

ACTA WASAENSIA

No. 103
Business Administration 41
Marketing

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Networks and Social Relationships in Organizing International Joint Ventures

Analysis of the Network Dynamics of
a Nordic-Polish Joint Venture

UNIVERSITAS WASAENSIS
VAASA 2002

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ABSTRACT

Tuija Mainela (2002). Networks and social relationships in organizing international joint ventures. Analysis of the network dynamics of a Nordic-Polish joint venture. *Acta Wasaensia* No. 103, 196 p.

The present study concerns the organizing of international joint ventures (IJVs) over time. This means that the study is about the striving by the international joint venture managers for establishment of a favourable business context for the firm through relationship building to other actors in the market. No firm is totally self-sufficient but is dependent on other organizations in the market for specific resources. Therefore, it establishes relationships with suppliers, customers, authorities, financiers and other organizations. That way it becomes embedded in a network of relationships. Through the relationship development and the interaction in the relationships the managers enact the business of the firm. That is to say, the firm is organized through networking behaviour. Simultaneously, the embeddedness of the firm changes. The concepts of embeddedness, networking and organizing are connected with each other in the conceptual framework of the study based on the analysis of the markets-as-networks approach and the research on the role of networks in entrepreneurial processes of new venture creation and development.

The purpose of the present study is to increase our understanding of the dynamics and behavioural aspects of networks in international business. The actions of the international joint venture managers in the focal net changes, i.e. their networking behaviour, and the roles of social relationships in the continuous organizing of the joint venture and its business network are analysed. In prior research the context dependence of the international joint ventures seems often forgotten. Seldom has the joint venture itself been brought into focus or the emphasis laid on the actions of the individuals when they are organizing the activities of the joint venture in the market. As a result we know quite a little about the context-dependent development of the joint ventures through individual actions. The general research question of the study is: *How is the business of an international joint venture organized through networking behaviour when its embeddedness is changing over time?*

The East European transition markets form the empirical context for the study. The business context of transitional Eastern Europe has been noted to make great demands on relationship building and, especially, interpersonal relationships have been stated to be of significance in Eastern Europe. For empirical analysis a Nordic-Polish joint venture was chosen and its development was followed between years 1989 and 2000. As a result the study provides an analysis of the dynamics of relationships in the focal net of the Nordic-Polish joint venture over its ten-year lifetime. The study provides examples of how the interpersonal relationships of managers are intertwined with the utilization of relationships for business development and business problem solving. The relationships were seen as characterized by four layers of interpersonal relationships whose existence influences the types and roles of the relationships. What was evident was that the joint venture managers preferred interacting in very personal relationships characterized by personal trust. However, the managers of an East-West joint venture seem to interact in two types of networks. In one of them the interaction is contractually regulated and more formal and consists primarily of supplier and customer relationships with western counterparts and of the authority relationships. The other network includes primarily the relationships with the parent companies and the Polish customers. The relationships are characterized by a feeling of friendship, reciprocity and mutual respect.

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Key words: Business networks, social relationships, international joint ventures, case study

1. INTRODUCTION

"The crucial strategic consideration for the modern-day firm is not choosing the 'best' hierarchical organizational form within the fixed boundary of the firm or choosing 'best' mixture of internal production/outside purchase. Instead, the crucial consideration must be to build a social and economic context conducive to spontaneous and varied interactions of people inside and outside the firm. The boundary separating the interior and exterior... is not constant but is formed and continuously updated as a result of interactions." (Imai 1989:124, quoted in Grabher 1993:7).

1.1 Research area of the study

During the last couple of decades the international business environment has changed its nature as more and more global, creating new opportunities as well as making the success and even survival of a firm more difficult. At the same time the tightening competition and the accelerating speed of technological development have made interfirm cooperation more and more attractive to firms. Even the big multinational companies (MNCs) may consider entering a new market too risky to do it alone and see the establishment of a cooperative relationship with another firm as feasible (see e.g. Mattsson 2000). For smaller firms cooperation with others is likely to be almost a necessity or at least very beneficial when striving for a share in a foreign market (see e.g. Neergaard 1998). As a result, an international joint venture is often established.

International joint ventures (IJVs) are among the most prominent modes of today's international business (Zeira and Newburry 1999). Yet, international joint ventures have been reported to have high failure rates (e.g. Harrigan 1988; Reuer 1998). The combination of shared ownership across national borders, relationship institutionalization and formal independence of joint ventures result in great task and organizational complexity (Killing 1988) that makes an international joint venture a demanding way to organize a business. Joint venture is commonly seen as an entry mode to foreign markets, as a mode of interfirm cooperation and as a strategic weapon in global competition (Hellman, Hovi and Nieminen 1993:14–15). If in the establishment of an international joint venture its founders acquire expertise in products, process, market and/or technology, the results are expected beyond one year, and the joint venture is considered as a new market entrant by its competitors and as a new source of supply by its potential customers it could also be seen as a new venture (Gartner 1985). Here, in the establishment of an international joint venture is seen created a

new business venture that strives to establish a favourable position in its markets of operation.

That position the joint venture cannot achieve alone but it is dependent on other actors in the market to which it needs to establish relationships. Long-term relationships between firms can even be seen as a typical characteristic of industrial markets (Johanson and Mattsson 1987). Also individuals tend to seek for partnership and social companionship and, thus, create friendship relationships and interpersonal contacts. These actions make firms and individuals engage in relationships which are the basis for various kinds of network structures. An equity joint venture is already by definition a sum of contributions of at least two separate firms (e.g. Pfeffer and Novak 1976; Killing 1982). Thus, there exists a triad from the very beginning. Although having the parent relationships to support it, also an international joint venture needs to be in contact with other actors in the market to obtain resources and create markets (Johanson 1999:228). Often relationships to actors, such as governments, municipal officials, or even competitors are vital to make the business successful (Törnroos and Nieminen 1999). This way it becomes embedded in a network of relationships that greatly influences its development over time.

The development of a joint venture is usually described as a process that develops through consecutive, although overlapping, stages. For example, Parkhe (1996) presented a fine-grained perspective with thirteen steps on the life cycle of the international joint ventures. The process begins from internal analyses and goes through, for example, partner scanning, negotiations, implementation and learning with either success or failure as an outcome. Yet, the lines between the various stages are vague and the selection of the most important ones is difficult. Ring and Van de Ven (1994) argued the development of interorganizational relationships to be a cyclical process. The relationships develop as a sequence of cycles consisting of repeated negotiation, commitment, assessment and execution. The major problem in both the stages approach and cyclical process is that they concentrate on what happens in and between the parent companies. In the present study the development process is named as the organizing of the international joint venture. The organizing concept takes into account that business takes place in relationship networks, which are constantly changing (Håkansson and Snehota 1995:10). The changes lead to incessant organizing of the joint venture's business as new relationships are built, old decay or existing relationships change their character. Organizing, as well, emphasizes the role of individuals in organizational developments (Weick 1979:68): "*The human actor does not react to an environment, he enacts it. It is this enacted environment, and nothing else, that is worked upon by the processes of organizing*".

Organizing takes place through networking by individuals (Johannisson 1988; Håkansson and Snehota 1995:4). Individuals acting in the business relationships take actions to change the positions of the companies as more favourable and create social organizations (Melin 1989). Through relationship-building individuals create access and connect resources and activities for the firm as well as change their personal positions and get support for their personal aims. In networks changes also take place which are not intentionally created but which still need to be reacted to. The actions of individuals related to relationship building and maintenance are networking behaviour.

To follow the development of the joint venture in a network context and through actions of the individuals some boundaries to the network need to be set. The focal net viewpoint (Salmi 1995) on relationship networks provides the possibility of setting any chosen organization in the centre of the network and looking at the others from its viewpoint. The focal net consists of the relationships perceived as relevant by the persons representing the focal firm. In the present study the relationship networks are examined from the standpoint of the joint venture, and the perceptions of the international joint venture managers are used to construct the focal net.

1.2 Purpose and research questions of the study

The overall purpose of the present study is to increase the understanding of the dynamics and behavioural aspects of networks in international business by analysing the organizing processes of an international joint venture in a turbulent context. The networking behaviour of the IJV-managers and the roles of the social relationships in the development of the IJV's focal net are analysed. The general research question of the present study is:

How is the business of an international joint venture organized through networking behaviour, when its embeddedness is changing over time?

This leads to three more specific research questions:

- a) How and why does the embeddedness of an international joint venture in its network context change in the course of time?
- b) Through what kinds of action is the focal net of the international joint venture organized?
- c) In what kinds of situations and how do the interpersonal relationships of the managers influence the organizing of the business network of an international joint venture in the East European transition markets?

The above questions are both theoretical and empirical in nature. The answers are sought, first, through the development of the theoretical framework and the analysis of the key concepts of the study. Then the concepts are given meaning in the specific empirical setting of this study. The changes in the business network of the joint venture are covered through the analysis of the concept of embeddedness, and stability and change in networks. In the empirical part various change forces are defined and an analysis is conducted of the changes in the focal net relationships in a Nordic-Polish joint venture case. To answer the second question the concepts of organizing and networking are analysed and the actions of the managers in the focal net changes of the Nordic-Polish joint venture are empirically examined. The concepts of embeddedness, networking and organizing as such can be seen to pinpoint the social side of business networks but there is quite little empirical research on the role of the interpersonal relationships in business networks. Therefore, the third question is primarily empirical in nature and aims to go beyond the notion of the mere importance of social relationships by means of thorough empirical inquiry in a single case study. The specific features of the Polish transition markets of the 1990s, which form the context of the development of the Nordic-Polish joint venture under study, are expected to make this side particularly transparent. From the practical managerial viewpoint the main question of the study is: How can various relationships be utilized to successfully manage the evolution of an international joint venture?

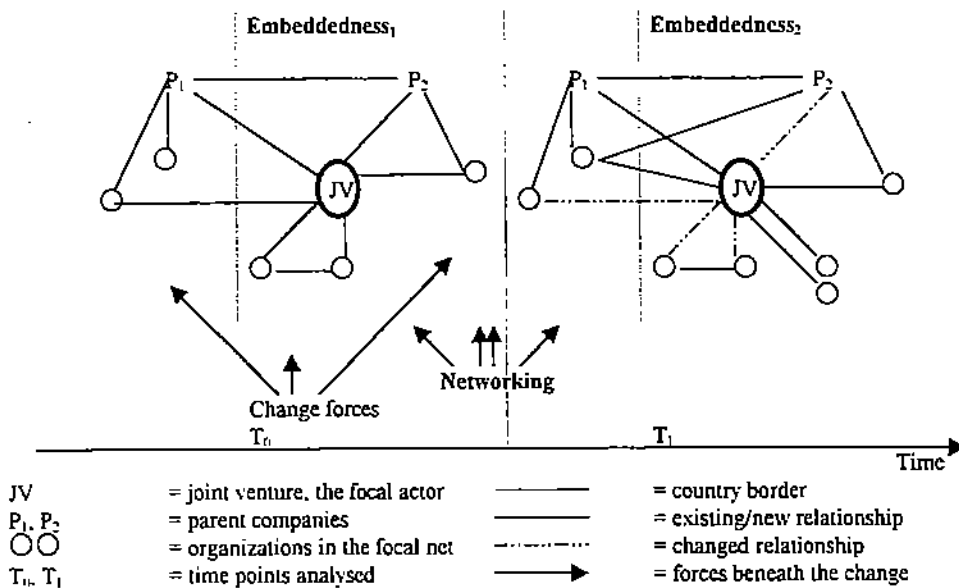


Figure 1. Illustration of the basic research setting of the study.

