initial public policy interaction occurred and many respondents indicated more than one level, particularly in the category of economic issues which often have implications at multiple levels (eight companies were unable to recall the level, leaving 54 respondents). As Table 3 reveals, most firms had their first involvement with the public policy process at the state level.

Table 3

**Level of Government Involved in Initial Public Policy Process Interaction**

Government	Frequency	Percent
Federal	28	47.5
State	42	71.2
Local	12	20.3

Note. percentages do not add up to 100 and frequency does not add up to 54 firms because many issues involved more than one level of government.

Further, state government as the focus for the initial interaction has moved into the forefront when compared by decades, as over 90 percent of the firms whose first interaction was in the last five years had an issue that involved state government.

To complete a picture of the initial public policy involvement, respondents were asked about the strategies they used during the initial interaction. These strategies included writing a letter, hiring a specialist, personal contact with a government official, participation with other

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firms, and publicity. The most common strategy used by the respondents was writing a letter or sending a fax. Interview data suggested that this occurred because of the ease with which the respondent could perform this task. Personal contact with government officials and participation with other firms were the other two most popular strategies. Most respondents used a combination of strategies to influence the public policy process. Only 13 respondents (21%) used a single method whereas 16 respondents (25.8%) used at least two different methods. Eighteen respondents (29%) used three different methods, nine respondents (14.5%) used four different methods, and finally, three respondents used all five different methods to influence the public policy process (three firms also had no response).

### Outcome of the Initial Involvement in the Public Policy Process

Comparing the responses where the result was known, the outcome of the first involvement in the public policy process was approximately equal, as 48 percent were successful and 52 percent failed at achieving their policy objective. An examination of the outcome according to type of issue revealed higher success rates for general economic issues (56%) and social issues (57%). On workplace issues, success rate is 37.5 percent while for industry specific issues, the success rate is a low 12.5 percent. There is a statistically significant and negative relation between opposition to an issue and the outcome (Pearson  $r = -0.3303$ ,  $p = 0.0374$ ). Firms who supported an issue were more likely to be successful than firms that opposed an issue. Finally, there is a statistically significant and negative association between interaction with state government and outcome (Pearson  $r = -0.2611$ ,  $p = 0.0542$ ), suggesting that successful efforts more likely occurred at federal or local levels.

One might expect medium-sized firms to be more effective than small companies at influencing the public policy process because of the amount of resources that they can devote to the cause. The data, however, does not bear this out. There is no statistically significant relation between the outcome and the size of the firm. The Pearson  $r$  between firm size, measured in terms of FTEs, and outcome is 0.2242 with a  $p$ -level of 0.1031. When using another measure of size-- sales-- the correlation between the total sales of the firm and outcome is 0.1212 with a  $p$ -level of 0.4390.

An alternate explanation for the outcome in public policy process could focus on the individual. Four different characteristics of individuals were considered: age, level of education, time spent with the organization prior to the initial involvement, and gender. There is no statistically significant relationship between the first three characteristics and the outcome of the public policy process. The association between gender and the outcome is statistically significant, with males more likely to be successful. However, given the small number of female CEOs in the sample, further studies with a deliberate emphasis on CEO gender would be warranted before any conclusions could be drawn.

Finally, we examined if certain strategies were more successful than others. Of the 5 different involvement strategies, the only one with a positive and statistically significant relation with the outcome was using publicity strategies (Pearson  $r = 0.2538$ ,  $p = 0.0615$ ). Publicity was defined as efforts by the company to use the media to promote its message to a broad audience and included holding a press conference and conducting media interviews. It

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was one of the least chosen methods, with only 12 firms utilizing it; yet it was the only strategy correlated with a successful outcome. Based on comments from the CEOs, firms were often hesitant to risk their image when facing reporters, particularly if their position could be viewed as controversial. However, the effectiveness of utilizing the power of the press to convey SMF positions suggests that this might be a more popular strategic choice in the future.

## DISCUSSION

First, the findings reveal that over 90 percent of the respondents have at least a bachelor's degree. This suggests a population of companies run by articulate, educated individuals who undoubtedly are not daunted by interactions with government officials. Although the formal education level of the overall population of business owners is higher than the general adult public (Gaedeke & Tootelion, 1991; Longenecker et al., 1994), it does not approach the level of these public policy activists. Future studies of firms who have never been active in the public policy process should offer additional insights into the significance of educational level.

Within the size parameters of the firms in the sample, no one group reported a statistically significant difference in the success rates of their involvement efforts. Indeed, this suggests that very small firms, i.e., with less than 25 employees (almost a quarter of the sample), did not have results significantly different from their larger cousins.

Given the almost equal split between success and failure of their involvement efforts, SMFs obviously have enjoyed some sense of accomplishment and the lament that "small firms never win," often mentioned in the in-depth interviews, was greatly exaggerated. However, the type of issue, the SMF's position, and the level of government all had a bearing on whether or not the outcome would be successful. If a SMF's initial involvement was in support of a social or general economic issue that was predominately resolved at the federal or local governmental level, the firm was most likely to achieve its objective. Conversely, if the initial involvement was to oppose an industry specific issue that was resolved primarily at the state level (i.e., statutes of repose), the firm was most likely to fail. The interrelationships of these factors should not be underestimated. For example, when comparing support or opposition stances to success or failure only, 62 percent of the firms opposed a general economic issue. Since outcome was negatively correlated to opposition, one might expect that 62 percent would lose. That was not the case as 56 percent reported success in this instance, as the strategies pursued and the level of government obviously had an impact.

Continuing with the level of government, state government was the dominant arena for these firms' initial influence effort and was also where the firms' success rate was the lowest. Because the trend towards initial involvement with state government is escalating (firms that became involved later in the study indicated that state government concerns them the most), SMFs beginning their involvement in the public policy process today may face more disappointments than their predecessors. This finding mirrored the comments by CEO's during the in-depth interviews which indicated that state government, and the issues normally resolved there, were most likely to affect long-term firm survival.

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## FURTHER RESEARCH DIRECTIONS

Although we believe that the findings presented constitute a significant contribution to understanding public policy interactions by SMFs, it is also evident that more research is needed to further test and clarify these findings. Specifically, we would recommend study in the following areas:

- Research that isolates the type of issue and firm position in order to offer a more prescriptive model for public policy interactions.
- Research that focuses on why the most effective strategy (publicity) was the least utilized. Given the firm's perception that it had a chance of a successful outcome when it pursued a public policy interaction (its efforts were not "symbolic gestures"), why did firms choose strategies that had no correlation to a successful outcome? Is it inexperience?
- Research into further public policy interactions of these firms. How frequent might these interactions be, have their objectives and/or outcomes changed over time, and does experience matter?
- Research into other political arenas. Many of the respondents believed that New York and New Jersey were among the most regulated states in the country and, therefore, this belief may have influenced the executives' preoccupation with state-level issues. Studies in states having a reputation for less government might generate different findings.
- Research on SMFs that never have been involved in the public policy process in order to understand why not. How might they be different from firms that are involved?

Study in these areas should facilitate the development of a more encompassing model, one which could have considerable value for SMFs attempting to influence government. As government's control over the SMF continues to increase, it is essential to enhance the ability of these firms to influence the public policy process. Understanding more about the SMF's initial encounter with government could encourage other firms to "break their silence" and become active, as well as improve the activities already underway. As a result, having a larger voice in the governmental process should increase their influence and help SMFs prosper.

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