

Sustainability through trade policy – SMEs as agents in institutional change

Anna Karhu, Research Manager, University of Turku, Finland (presenter)

Eini Haaja, Research Manager, University of Turku, Finland (presenter)

Background: The rapid growth in global trade has increased prosperity and well-being, but not without consequences. Trade policy has been the main governance mechanism to regulate and manage trade. During past few decades, this global system has been challenged from multiple fronts, including the phenomenal rise of China, the spread of digitalization, and the climate crisis. These developments have changed global trade patterns and challenged trade policy structures at global and regional level.

Due to these transitions, the traditional goal of trade policy to defend free trade and democratic values has been accompanied with other values, including human rights and sustainability. Structures and mechanisms based on these new values are just emerging and looking for their shape and position. New structures, regulations and instruments have concrete influence on business environments. The systemic transition will take place at multiple levels from business actors like MNEs and SMEs to policy actors such as WTO and European Commission, and societal actors such as industry associations and customs. Hence, there is clear interest for various actors to develop the conditions for sustainable international trade and business, yet the means remain vague.

Objectives: This study seeks to understand the dynamics by which policymakers and businesses interact for policy development and for renewing and establishing institutions that foster sustainable business. In other words, we develop a framework for exploring the agency of businesses in co-evolutionary institutional change. The conceptual framework builds on co-evolutionary institutional change (Breslin 2016; Thornton et al. 2012; Lewin & Volberda 1999) and collective opportunity recognition (Mainela 2012, Mainela et al. 2018).

Prior work: Earlier literature on business and state relations has strongly focused on the role of MNEs in corporate public relations, although smaller business actors are also critical in shaping business environment. The interactions between business and policy in this respect are modestly understood, yet there is a need for a common ground in which policy makers and businesses can set joint goals for responding to sustainability challenges.

Outcomes: Our framework suggests collective international opportunity recognition as a mechanism for agency in complex evolutionary institutional change. Institutional change is seen as a co-evolutionary process stemming from the interactions of business, policy and social actors. Inter-organisational views of opportunities can drive actors at different levels, including policy-makers and business representatives, towards common goals through which they can respond to regional and global challenges.

Implications and value: Our forthcoming empirical study provides new knowledge on how different actors in wider change processes influence each other's responses, and possibly find shared goals. In particular, it contributes to the understanding of SMEs' role and possibilities for agency in complex institutional changes. This generates theoretical implications to the employed fields of literature, and managerial recommendations for business and policy actors facing global level challenges like climate change and social rights issues.

References:

- Breslin, D. 2016. What evolves in organizational co-evolution? *Journal of Management & Governance*, 20(1): 45-67.
- Lewin, A. Y., & Volberda, H. W. 2011. Co-evolution of global sourcing: The need to understand the underlying mechanisms of firm-decisions to offshore. *International Business Review*, 20(3): 241–251.
- Mainela, T. 2012. From internal resources to collective opportunities. *Journal of Business Research*, 65(2): 230–231.
- Mainela, T., Puhakka, V., & Sipola, S. 2018. International entrepreneurship beyond individuals and firms: On the systemic nature of international opportunities. *Journal of Business Venturing*, 33(4), 534–550.
- Thornton, P. H., Ocasio, W., & Lounsbury, M. 2012. *The institutional logics perspective: A new approach to culture, structure, and process*. Oxford University Press on Demand.