The basic research setting of the study is illustrated in Figure 1. The focal actor is an international joint venture that has relationships with other organizations both in its local markets of operation and in the international markets. The nature and roles of the relationships define its embeddedness in the context. Along the development of the joint venture it is confronted by various kinds of change forces that may initiate change in its relationship network. The managers of the company take action with respect to the relationship network, i.e. conduct networking as a response to these change forces in order to successfully organize the business of the joint venture. That way the embeddedness of the joint venture changes constantly over time. The present study explores both the changes in the embeddedness and beneath them lying networking of the managers.

1.3 Scope and limitations of the study

The basic conceptual lens of the present study is the "markets-as-networks" approach (see e.g. Hammarkvist, Håkansson and Mattsson 1982; Ford 1997). The choice is due to the interest in the connectedness and dynamics of business relationships (Easton and Araujo 1994). This approach has rarely been used in international joint venture research where the most commonly used theoretical approaches have been the transaction cost approach, the strategy-structure approach and organization theories. This choice of the present approach means that the specific features of joint ventures as governance structures are not covered in the study. Also the relation of the joint venture to the parent company's strategies or other organizational arrangements is covered only to the extent that it is reflected in the organizing processes of the joint venture. The most studied IJV-issues (Parkhe 1993) – i.e. the motives of the parents, the selection of the partner and the determinants of the parental control and conflict – are examined only to the extent that they are reflected in the focal net changes of the joint venture along its development. The fourth area, which has received a considerable amount of research interest, is the performance and the stability of the joint ventures related to it. This area is slightly touched upon in the present study as every industrial firm and every manager is seen to aim at stabilizing the business at least to some extent through relationship building. The choice of the theoretical approach is thoroughly justified in Chapters 2 and 3.

The primary interest of the study is in the dynamics and behavioural aspects of networks. The structural changes are followed at the focal net level, but the primary interest is in examining the mechanisms underlying these changes and not in the analysis of the structures per se. Therefore, attention is not drawn to the size, density or range of a network

(Mønsted 1995; Anderson, Havila, Andersen and Halinen 1998). This kind of structural research is static in nature and can't capture the dynamic interplay between the firm and its context nor the actions of individuals.

With respect to the behavioural aspects of networks the present study is especially interested in the role of the social, interpersonal relationships in the organizing of the business network. It means that the business relationships are seen as webs of interactive relationships between individuals in the companies involved (Håkansson and Snehota 1989), and this level of analysis is used parallel to the organizational relationship analysis. To capture the nature and the role of the individual-level relationships and networking actions, the markets-as-networks approach is complemented with the social network research in entrepreneurship (e.g. Johannisson 1988; Larson 1992). This network research is especially focused on the interpersonal networks and networking in the emergence of new ventures. However, the study does not cover all the interpersonal relationships between the individuals in the focal net companies. A choice has been made to concentrate only on the viewpoint of the managers and in the empirical study only the managers of the joint venture have been asked to tell about the relationships in the business network. Without doubt there exist relationships also between the other employees of the companies. In the present study they are covered only through the references made by the interviewed managers. This means that the study provides only a partial view of the interpersonal relationships in the joint venture's business network. This delimitation can be partly justified by the viewpoint that the organizing of the business is, in the end, a result of the managerial-level action. The managers can also be expected to have the best insight into the various events in the overall development of the joint venture.

The present study strives for a deep understanding and interpretation of the subject phenomenon in a specific setting. The East European transition markets form the empirical context for studying the development of an international joint venture. For empirical analysis a Nordic-Polish joint venture established in Poland in 1990 is chosen. The development process of the joint venture is followed from its initiation in 1989 until the year 2000. The study is contextual and processual in nature (Pertigrew 1997) and uses the critical event technique (Hedaa and Törnroos 1997) to define the incidents included in the analysis. In the methodological choices the study combines case study as the main research strategy with qualitative and abductive approaches in data collection and analysis. Interviews with the Nordic and Polish managers form the main source of data through which the events in the development process are constructed. A single case study as the empirical strategy inevitably influences the generalizability of the study results. Yet, this

choice of research strategy as such means that this is not a hypothesis-testing study aiming at statistical generalization. Instead it strives for analytical generalizations to theoretical propositions by applying and giving meaning to the theoretical constructs in a specific empirical setting (see Yin 1989; Easton 1995). The aim is to discover the ways of acting of the contingent causal powers inherent in the nature of the things and events concerned (Easton 1995). This way the study can increase understanding of the complex phenomenon under study and provide knowledge of the reality underlying the set of events dealt with. The research methodology is discussed in detail in Chapter 5.

Moreover, the business context of transitional East Europe has been noted to make great demands on relationship building and the business networks are expected to have some special features in that context (Törnroos and Nieminen 1999). Especially the lack, or emerging nature, of institutions in the transition economies creates a need to reduce uncertainty and manage the ambiguities through networking (Johannisson 1995; Salmi 1995; Johanson and Johanson 1999). Particularly, interpersonal relationships are expected to be of great significance in Eastern Europe (Salmi and Bäckman 1999; Törnroos and Nieminen 1999). Because of this the relationship building and the roles of social relationships are likely to be especially transparent and explicit in this context. As a result, the findings of the present study are both contingent on the specific context but can, as well, aid the understanding of the organizing processes also in other contexts in which the networking and the roles of social relationships may be more hidden.

1.4 Key concepts of the study

The key concepts of the study are defined below. Further discussion of the concepts and their definitions is presented in the theoretical Chapters 2, 3 and 4 of the study.

Network

In the present study a network is seen as a governance structure between markets and hierarchies. The network consists of interorganizational relationships between customers and suppliers and other actors, such as financiers, research institutes and public administration. Related to this markets-as-networks concept is the industrial network model, which describes actors, resources and activities as separate, although strongly interrelated, networks (see further discussion on p. 47). Here the concept of industrial network is used to refer to the network of actor relationships through which the actors coordinate the resources and activities of the production system.

Focal net

A focal net is a concept that widens the boundaries of the network of interorganizational relationships from a dyad and direct relationships, but also delimits the network as smaller than the whole network. A focal net includes both the direct and indirect relationships which are perceived as relevant by the persons representing the chosen focal firm. Thus, it also emphasizes the role of individuals as the constructors of the field of activities of the firm. In the present study the focal net is made up of the organizations and relationships which the joint venture managers see as having influenced the development of its business.

Joint venture

In this study the focus is on international equity joint ventures. They are defined as formal cooperative arrangements, concretized in the formation of a new business unit between two or more legally independent organizations. These organizations, i.e. the parent companies, are of different nationalities and have pooled resources and shared risks in this jointly owned business entity to achieve some common goal.

Social relationship

The concept of social relationship brings to the fore the interpersonal level of analysis. Social relationships are person-level ties between individuals. Organizational behaviour is always a result of the actions of the individuals representing the organizations. Therefore, the interorganizational relationships in the focal net of an international joint venture are here analysed through the analysis of the type of the interpersonal relationships between the joint venture managers and the people with whom they interact in business-related issues.

Dynamics

By dynamics is, in the present study, meant the changes that take place over time in the focal net. The changes may be induced by incidents internal to the focal firm, in its relationship network or in the wider environment. The changes analysed in the present study are seen in the number or nature of the relationships in the focal net of the joint venture.

Organizing

Organizing is the concept used to describe the development process of the joint venture. Organizing sets the development in the context formed by interorganizational relationships but also emphasizes the enactment of the individuals. An organizing process is defined as the configuration and collective definition of the nature and roles of the relationships as a result of interactions in the network of relationships.

Networking

By networking is meant the actions of the individuals in relationship building, maintenance and disruption. The networking is in the present study seen as the activity of the joint venture managers who through conscious actions try to coordinate resources and activities and position the joint venture favourably in the market.

Embeddedness

Every organization is dependent on other organizations in the market. This dependence makes organizations build relationships with each other. This way they become embedded in a context consisting of interorganizational relationships of various kinds. The embeddedness blurs the boundaries of the organizations because operations in one organization are dependent on the operations in others. In the present study the characteristics of the relationships and the roles of them in the operations of the joint venture are seen to define the type of embeddedness, which can be, for example, technological, political, market or social in nature.

1.5 Theoretical positioning and contribution of the study

As was mentioned above, the majority of the previous research on international joint ventures has focused on the parent motives, partner selection, parental conflict/control, and performance measurement (Parkhe 1993). Much less we seem to know about the actual implementation and management, and the development processes of these business units (Wathne, Roos and von Krogh 1996; Spekman, Forbes, Isabella and MacAvoy 1998). The present study shares the interest of the IJV-process researchers (e.g. Woodside and Pitts 1996; Kemp and Ghauri 1998; Büchel 2001; Hyder and Ghauri 2000) in the determinants of the joint venture's development over time. However, the concentration of the above studies too on the parent relationship means that they take a very partial view of the development of the new venture itself. Especially equity joint ventures have independent management organs and as Lorange and Probst (1987) stated: "*an organization must adapt and evolve on its own to meet the new environmental circumstances*". This brings forth two important aspects of the development of the international joint ventures: the context dependence of the joint venture's development and the focal role of the joint venture itself.

In the present study it is suggested that the above aspects can be best covered through use of the network approach to examine the development of the joint venture. In the network approach used, the markets-as-networks approach (e.g. Hammarkvist et al. 1982) is

combined with the social networks of entrepreneurship research (see e.g. Johannisson 1988). In the network research tradition the present study is positioned among the studies of dynamics and behavioural aspects of networks. Networks are commonly seen as dynamic and constantly changing. These change processes have been analysed in different contexts by e.g. Liljegren (1988), Håkansson and Snehota (1995), Salmi (1995), Halinen (1997), Gadde and Mattsson (1998) and Johanson (2001). However, as Halinen and Törnroos (1998) note on the whole quite few attempts have been made to describe and explain the dynamics of business networks.

When the dynamics of networks has been studied, the changes in the embeddedness of firms have aroused research interest. Two major contributions lie behind these studies on embeddedness: The idea of the strength of weak ties by Granovetter (1973) and the notion of the importance of structural holes by Burt (1992). Andersson (2001) divided embeddedness into structural and relational. Structural analysis is primarily concerned with the question whether there is or is not a relationship between certain actors (Nahapiet and Ghoshal 1998) and describes the impersonal configuration of linkages between people or units. The emphasis is on how densely the actors in the network are connected with each other (Andersson 2001). It shifts the level of analysis from a dyad or triad to the system level and looks at the informational role of an organization's position beyond immediate relationships.

The structural embeddedness of firms is only of secondary importance to the present study. The present study is primarily interested in the behavioural patterns behind the focal net dynamics. The behavioural analysis of network dynamics deals especially with questions of what kind of relationship exists and how it is utilized (Nahapiet and Ghoshal 1998). Thus, on one hand, it looks at the relational embeddedness, i.e. the depth and intensity of interaction in the relationships (Andersson 2001). On the other hand, it looks at how change comes about within the network structures. As Anderson and her colleagues (1998) stated about that we seem to know very little.

Interest in the behavioural side of networks is related to the individual level of analysis. Organizational developments are inevitably related to the behaviour of the managers over time, i.e. the individual-level actions in temporal contexts (Easton and Araujo 1994). Thus, the study shares the viewpoint of Liljegren (1988:106) that the interaction patterns of individuals and norms as indications of expected behaviour at the individual level can be seen to influence the organizational structures, strategies and routines. Like Liljegren (1988) the present study looks for an explanation for organizational changes in the type of

individual-level relationships and managerial behaviour. In the development of any business unit a critical issue is seen to be the social nature of all actions (see e.g. Ring and Van de Ven 1994; Ghoshal, Bartlett and Moran 1999). With respect to the international joint ventures the behavioural and social side of developments seems to be a neglected area of research (see criticism e.g. in Parkhe 1993; Ring and Van de Ven 1994). For example, Spekman et al. (1998:748) claim that *"little is known about the managerial requirements of the different life cycle stages through which alliances pass"* and *"too little attention is given to the alliance manager as a central figure in determining the success/failure of an alliance"*. Thus, the prior research on joint ventures often leaves out of consideration that all economic actions are embedded in relationships between individuals (Granovetter 1985).

Network research has always acknowledged the social dimension of the relationships, although economic and technological aspects dominate network research too. The social relationships bring forth especially the person-level interaction required, e.g., to form a channel for business dealings, to transfer technological skills and create power structures (Halinen and Törnroos 1998). This means that social interaction often underlies the organizational market, technological and political interactions (see also Easton and Araujo 1994). For example, Uzzi (1997) studied the properties of the social relationships and how they are related to information transfer and problem solving in the business network. Recently, Araujo, Bowey and Easton (1998) have concentrated especially on the actor bonds and interests with an aim to explore in more detail the interpretation and dynamics of social structures and economic activity. Similarly, Salmi and Bäckman (1999), Axelsson and Ångdahl (2000) and Äyväri and Möller (2000) have pointed to the social side of business networks and the actions of managers in the utilization of their social networks for business purposes. Halinen and Salmi (2001) have given the social relationships basic and special functions in business relationships and emphasized both their positive and possibly negative influences. These studies, thus, share the primary focus of the present study.

The research on interaction and networks in the East European transitional context is on the whole quite limited (see Törnroos and Nieminen 1999:3). However, especially the business relationships between Nordic firms and the firms of Russia and the Baltic States have attracted considerable research interest (see e.g. Ghauri and Henrikssen 1994, Salmi 1995; Ghauri and Holstius 1996; Bäckman 1997; Nieminen and Törnroos 1997; Johanson 2001). Bridgewater's (1999) research on market entries of four MNCs into the Ukrainian market is one of the few applications of the network approach to other former USSR countries. Her use of the MNC viewpoint and interest only in the early entry behaviour differentiates it from the present study. Especially the dissertations by Salmi (1995) and

Johanson (2001) are closely related to the present study in their search for strategies to cope with the changes during the transition process. Salmi (1995) focused on the influence of the transition process in Russia and the Baltic States on the Finnish firms' operations but Johanson (2001) adopted a very similar approach to the present study when looking at the relationship network of the local Russian company.

The theoretical contribution of the present study arises from using the viewpoint of an international joint venture and focusing on the actions of the managers in the continuous organizing of the cooperative business unit. Firstly, joint ventures are usually analysed from the viewpoint of one of the parents (see Osland and Cavusgil 1998). Joint ventures have their basis in the relationships between the parents but they also differ from other kinds of business relationships as the focal relationship is explicitly and extensively concretized in the creation of an independent business unit. Like all business ventures a joint venture is also dependent on its ability to mobilize and utilize the other actors' resources, most of all the parents but also others. Secondly, the social aspects have often been given only a secondary role both in the interfirm cooperation and in joint venture research. Seldom have the social relationships been given direct business functions in network research, although their importance has been recognized. Therefore, we know quite a little about this social side of business relationships.

Yan and Zeng (1999) considered as the real practical value of IJV-research to rest on providing managers with insights regarding how to manage the joint ventures evolution. Research should be able to advise on issues like how to reconfigure the joint venture structures and take adaptive action over time to strengthen its performance and prevent premature death. In the present study it is seen that currently there is above all a lack of understanding of how various relationships can be utilized and what kinds of actions are feasible to successfully manage the development of an international joint venture. This kind of understanding is suggested to be best reached by setting the joint venture itself in focus, analysing the joint venture longitudinally as a context-dependent, new business venture and examining the organizing processes of the joint ventures in relationship networks at the level of individual actions. This way the joint venture's capability to mobilize and coordinate the scarce resources and activities of other actors in the network (see Möller and Halinen 1999) can be discovered, which should be of managerial interest.

In sum, the present study contributes to our knowledge of the relational and social determinants of the long-term development of international joint ventures. This is done by looking particularly at the actions of managers and the role of the interpersonal relationships

in the dynamics of the business networks of international joint ventures. The types of the change forces, which lead to changing focal net embeddedness of an IJV, are defined and the behaviour of the managers in relationship building and use is analysed. Certain types of relationships are expected to be more appropriate to certain activities and the achievement of certain goals. Moreover, the study considers whether some relationships need to be developed through specific actions and whether the type of personal interaction can influence the utility of the relationships. If this is the case the research findings could advise managers to develop and rely on different kinds of relationships in different situations.

1.6 Outline of the study

The first chapter of this study is an introduction to the research. Above, the aspects of the subject phenomenon which have been considered as central in this study were briefly discussed. Then the objectives of the study, its scope and limitations, and the key concepts were presented. Then the study was positioned within the research formerly conducted in the network research tradition and within the prior international joint venture research. The contribution of the study was introduced, as well. These elements can be seen to form the problem setting of the study (see Figure 2).

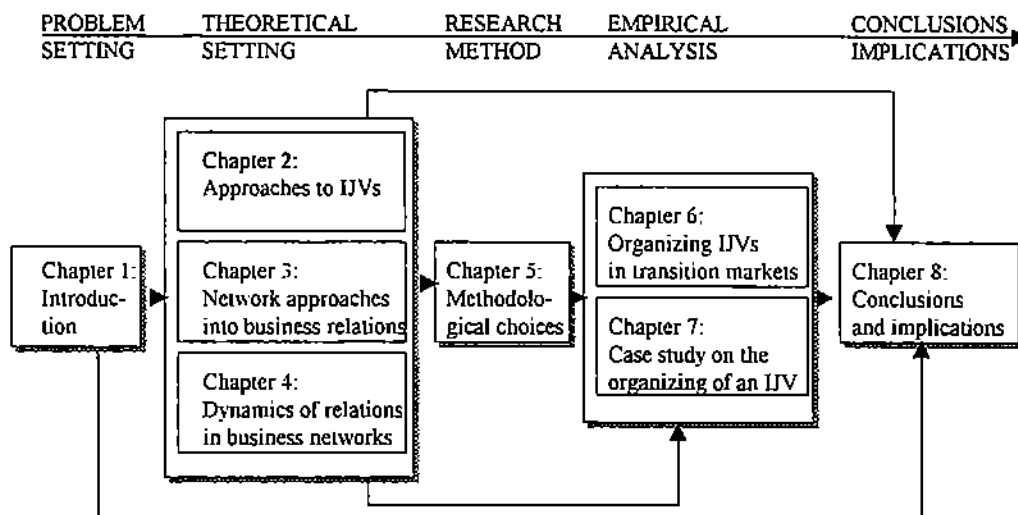


Figure 2. Structure of the study.

Because this study concerns international joint ventures, previous research on IJVs is selectively reviewed and analysed from the viewpoint of the present study in Chapter 2. Since in this study a theoretical approach that is uncommon in IJV-research has been chosen, the deficiencies in previous research as the primary theoretical basis of the present study are pointed out. In Chapter 3 the main elements and ideas of the markets as networks and entrepreneurial network approaches are presented. They have been selected as the basis of the conceptual framework and represent the angle from which the subject phenomenon is approached. The present study aims at contributing particularly to the knowledge of the dynamics and behavioural aspects of business networks. In Chapter 4 the network concepts seen as the most appropriate ones for analysing network dynamics and behaviour of individuals are thoroughly analysed. On the basis of the theoretical analysis, a tentative theoretical framework is constructed for empirical study of the organizing of the IJVs in transition markets.

Chapter 5 provides a bridge between the problem setting, theoretical setting and empirical setting of the study. In this chapter the methodological decisions which have directed the research process are discussed. First, the aspects of the research strategy are explained and then the actual procedures of the case selection, methods of data collection and data analysis are presented. The chapter ends with considerations regarding the quality of the study.

In Chapter 6 the specific context of the study, the transitional East European market, is discussed. The specific features of joint ventures and relationship networks in this context are examined based on the findings of previous research. Chapter 7 presents the empirical study of a Nordic-Polish joint venture and its organizing processes over the time period from 1989 to 2000. In the final section of the chapter the empirical results of the study are discussed in relation to the findings of previous research. Chapter 8 concludes the study by summarizing it and discussing its main findings from both theoretical and managerial viewpoints. Finally, suggestions for further research are presented.

2. APPROACHES TO INTERNATIONAL JOINT VENTURES

Despite their popularity in today's business international joint ventures have proved difficult to manage and their development seems hardly predictable. Previous research on international joint ventures has especially seemed unable to advise managers in leading their ventures towards successful long-term development (see e.g. Yan and Zeng 1999). In the present study two specific issues are seen as the key questions to understanding the development of international joint ventures: the dependence of the joint ventures on a network of external relationships, wider than only the parent relationships, and the nature of the social, person-level interaction between the individuals in the focal net organizations. In this chapter the research on joint ventures is analysed from the viewpoint of the above key questions. As a result a new avenue for research is suggested. There is seen to be a need to set the joint venture itself as the focal actor in a network of relationships to multiple other actors whose importance varies along its development. This research sees an international joint venture as a new venture whose operations need to be organized through relationship building and considers the social embeddedness of the joint venture as a critical issue in the joint venture's development. This approach avoids the prevailing overemphasis on parent relationship(s), and seeing the joint venture only as one subsidiary among others.

2.1 International joint ventures as research objects

Making a coherent analysis of previous research on joint ventures is complicated, first of all, by the fact that the concept of joint venture is ambiguous. Joint ventures are often discussed in terms of strategic alliance or interorganizational relationship, which prior researchers have used to refer to many other kinds of dyadic or network-like arrangements between organizations as well. Wide definitions are common, like "*interorganizational relationships are relatively enduring transactions, flows and linkages that occur among or between an organization and one or more organizations in its environment*" used by Oliver (1990: 241). Borys and Jemison (1989) paralleled joint ventures with acquisitions, licensing and R&D partnerships as hybrid forms of organization. Recently some researchers have seen it as important to specify the differences between various types and e.g. Zeira and Newbury (1999) compared the international joint venture and acquisition processes to each other.

The view of the present study is consistent with the definition of an international joint venture proposed by Shenkar and Zeira (1987:547): "*An IJV is a separate legal*

organizational entity representing the partial holdings of two or more parent firms, in which headquarters of at least one is located outside the country of operation of the joint venture. This entity is subject to joint control of its parent firms, each of which is economically and legally independent of the other." Moreover, joint ventures can be either contractual or equity joint ventures. Here the interest is on the latter ones. In the establishment of an equity international joint venture a new venture is created, which needs to be positioned in its markets of operation and whose activities are continuously organized as a response to various change forces. In an equity joint venture are also emphasized both the legal independence of a joint venture and its partial dependence on the parents for e.g, capital, raw materials, know-how or political support.

For the analytic purposes of the present study a simple two-by-two matrix illustrating the basic research approaches of international joint venture research can be constructed (see Figure 3). On one axis there is the role that has been given to the joint venture as a business unit. Here it is suggested that the joint venture is seen either primarily as a subsidiary of larger firms (often MNCs) or as a new venture having a more independent role in the market. On the other axis is the viewpoint to the international joint ventures used in the research, which is either that of the parent companies or that of the joint venture itself. The first type concentrates on the action the parents take and on how they use the joint venture. The latter type of research sees the joint venture as the focal actor, whose activities are of major interest to analyse.

		Role of the IJV	
		Subsidiary	New venture
Viewpoint to the IJV	Parent's	Cell 1 INTERFIRM COOPERATION	Cell 2 ENTRY MODE STRATEGIC WEAPON
	IJVs	Cell 3 PROFIT CENTRE (SBU)	Cell 4 CONTEXT-DEPENDENT SOCIAL ENTITY

Figure 3. Alternative approaches to international joint ventures (IJVs).

For describing the complex reality of international joint ventures the above classification is definitely too straightforward. In practice, an international joint venture often combines

entry mode, interfirm cooperation, profit centre and emerging new venture considerations. An international joint venture may be seen as the most appropriate entry mode for a foreign firm especially because of the cooperative benefits achieved through learning and technical or other development in the cooperative relationship. This same joint venture may also be evaluated as a separate profit centre for the parent companies. Besides, it is inevitably confronted by the challenges of any new venture when it needs to be positioned in its markets of operation by the managers in charge. However, in research this complexity needs to be somehow simplified and the above matrix is suggested to illustrate how the previous researchers have done it by taking specific viewpoints to the phenomenon. Other kinds of classifications of joint venture research concentrating on the substance or the primary concepts of the studies can be found in e.g. Parkhe (1993), Spekman et al. (1998) and Yan and Zeng (1999).

2.2 IJVs as a form of interfirm cooperation

Cell 1 of the matrix can be seen as to a great extent filled with the general studies on interfirm cooperation and strategic alliances of which joint venture is one type (e.g. Devlin and Bleackley 1988; Oliver 1990; Lorange and Roos 1992; Ring and Van de Ven 1994). They give explanations for joint ventures derived from organizational theory and stress cooperative motivations (Kogut 1988). Often this research on joint ventures emphasizes the long-term advantages to the parents resulting from learning (see e.g. Hamel 1991). The learning-based motives for joint ventures include the creation of new products, acquisition of new technologies and exchange of distinctive managerial skills in a shared organizational entity (Anderson 1990). Research on technology transfer via joint ventures also fits this corner because of, especially, emphasizing the cooperative aspects of interfirm relationships (see e.g. Farhang 1994; Lan 1996). Joint ventures are noted as one of the principal and most effective modes of international interfirm relationships aiming at transfer of technical and other resources on a continuing basis (Contractor 1990).

Interfirm cooperation studies emphasize the complexity and inherent instability of joint ventures as business units because of the multiparent situation. The analysis is often based on the notion of resource dependencies between firms, and the joint venture is seen as the concretization of the dependence relationship between the parents (see e.g. Van de Ven and Walker 1984). As the initiators of the relationships the studies emphasize the resource dependence and knowledge acquisition motives for cooperation and call attention to the likelihood of changes in the dependencies as a result of the interactions between the parents

(e.g. Inkpen and Beamish 1997). Kemp and Ghauri (1998) note that symmetry in the dependence between the parents is especially important for satisfaction in the joint venture relationship. The dynamics are the result of changes in the dependence of the parents on each other and of learning.

This research stream has also aimed at capturing the development processes in international joint venture relationships (e.g. Kogut 1988; Woodside and Pitts 1996; Kemp and Ghauri 1998; Hyder and Ghauri 2000; Büchel 2001). Most often the development of an interfirm relationship is described as a sequential process (e.g. Ford 1980; Dwyer, Schurr and Oh 1987; Devlin and Bleackley 1988; Lorange and Roos 1992) that develops through consecutive, but overlapping, stages (cf. cyclical process in Ring and Van de Ven 1994; Büchel 2001). The earlier development process studies tended to concentrate only on the organizational level but recently also individual level issues have been paid attention to (e.g. Arino and Torre 1998; Büchel 2001). Thus, the second important feature in the development processes is the double structure of the formal organizational developments and the informal individual interactions (Ring and Van de Ven 1994, cf. Dwyer et al. 1987).

In the development studies a cooperative relationship is taken into consideration when both partners see the interaction with the other resulting in benefits. The best chances for success have been proposed for relationships that represent product-market opportunity for both firms (Woodside and Pitts 1996:5). Partner selection is considered as one of the most important phases in interfirm relationship development (e.g. Bronder and Pritzl 1992). Yet, in international joint ventures well-argued decision is often hindered by lack of earlier experience and distance between the partners situated in different countries. An often mentioned prerequisite for an effective relationship is a fit between the parent companies (Thunman 1988:54; Bronder and Pritzl 1992; Lorange and Roos 1992:30). Fundamental fit is achieved when the partners are complementary with regard to products, activities, resources and expertise whereas even more important strategic fit needs compatibility of strategic goals. In implementation operating fit is tested, which refers to the actual means by which the obligations of the contract are carried out. Some misfit is inevitable in international joint ventures because they include parents with different backgrounds and the basic reason for joint ventures is reciprocal strengths and complementary resources (Parkhe 1991). Especially sharp differences in the cultural and political bases and firm-specific characteristics are likely to lead to conflicts in the relationship (Parkhe 1995). In conflict resolution the personal relationships between the parent company executives has been noted as an important mediating variable (Büchel 2001). In all, the development of a cooperative interfirm relationship is described as a slow, incremental and dynamic process between the

parents built on exchanges, individual actions and interpretations, which shape the relationship (Van de Ven and Walker 1984; Ring and Van de Ven 1994).

Overall, the development process studies are mainly concentrated on parental relationship development. With respect to the context-dependence of the international joint ventures almost only in international technology transfer research the general and relational environments are commonly considered as main elements influencing the joint venture's development. Special attention is often paid to cultural differences (e.g. Kedia and Bhagat 1988; Farhang 1994), which have been seen as critical determinants of joint venture management e.g. in Chinese-Western joint ventures (e.g. Sharma and Wallström-Pan 1997). Of the other actors in the market especially in relationships between industrialized and either developing or former socialist countries the governments are seen to have great impact on the developments (e.g. Farhang 1994; Woodside and Pitts 1996; Nieminen and Törnroos 1997). Arino and Torre (1998) emphasize external changes in environmental conditions or in strategic context as possible initiators of re-evaluation of the joint venture relationships. Hyder and Ghauri (2000) include in their model also the network formation, which emphasizes the connectedness of firms to other actors in the market. However, also their focus is on the parent relationship, and the continuous organizing of the joint venture itself through its local and international relationships is not analysed. The interpersonal level of analysis has, especially in theory, been emphasized although the empirical analyses are conducted primarily at the firm level.

2.3 IJVs as entry modes and strategic weapons

In cell 2 of the matrix is research that has seen international joint ventures primarily as entry modes to new foreign markets. The joint venture is looked at from the viewpoint of the parent(s), usually the foreign one, and the emphasis is on the antecedents of foreign market entry, e.g. motives for joint venture establishment and partner selection. The entry mode choice is usually approached from the transaction cost perspective with a view to comparing alternative governance structures, and the increasing efficiency of the global markets is seen to favour cooperative and contractual forms of entry (e.g. Contractor 1990; Contractor and Kundu 1998; Taylor, Zou and Osland 1998).

Especially, Hennart (1988) has concentrated on the transaction costs explanations for joint ventures. Then it is emphasized that a joint venture is a special way of organizing business activities in a specific market: it is a hybrid form of organization between pure market and

hierarchy (e.g. Hellman et al. 1993). Hennart saw joint ventures as the best strategy in a limited number of specific circumstances where markets fail but full ownership is not an effective way of governance due to, for example, management costs or scale or scope economies. He has also empirically tested the determinants of joint venture choice (e.g. Hennart 1991) and noted the transaction costs approach to be generally able to explain the empirical results concerning the choice between joint venture and wholly owned subsidiary as the governance structure. Japanese parents were noted to favour joint ventures in the U.S. market when they need to combine with other firms intermediate inputs, which are subject to high market transaction costs. Kogut (1989) narrowed this research stream down to the fear motive of joint ventures. Firms are seen to choose joint venture as the mode of transacting because of failure of any contract to provide effective guarantees for continuing relationship quality when relying on an outside supplier. The vulnerability of mutual investment in a joint venture is kept as a hostage that should safeguard against opportunism (Madhok 1995).

As the entry modes for foreign firms, joint ventures usually aim at advantages in the form of getting knowledge of local conditions and getting access to resources that are controlled by local firms (Hennart 1991). The primary interest of entry mode researchers is in the early phases of the joint venture establishment. Country- or area-related studies and comparisons of joint ventures in different environments with respect to motives or partner selection issues are common (e.g. Beamish 1985; Arino, Abramov, Skorobogatykh, Rykounina and Vila 1997). In these studies the environment is analysed and its possible influences on the joint venture are examined. For example, Beamish (1985) compared the joint ventures in developed countries with those in less developed countries and noted that their characteristics differ. Arino and her colleagues (1997) emphasized the operational and cultural differences between Russian and Western managers as the major sources of difficulties and pointed to contextual conditions, like bureaucratization, as the determinants of the early development of the parent relationship.

Some studies have tried to reveal the key success factors of the joint ventures and set the focus on specific management issues, like control. They often study this specific issue in relation to the performance of the joint venture. In their landmark article on control of international joint ventures Geringer and Hebert (1989) divided control into the three dimensions of focus, extent and mechanisms. Consistent with the other research in this corner they saw transaction cost approach, together with strategy-structure approach, as the most valuable conceptual framework for studying joint venture control. In general, the interest in control is related to the notion of the researchers that the parent firms often do

not allow IJVs to function independently. The control by the parents is seen as a critical determinant of IJV performance and therefore various control strategies ranging from formal contracts and ownership to personnel placement and consultation are analysed (see e.g. Frayne and Geringer 1990; Johnson, Cullen, Sakano and Bronson 2001). Recently, Johnson and her colleagues (2001) noted that both the motives for and effects of parental control differ by the national culture.

As effectiveness of the governance structure is central to transaction costs analysis, performance measurement or other kinds of end-result analysis are often related to the studies of joint ventures as entry modes to foreign markets (Anderson 1990; Inkpen and Beamish 1997; Hennart, Kim and Zeng 1998). The studies are typically not life cycle or development studies but represent the deductive/theory-testing approach with beforehand-specified variables and statistical analyses. The studies have primarily been motivated by the notice of high failure or exit rates of joint ventures and researchers have looked for explanations for these. Hennart, Kim and Zeng (1998) warn of easy interpretations of the shorter lives of joint ventures in comparison with wholly owned subsidiaries as failures. They may have been intended for time-limited tasks or they may continue their operations as wholly owned subsidiaries of one of the parents. Often they are very prosperous although not any more in the form of joint ventures. To avoid this kind of hasty interpretation of success and failure of international joint ventures, Yan and Zeng (1999) call for developmental definitions and studies of joint venture instability.

In general, in these IJV-studies, which concentrate on joint ventures as alternative entry modes to foreign firms, the long-term development of the joint venture itself does not receive much attention. What is analysed is the parents' decisions and satisfaction.

2.4 IJVs as profit centres of MNC

Anderson (1990) already emphasized the need to evaluate joint ventures primarily as stand-alone entities seeking to maximize their own performance, not the parents. Also Zeira and Newbury (1999) saw granting autonomy to an equity international joint venture to be important right after the initial formation. The joint venture should be encouraged by the parents to find its own best way although the parents still maintain control and are able to coordinate the activities.

In research on international joint ventures the parent firm viewpoint has strongly dominated. Only quite recently can there be seen to have emerged some research using the viewpoint of the joint venture or the subsidiary itself. Then strategic business units or centres of excellence are usually maintained and the subsidiary is analysed as an independent profit centre of a multinational company (e.g. Andersson 1997; Moore and Birkinshaw 1998; Birkinshaw and Hood 2000). In this research, located in cell 3 in the matrix (p. 23), no distinction is usually made between wholly owned subsidiaries and joint ventures, but the analyses concentrate on the subsidiary level. The viewpoint is more that of the subsidiaries and to a lesser extent that of the parent companies although the implications are intended to subsidiary management of the MNCs. In this research stream the explanations for joint ventures are derived primarily from strategic behaviour theories (Kogut 1988), which emphasize profit maximization. Kogut (1989) noted as one of the strongest reasons for creating a joint venture the pursuit of profit. Then joint ventures are primarily seen as profit centres of the parent firms. In an oligopoly a joint venture may stabilize competition and that way improve industry returns or it may reduce costs and create new products or technologies improving the competitive positioning of the parent firm (Kogut 1989).

In these strategic business unit and profit centre studies especially the different types and roles of subsidiaries have received attention. For example, Taggart (1998) defined for subsidiaries four strategic roles dependent on the extent of coordination and configuration of their activities. A strategic auxiliary has limited autonomy with highly focused activities. A confederate subsidiary has also little decision-making power locally but its behaviour in the subsidiary network is more participative and responsive. An autarchic subsidiary has a fair amount of autonomy and performs locally a significant number of value-chain activities. Finally, a detached subsidiary Taggart (1998) saw as a transitional type of subsidiary because its activities are very concentrated but still it is given great autonomy.

Also the network approach has lately been used to study the subsidiaries' roles in the MNCs and their relationships to the headquarters (e.g. Pahlberg 1996; Andersson 1997). The studies show the usefulness of the network approach for the incorporation of the specific external environment of the subsidiaries in the analysis. They indicate how subsidiaries' integration in the MNC internal network varies and some units are much more closely connected with their own external network. Andersson and Forsgren (1995) divided the subsidiaries on the basis of their embeddedness into four categories, viz. integrated, vertical, semi-vertical and external subsidiaries, which are very similar to Taggart's classification. Birkinshaw and Hood (2000) noted that the local network embeddedness is especially strong in subsidiaries in export-intensive leading-edge industries. These subsidiaries are

more embedded, more autonomous and more internationally oriented. This emphasizes the importance of taking into account environmental factors and network characteristics when analysing the subsidiary roles. Through interaction with suppliers, customers and other counterparts the subsidiaries may become controllers of some critical resources for the whole corporation and then they can also influence the strategic behaviour in the MNC (Andersson 1997). Birkinshaw (1999) made a similar observation when he found that local market relationships could be a source of stimulus for subsidiary initiative. He analysed also the managerial behaviour in pushing their initiatives in the corporate context and noted that building of distinctive capabilities and personal relationships are the most effective ways to counter corporate resistance.

To this group also belong the studies of centres of excellence, which can be defined as "*a small group of individuals recognized for their leading-edge, strategically-valuable knowledge and mandated to leverage and/or make that knowledge available throughout the global firm*" (Moore and Birkinshaw 1998). The centres of excellence research emphasize that many crucial assets, especially intangible ones, are not any more situated in the headquarters but in the various affiliate companies around the world. New knowledge often also comes from interactions with clients and team members around the world. For this reason the person-level interactions between the headquarters and subsidiary executives and between the subsidiary managers are especially important and the relationships become characterized by mutual interdependence and learning (O'Donnell 2000). The major challenge for the top management of MNCs is the development and dissemination of knowledge on a worldwide basis.

2.5 Towards IJVs as context-dependent focal actors

The joint venture operation can be seen to be fundamentally a question of the establishment and development of a new firm even though it happens in a way inside and with the aid of some existing, usually well-established firms (Gartner 1985). What is important in joint venture establishment, but often ignored in research, is that this new entity can incur debt, sign contracts, or undertake other activities in its own name (Pfeffer and Nowak 1976). Joint ventures are also by definition autonomous organizations and they have their own management teams, missions, objectives, strategies, cultures, and identities (Johnson et al. 2001). In research these actions and issues seem to be analysed only to the extent that they concern the parent companies. To the persons acting for the sake of the establishment of the joint venture it is a new venture that needs to be positioned in the local markets and the

international business networks. Depending on the actions of the joint venture founders and managers the new firm becomes differently positioned. The earliest position it gets with respect to the parents but very soon it also needs other relationships. To successfully position the venture it is relevant to see it as the focal actor, whose network of relationships the managers of the joint venture aim at organizing to support its operations. However, the cell 4 of the matrix (see Figure 3, p. 23), where international joint venture is seen as a new venture and as the focal actor, is the most unexplored corner.

The relationship-centred approach (Madhok 1995) has started the movement from the outcome-oriented, relatively static ownership-centred approaches towards research addressing the role of social phenomena and micro-level process-oriented mechanisms of control and coordination. The fact that all organizational actions are taken by individuals who perceive, trust, and commit is well known. Trust is crucial for a cooperative venture (Zeira and Newbury 1999) and the creation of trust usually requires commitment and social exchange. Thus, the more recent research on international joint ventures has begun to address these issues too (e.g. Kemp and Ghauri 1998; Büchel 2001; Cullen, Johnson and Sakano 2000). However, these studies also tend to focus on the parent relationships, leaving out of consideration the other relationships the joint venture inevitably needs to have in the markets to be able to operate.

Still, some studies report the importance of local customer and supplier relationships and interactions with other actors that serve the joint venture and are managed from it. For example, Hyder and Ghauri (2000) pointed out the need to analyse the network formation in the local market and saw the social network of the individuals as equally important to the developments as the industrial resource and activity network. In emphasizing the need to get the viewpoint of the joint-venture executives they also placed emphasis on the joint ventures themselves and that way moved towards seeing the joint ventures as the focal actors. Studies of the role of joint-venture general managers and the human resource practices in international joint ventures have also changed the focus of research in this direction. Killing (1982) already stressed the importance of balance between the parents and their fair treatment, of which the general manager needs to take care. Later, researchers have stressed the joint venture general manager's challenging task in managing a new company in multiparent, typically uncertain settings where in addition to managing the joint venture itself they must also manage relationships to parents with divergent motivations and goals (e.g. Frayne and Geringer 1994). With respect to control, Geringer and Frayne (1990) emphasized that the applied control systems should not prevent the other stakeholders – particularly the other parents, venture management, employees and the host government –

from achieving their goals. In addition, they emphasized the role of the general manager (see also Frayne and Geringer 1994). He needs to have the personality and skills to create confidence among the parties and employees with different backgrounds and to excel at networking both internally and externally, to promote the joint venture.

In sum, there exists a rich body of research on the entry or operation-mode choice of firms, which well covers the characteristics of joint ventures as governance structures. Also, a great deal of research has analysed the benefits and problems of international interfirm cooperation in the form of joint venturing. Although more recent research on international joint ventures has brought up issues like dynamism, development processes, trust and commitment, it still fails to give a holistic picture of the long-term development of joint ventures. The social embeddedness of economic actions has not been well covered either.

One important reason for this failure may be the heavy emphasis on the parent relationship whereas the establishment, development and characteristics of the joint venture itself, and its relationships to other actors in the markets have been neglected or only superficially analysed. The entry-mode research includes empirical studies in different environments but only "faceless" environmental variables are used and the relationships between various organizations are not covered. The same holds true of interfirm cooperation studies, in which contextual factors are touched primarily in analyses of culture-based parental conflicts and government intervention. Some exceptions can be found particularly in the research on technology transfer via joint ventures. Then the typically developing or transitionary context is given more attention. In all, the profit-centre approaches do best in emphasizing the dependence of the subsidiaries on their relationships to other actors although the relationships in the internal corporate network are mostly discussed.

The emphasis on the parent relationships can be seen to be justified because the joint venture is inevitably influenced by the motivations, decisions and strategies of its founders. Through its relationships with the parents it also becomes affected by the wider network embeddedness of the parent companies. Still, what the present study wants to stress is that the relationship between the parents and the embeddedness of the joint venture as a daughter company in this parental network should not receive the major interest. To be able to understand the development of the joint venture the relationships to the parents as well as to the other actors should be looked at from the viewpoint of the joint venture itself.

The research on individuals and their actions is very limited. Entry-mode researchers analyse the factors influencing managerial decisions but do not cover the decision-making process.

In interfirm cooperation research especially Ring and Van de Ven (1994) have emphasized the interpersonal level of analysis. Parkhe (1993) concludes that the research needs to move to analysis of four "core concepts" of joint venture management: Trust, reciprocity, opportunism and forbearance. These are all based on the capabilities, behaviour and actions of individuals. But further research is very limited. In profit-centre research individual actions receive attention mainly in centres of excellence studies, because the knowledge transfers from subsidiaries to the MNC network are of primary interest.

Overall, if we consider the context dependence and social embeddedness of the joint venture itself as the most important issues in its development the theoretical approaches mostly used in international joint venture research seem not to be the most appropriate ones. These issues are emphasized especially in the network approaches to business relationships, which, however, have seldom been used to study international joint ventures. Therefore, the usefulness of the network approach and its concepts in an attempt to contribute to the knowledge of the long-term development of international joint ventures and their business is discussed in the following chapter.

3. NETWORK APPROACHES TO BUSINESS RELATIONSHIPS

In research on organizations and business, the network as a metaphor and research tool became in the 1980s and 1990s such a fashionable one that there can be found many different network approaches in a variety of research areas (see e.g. Easton 1992; Powell and Smith-Doerr 1994). Two of them, the markets-as-networks approach and the social network approach in entrepreneurship, have been chosen as the conceptual bases of the present study. Both view networks as a kind of organizing logic, a way of governing relations among economic actors (Powell and Smith-Doerr 1994:368). The approaches are discussed in further detail below. However, let's begin with some basic features, which are seen to describe the network perspective on organizations in general.

3.1 Cornerstones of the network approaches

Sociologists and anthropologists have long studied the linkages between individuals and how the relationship networks aid in actions and provide order and meaning in social life (Powell and Smith-Doerr 1994). In business literature networks are quite a new area of scientific inquiry. Yet, during the last couple of decades they have attracted growing interest spreading from studies on interpersonal and inter-group relationships in sociology (e.g. Granovetter 1973; Cook and Emerson 1978) to applications in entrepreneurship (e.g. Birley 1985; Johannisson 1987) and from distribution, industrial structural change and internationalization studies (see examples in Johanson and Mattsson 1994) to industrial marketing and purchasing research (e.g. Håkansson and Snehota 1989; Ford 1997). The growing scholarly interest in dyadic cooperation and more complex network arrangements can be seen to be a result of increasing use of cooperative interfirm arrangements in business life. For example, the International Marketing and Purchasing (IMP) Group developed the markets-as-networks approach based on an empirical inquiry into the behaviour of industrial buyers and sellers and their use of relationships.

The roots of the network approaches that aim at understanding business relationships, are primarily found in organization theory, social exchange theory, sociology and social psychology (Johanson and Mattsson 1994; Mønsted 1995; Håkansson and Snehota 2000). *All organizations are seen as social networks of recurring relationships* whether analysed at the level of small or large groups, entire organizations, regions or even the world system (Nohria 1992:4-5). Because of the overall social character of networks the informal relationships, based e.g. on friendship, advice or conversational relationships, are of great

importance and the interplay between formal and informal structures is of interest for understanding organizations (Powell and Smith-Doerr 1994:369).

Fundamentally network research can be seen to belong among the approaches that were developed to emphasize the influence of the environment on the internal development of firms and the dependence of organizations on scarce resources in the environment. However, in contrast to the faceless environment of the early organization theorists, the network researchers began to *characterize the environment as a field of relationships* with suppliers, customers, regulatory agencies, competitors and other actors with whom an organization has to do business (Nohria 1992:6; Powell and Smith-Doerr 1994:369). The basic assumption is that the character of a certain social unit is possible to define and understand only in terms of its exchange relations with other social units (Arndt 1983; Jarillo 1988). Thus, it is seen as insufficient to explain e.g. the strategic behaviour of firms without paying explicit attention to the network of relationships among them (Nohria 1992:11). Interest should be focused as much on the interaction between different actors as on what happens within the actors. That way the precise sources of environmental uncertainty, resource dependence and institutional pressures can be located.

Every firm is seen as a part of a wider economic organization, a network, whose members are connected by exchanges over time. Therefore, *the actions of actors in organizations can be best explained in terms of their position in the relationship networks* (Nohria 1992:6; Powell and Smith-Doerr 1994:369). Thorelli (1986) even considered it possible to generally view a network as consisting of positions and links manifested by interaction between these positions. The notion of importance of position has primarily led to research on structural characteristics of networks in which e.g. cohesion and range of networks have been measured. What is important is that not only the direct linkages but also the indirect ones can have an impact on organizational developments. The location of the actor in the network is important because it both empowers and constrains the actions of the actors.

Also the actions to influence and change the network position are important. *Besides constraining the actions the networks are constantly shaped by the actions.* The networks are socially constructed by active purposeful actors who establish, develop and end relationships. This makes networks as much processes as structures. The dynamism has been seen as inherent in the concept of network (Thorelli 1986:445): *"We use network concept to connote a special type of system, one whose internal interdependencies generally change over time."* As Nohria (1992:1) notes, the concept of networking has especially alerted individuals to the importance of being active in building relationships that

they can use to their advantage. From the strategic viewpoint the major issue in networking is that it allows firms to specialize in the components of the value chain in which they have competitive advantage (Szarka 1990). They can abandon and farm out those activities in which they are disadvantaged to network partners, who have strengths in the relinquished areas.

Nohria (1992:8) saw the network approaches methodologically to push for *comparisons of organizations in terms of the overall structure of the relationship networks*. Yet, networks are as much processes as they are structures (Easton 1992). What has interested especially the industrial and entrepreneurial network researchers is dynamic, process-oriented, field-based research (cf. needed research in Powell and Smith-Doerr 1994) looking both at the contents and processes in networks of relationships (Möller and Halinen 1997). It can generate insight, for example, into how network ties are created, how they are maintained, what resources flow across these linkages and with what consequences. In general a major strength of network approach has been seen in its ability to provide a holistic view of business relationships (Thorelli 1986).

3.2 Industrial and entrepreneurial network approaches in business research

The markets-as-networks approach of industrial markets has been chosen as the basic conceptual lens of the present study. Yet, industrial network researchers have been primarily interested in relationships between organizations giving the interpersonal interactions and actions of managers less attention. Therefore, it is seen as important to complement the markets-as-networks approach with some research findings on the entrepreneurial networks. In entrepreneurial networks the individuals (the entrepreneurs) are primarily used as the actors, and their intentions and actions are emphasized.

3.2.1 Marketing and purchasing networks of industrial firms

A wide basis for studying relationships between firms is laid by the industrial marketing researchers (see e.g. Håkansson 1982; 1985; Ford 1997) who since the 1970s have studied the relationships between industrial sellers and buyers in international markets. In industrial markets the major uncertainties concern dependence on other actors in the market at least to obtain resources, create markets and keep up with pace with the accelerating speed of technological development. Simple market transactions seem not effective enough for handling the dependence on other actors, but a more feasible solution is seen to be the

establishment of long-term linkages to other firms in the value chain. Powell and Smith-Doerr (1994:370) summarized the basic finding of IMP-research by stating that the industrial firms appear to establish long-term relationships and invest in connections with other companies and to pool resources and information thus blurring even their identities.

Håkansson and Snehota (2000) have summed up the IMP-research in two generally accepted basic assumptions of the nature and functioning of industrial markets. The first is mostly based on the first IMP-project (see Håkansson 1982), whose major conceptual outcome was the interaction model of buyer-seller relationships. The second proposition is based on the results of the second IMP-project (see e.g. Axelsson and Easton 1992), which moved from analysis of dyadic interaction processes to a network-level of analysis. The two IMP-projects have been seen to present different research approaches to interorganizational marketing exchange (Möller 1994) but here they are seen as parts of the markets-as-networks approach. For the present study the interaction model provides tools for analysis of the dynamics in the contents and processes of the relationship formation, maintenance and termination of an international joint venture. The network-level of analysis, in turn, makes it possible to take into account the embeddedness of the joint venture in a network of relationships and the influence of the interdependencies between the various actors on the focal net and managerial behaviour. Studying networks at both overall system level and relationship level has been emphasized by Easton (1992:3): "*The focus of research is, ultimately, the network and not the firm or the individual relationship, although firms and relationships must be studied if networks are to be understood.*"

The first basic assumption of the IMP-approach is that *between organizational units exist relationships that are organized patterns of interaction and interdependence* (Håkansson 1982; Johanson and Mattsson 1987; Håkansson and Snehota 2000). The core of a relationship is the interaction process through which the tasks of exchange are carried out (Möller and Wilson 1995). The interactions start with short-term episodes of exchanges with business, social or informational content between the firms. As a result of an organization's exchange processes with other actors, relationships develop that link the resources and activities of one party with those of another. When connecting the resources and activities the organizations become interdependent, something that is further strengthened by adaptation processes. The dynamic day-to-day interactions form the basis of relationships of a more long-term and stable nature. The relationships are characterized by mutual orientation and dependence, which are the basis for the existence of a cooperative relationship.

As a result of interactions the relationships are also characterized by bonds of various kinds and strengths. They can be based e.g. on economic, technical, legal, social or informational considerations. The economic bonds consist of the economic consequences and economic logic of interaction. Business relationships are, of course, primarily developed for certain economic advantages. However, the relationships are costly to both develop and maintain as well as to break, which is the other side of the coin of possible economic benefits from the interaction. From the technical point of view a relationship is a way of building together the technical resources of one company with the technical resources of its counterpart, which means the emergence of a technical bond. The social bonds are inevitable because organizational interaction is always performed by individuals. An organizational relationship is actually a complex web of interactive relations between individuals in both organizations (Håkansson and Snehota 1989). However, the social bonds are expected to grow stronger only over time when trust and commitment have been demonstrated and deserved in organizational exchanges (Easton 1992:12). Legal bonds may also exist e.g. in the form of contracts, but they are not seen as strong relationship regulators as other bonds. Finally, information is the common currency of interfirm relationships (Easton 1992:12). The bonds have an organizing effect on the web of actors, and thus on the business network as a whole (Håkansson and Snehota 1995:199).

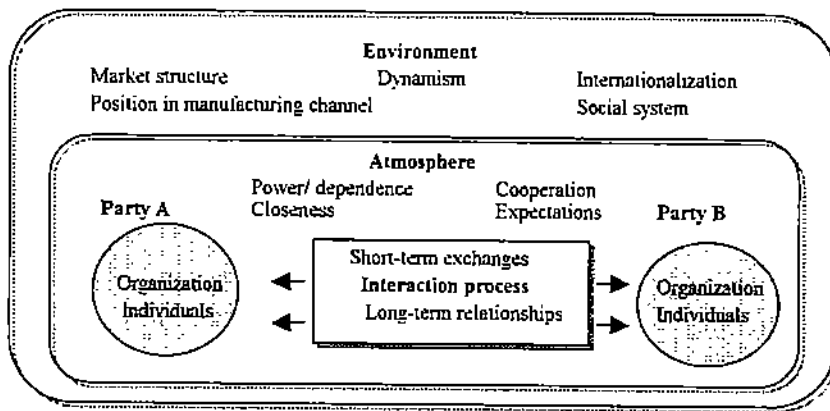


Figure 4. Main elements of the interaction model (Håkansson 1982:20).

In addition to the interaction process the interaction model is built of three other elements (Håkansson 1982): parties involved, environment and atmosphere of the interaction as illustrated in Figure 4. With respect to the parties, characteristics of both the companies and

the individuals inside them are important. Organizational structures form the framework for interaction and the technological systems influence all dimensions of the interaction process. At the individual level interaction is affected by e.g. the personalities, experience and attitudes of the persons involved. Atmosphere is a result of the interaction but, on the other hand, atmosphere also conditions the interaction. In the concept of atmosphere can be seen compacted the major social dimensions of exchange (Johannisson 1995) in terms of trust and commitment, power/dependence, conflict/cooperation, and expectations of the partners. The environment was in the interaction model described structurally in terms of the concentration and stability of buyers and sellers and the dynamism of relationships. Internationalization of markets, position in the manufacturing channel and social system in the market formed the wider environment for the interaction process.

The second IMP-project ended up by suggesting that the industries should be described as networks of interlinked actors. Business organizations were seen to often operate in environments which include only a limited number of identifiable organizational entities with which the organization has relationships (Håkansson and Snehota 1989). Thus, the second basic assumption of the markets-as-networks approach (Håkansson and Snehota 2000) is that *every business relationship is embedded into a network of relationships* with distributors, subcontractors, governments and other parties. All interactions in a dyad to some extent mirror this relational context because both are affected by the wider economic organization and also have the possibility of influencing other members of the network. Thus, all interactions are influenced by the interdependencies in the network; technological systems of products and processes and use of resources are dependent on technological connections, individuals have various roles and functions in different social structures, and the economic value of a single item depends on its relation to other items.

The embeddedness of organizations in a network of relationships makes the environment concentrated and structured, and the relationships central determinants of an organization's identity. Hence, Håkansson and Snehota (1989) saw environment not as a meaningful concept for describing what defines an organization's field of operation. They suggested context as the concept to be used when reference is made to the entities that are related to the organization. The context is enacted, created by the organization, but also constitutes the organization itself.

The concept of position has received attention within the markets-as-networks approach especially in attempts to define it. According to Johanson and Mattsson (1992) network positions describe how the individual actors in the network are related to each other in the

network structure. *Network position is the result of investments in exchange relationships and characterizes the actor's current links to the environment as well as forms the base for its future strategic actions.* The position of a firm is an important part of its network identity as it is the basis for the development possibilities and constraints of the firm (Johanson and Mattsson 1987). Also the performance of a firm is largely dependent on with whom it interacts, which makes its position important (Håkansson and Snehota 1989). Johanson and Mattsson (1992) provided a limited and an extended definition of position. At the network level the position may be characterized by the type of the exchange relationships of an actor and the identities of its counterparts in those relationships, i.e. with which actors the actor has exchange relationships. The extended definition includes, in addition to the above limited definition, the role of an actor in the production system. The role is dependent on the functions of the actor in the production system and the relative importance of the actor's resources in relation to the resources of the others.

In business relationships it is always a question of actors who perform activities and utilize resources (Håkansson and Johanson 1992). Thus, the roles of a certain relationship are related to how it links activities, relates resources and creates mutuality between autonomous business units. The actor, activity and resource networks may be seen to form their own networks, which, however, are related to each other in the general structure of the network as illustrated in Figure 5.

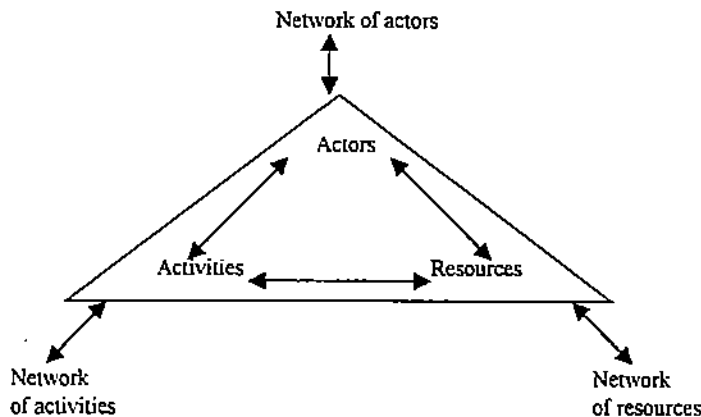


Figure 5. Structure of the model of industrial networks (Håkansson and Johanson 1992).

This industrial network, consisting of organizations as actors and production factors of activities and resources, is both an arena and a tool for the competitive struggle between

firms (Håkansson and Johanson 1988). However, the fiercest competition may occur between networks rather than within them and cooperation is characteristic of network processes (Easton 1992:22). But networks are also loosely coupled to maintain flexibility and adaptability to changing conditions. All the relationships, even if they are very well established, always retain a feeling of freedom for each party. This emphasizes inevitability of dynamism in industrial networks. Still, the relationships tend to be quite stable. Changes in a network are hard because a network is a product of its history and changes need to be accepted by many parts of the network. There is always some degree of dependence on both sides, and changing a partner always incurs some costs. As Easton (1992:24) states these process aspects make industrial networks stable but not static and evolution is the main mode of change; revolution is possible but unusual.

Methodologically the network approach has been driven by inductive discoveries and the aim has been description and explanation of the functioning of industrial markets, rather than normative managerial implications. Market processes are described as interaction within relationships and market structures as network structures. The industrial network research is very much concerned with the structure and dynamics of the network governance at the specific net or markets-as-networks level. Striving for holistic understanding and dynamism of the models have been important. (Easton 1992:6; Mattsson 1997; Möller and Halinen-Kaila 1997).

Although the markets-as-networks approach was selected as the major conceptual lens for this study, there are some deviations from the setting of this study. Most importantly the approach has been developed based on analysis of buyer-seller relationships between industrial firms from western countries. In this study the question is not only of buyer-seller relationships but the core relationships are contractually and on the basis of ownership arrangements regulated as firmer relationships. Thus, it is not a question of pure buying and selling relationships but the shareholders have made decisions to cooperate more tightly in the establishment of a jointly owned new business unit. The relationships between the joint venture and the shareholders are subsidiary-headquarter relationships and thus have different basic characteristics than the other relationships in the network, which are ruled without ownership ties. Another important difference from the IMP-research projects is the specific business context in which the organizing processes are analysed. As was pointed out earlier there is indications that the East European transition context may set different kinds of requirements for the relationship building and use than the western market economies (see further discussion in Chapter 6). Finally, the present study follows the organizing of a business network from the emergence of a new organization, the joint

venture. The organizational emergence has been seen as the area in which it is always a question of entrepreneurship (Gartner et al. 1992; Hjorth and Johannisson 1997). Specific kinds of networks and networking behaviour have been seen as characteristic of entrepreneurial processes (e.g. Larson and Starr 1993). The entrepreneurial network creation and uses are discussed next.

3.2.2 Networks in entrepreneurial processes

In the 1990s the network has been suggested as the major metaphor for entrepreneurship research due to its capability to connect the research community and the practical world (Johannisson 1995). Among the various studies of entrepreneurship, network research belongs to the research that has been interested in what entrepreneurs do and how they act (Stevenson and Jarillo 1990). The focus is on understanding and improving the practices in business start-ups, business expansion in existing firms and solving the critical phases in the life cycles of the entrepreneurial firms. In these activities networks may have important roles as they combine the social and business concerns and are able to provide support both for the person and for the firm (Johannisson et al. 1994).

What mostly differentiates entrepreneurship research on networks from industrial network research is that in the former the interdependence of social and economic, i.e. interpersonal and organizational dimensions of business networks, has been more emphasized. An approach that embraces both dimensions has been seen as needed because an emerging new venture tends to be strongly identified with the entrepreneur while the entrepreneur identifies him/herself with the venture (Szarka 1990). Many of the changes in small firms, such as access to resources, the structuring of information and the support structure seem to be closely tied to personal networks (Mønsted 1995).

When an industrial network is seen to consist of actor, activity and resource networks the entrepreneurial network has been constructed of exchange/production, communication and social/personal networks (Johannisson 1987; Szarka 1990). Johannisson (1987) maintains that the markets-as-networks approach takes into account only the first one of these networks. The exchange network is a firm level network in which take place commercial transactions that involve monetary exchanges, engender financial costs and generate income. The communication network includes the organizations and individuals who inform the business activities through official and semi-official information flows but consists of non-trading links. The social network is formed of the personal contacts with family, friends and acquaintances, and friendship between individuals is the building block of this network.

If a broader definition of social network is applied the personal network is seen to be underpinned by a broad range of cultural values and references. The communication and social networks sustain exchange networks. Although researchers have often separated the exchange networks from the other two they are, in practice, intertwined and a deep understanding of the role of networks in business processes needs analysing all.

Larson (1992) studied the development of successful entrepreneurial dyads and especially illustrated the role of social interaction and personal relationships in the development of an alliance. She noted that personal reputations, histories and individual friendships are very important factors in explaining the alliance formation. According to her study, the history of personal relations between two entrepreneurs could provide a favourable context for new economic exchange by reducing the risks of going for the possible economic gains. The entrepreneurs needed to rely on their personal reputations to initiate alliances, since their company reputations were not well established. It was also of interest to create partnerships with firms that had strong industry reputations to get product-quality benefits and to enhance their own reputations. Thus, the smallness, newness and resulting anonymity of the entrepreneurial firms made it important to the entrepreneurs to both rely on their personal reputations and legitimate their businesses through well-known partners. Showing willingness to engage in more cooperative relationship was later on needed for incremental investments. The willingness was described to be shown by e.g. "responding to their requests", "calling them virtually every day to ask 'how can I help you?' ", i.e. by actively working to build close relationships. Reciprocity, "we did and he did", was also extremely important and "doing always what had said that would do". These actions led to deepening of the personal trust, which was the basis for lack of contracts as a means of integration and control between the firms. The strategic development processes became common on the basis of "being interested in his being a successful business so that we are successful together". Achieving this required a lot of communication and close social linkages, but the result could be an economically productive relationship with commitment and respect without contracts.

Entrepreneurial networks are situated at the interface of an economic competitive perspective and a social trust perspective (Mønsted 1995). On one hand, networks are natural, necessary and inseparable parts of entrepreneurship because entrepreneurs create the images of themselves as well as enact the reality through the personal networks. On the other hand, networking can be seen to arise out of the realization that an emerging new firm lacks resources and cannot rely only on its own abilities. The former viewpoint emphasizes the social aspects of networks whereas the latter stresses the strategic, competitive aspects.

If the social side is emphasized an entrepreneur's network is a system of relationships containing information, resources and social support. The main function of the network is to aid in coping with the environmental ambiguity of a new venture. It serves to assist the sense-making processes of the entrepreneur and to incorporate others into the created setting. The network ties are relationships between individuals who interact to develop shared understanding as a basis for business exchange. The primary content of exchange is images and confirmations of them combining different concerns each time. This is because of the personal involvement of the individuals in the exchange, not only as representatives of organizations acting in a mandated role (Johannisson 1987). The ties are based on personal trust, which usually originates in mutual sympathy and confidence. The emotions and intuition are emphasized as guiding forces in the interaction. A well-structured social network forms a flexible instrument for an entrepreneur to realize his visions by activating various parts of the network when needed. (Johannisson 1995.)

If looked at from the strategic viewpoint, networks can be intentionally and purposefully used to acquire competitive advantage for a small firm. Then networks are seen as a mode of organization between markets and hierarchies which entrepreneurs use to position their firms in a stronger competitive stance (Jarillo 1988). For new ventures networks are a means of quick access to resources and know-how that cannot be produced internally (Powell and Smith-Doerr 1994:370). The ability of entrepreneurs to build contacts and develop networks is considered essential to achieve information on what is available, advice on how to proceed, reassurance of the possibilities of the business and achievement of resources to realize the venture (Birley 1985). Through systematically applying external resources to grow, the entrepreneurial firm is also able to avoid the loss of flexibility, which is connected with accumulation of resources needed for internal growth (Jarillo 1989). This networking for growth via creative use of networks instead of investing in internal hierarchies is suggested by Larson (1992) to account for the success of entrepreneurial organizations and small firms. In other words, the network of relationships can be seen as a solution to the paradox (Larson 1991) of the need to stabilize the entrepreneurial firm while also maintaining flexibility with regard to market changes.

Besides the interrelatedness of the social and economic aspects of business relationships, entrepreneurship research emphasizes the networking of individuals. Although there is a great deal of research that has concentrated on structural aspects of networks, the interest in covering the entrepreneurial processes has lead to emphasising networking behaviour. The individual-level actions for relationship building and use of relationships to realize a new venture are emphasized instead of the organizational activity and resource connections.

Still, the major issue is the ability of an individual to acquire information, resources and support to be able to create a feasible new business and to solve business-related problems.

Entrepreneurial behaviour has been seen to take place always when it is a question of organizational emergence (Gartner, Bird and Starr 1992) and whenever an opportunity that requires resources beyond the control of an individual is pursued (Stevenson and Jarillo 1990). Characteristic of entrepreneurial behaviour is personal commitment, intentional interaction and creativity (Hjorth and Johannisson 1997). Therefore, Stevenson and Jarillo (1990) saw it as typical of entrepreneurial behaviour 'to find a way' to access the needed resources. This can be seen to be primarily connected to 'acting-as-if' behaviour (Gartner et al. 1992) and social contracting (Starr and MacMillan 1990). In both it is a question of individuals who in the organizing of new ventures use the resources controlled by their friends or acquaintances to make it look as if they had an existing, well-established business.

Emerging organizations are thoroughly equivocal realities and the aim of entrepreneurial action is to manage the ambiguities towards non-equivocality (Gartner et al 1992). Because the entrepreneurs intentionally bring their relationships to the enactment process of the venture (Hjorth and Johannisson 1997) they are able to 'act as if' the equivocal events were not equivocal. By enacting the realities through dialogue with others they are capable of suggesting to the stakeholders that specific outcomes will occur from the organizing process (Gartner et al. 1992). Thus, they create motivation on the part of the stakeholders to invest in the venture, although the outcome can only be assumed. This way they get support from others to get the process going and to organize the production factors.

To find a way through social contracting (Starr and MacMillan 1990), in turn, means social transactions between individuals based on feelings of future personal obligations, trust and gratitude. Contrary to more rational economic transactions the agreements about social ones are rarely explicit and seldom include clear prices or payments in money. Despite the vague value of social transactions they are considered extremely significant means for an entrepreneur to achieve asset parsimony, i.e. deploying minimum assets to achieve the desired results at minimum cost. Thus, entrepreneurs mobilize both informal, loosely structured networks of organizational members and previous work relationships, voluntary connections, community ties and others to be able to start new ventures. For example legitimacy is often difficult to achieve for a new venture as it lacks a track record to which to refer. To solve this problem an entrepreneur may co-opt the legitimacy by association with its social network or by securing endorsement from certain influential people. For the co-optations the entrepreneur needs to have social assets. Social assets are sets of

obligations, expectations, mutually developed norms and sanctions that are created in social interaction (cf. the definition of social capital e.g. in Coleman 1990:300–313). They typically exist in forms of friendship, liking, gratitude and trust. Strategies for building the assets include sharing information, giving and receiving favours and help in problematic situations and creating opportunities for people to demonstrate their skills. Utilization of social capital may also require nurturing several networks and leveraging also the relationships of the relationships for use.

3.3 Defining the unit of analysis

The opportunities offered by the network idea for different viewpoints and focuses have made the concept of network somewhat vague, largely dependent on its application and hard to define unambiguously. Also the nature of networks as an abstract phenomenon, not concrete and visible, makes especially an operational definition of the concept complex. However, to be able to study networks the research object has to be defined and some boundaries need to be established. This presupposes above all determining the units of analysis. Below are presented various types of networks and some dimensions of them that have been seen to be of interest by previous network researchers. The discussion is meant to illustrate the variety of possible research objects and the structural characteristics of networks, which may be used to concretize the phenomenon and set boundaries for the network in order to conduct empirical analysis. The aspects chosen to be covered in the research greatly influence the choices of data collection and analysis methods.

Some studies have concentrated on dyads in a network whereas others have endeavoured to find out all relationships of all members in a network. In the industrial network approach a distinction has also been made between actor, resource and activity networks. As mentioned above, networks have also been treated in prior research both as ties between firms and as ties between individuals. Actually, these dimensions can be seen as parallel aspects of business networks, which involve two different units of analysis in network research (Szarka 1990). In the present study both units of analysis are used. The critical incidents in the international joint venture's development are defined through following the changes in its organizational focal net (see conceptual discussion p. 48). Yet, the relationships are seen to have different characteristics depending on the type of the interpersonal relationships between the managers in the companies and on their behaviour in the relationships. The present study concerns the actor network and uses the focal net as the unit of analysis, whose changes are followed over time. These concepts are discussed below.

3.3.1 Actor network

Commonly networks have been considered as sets or organized systems of relationships and network ties as sediments of exchange processes and transactions evolving over time (Szarka 1990; Johannisson 1995). These systems can also be seen to consist of certain pattern of actors, activities and resources (Håkansson 1985). All the three elements can be seen to form their own networks but they are also related to each other in the general structure of the network and defined in relation to each other. Actors perform activities and control resources within a certain field. The role of an actor in a network is defined according to which activities the actor performs or controls, which resources the actor controls and what kind of knowledge it has about the network. By activities are meant the transformation and transaction processes in which resources are combined, developed, exchanged or created by the use of other resources. Transformation activities are performed by one actor whereas transaction activities are those that link transformation activities forming chains of activities and creating relationships with other actors. Together the two kinds of activities form cycles of interdependent, repetitive activities. Also resource networks include both transformation and transaction resources consisting of physical, financial and human assets. The types of resources are mutually dependent because the use and value of transformation resources depend on their connections to transaction ones and visa versa. (For details see Håkansson 1985; Håkansson and Johanson 1992.)

Håkansson and Johanson (1993b: 35) differentiated social networks from industrial networks, especially based on this triadic structure of industrial networks in contrast to the actor- and social-exchange-dominated social networks. In the present study the primary interest is in the actor network and exchange relationships between individuals, which justifies the inclusion of the social-network-based entrepreneurship research in the conceptual basis of the study. However, resources and activities are the main reasons for actor networks in business markets and thus can't be left without consideration. Activities and resources also influence the type and functions of relationships and the roles of the actors. Thus, they can be seen as the basis of the embeddedness of business actors.

Actors can be individuals, groups, company divisions, entire companies or groups of companies. Actors develop relationships to each other through exchange processes because no organization is totally self-contained with respect to its resources and organizational activities. The industrial actors share some basic properties (Håkansson and Johanson 1993a). First, they control resources/activities. Second, they are purposeful in their action, and they act in order to make economic gain. Third, they have bounded knowledge and are

aware of this. Therefore, much of their action is related to gaining knowledge. An actor engages in networking when it uses its experience, knowledge and relationships to achieve economic gain, to improve its position and to increase control of the network.

The industrial actors have mainly been studied as organizations. The net of an international joint venture is also in the present study seen as constructed of various organizations with which it has business-related relationships. However, the managers are seen as the real actors in the change processes influencing the net. Therefore, the actors, whose behaviour is followed, are the joint venture managers. In the initial phases the establishment team members are actually acting for the sake of the emergence of the joint venture and their actions are important for the early organizing of the business network. After the joint venture becomes officially established the managers appointed to the positions in the joint venture are seen as the primary actors in the organizing.

3.3.2 Focal net

In the attempts to define the relationships selected for study, concepts of organization-set, action-set and network have been defined and suggested for use in analysis of different kinds of network structures (Aldrich and Whetten 1981). An organization-set consists of the organizations, usually suppliers, customers, distributors, unions and trade associations that the focal organization has direct relations with. To denote this kind of a relationship network, it has also been referred to as a transaction set (e.g. Zhao and Aram 1995). An organization-set is explicitly centred on a single focal organization and often the analysis has been made through looking at pair-wise interactions of the focal organization with others (Aldrich and Whetten 1981:386). In the analysis of organization-sets the network is viewed from inside taking the perspective of an individual member and therefore it can also be called an egocentric network (see Szarka 1990:15; Mønsted 1993:195,197). The network consists of linkages, which are access routes to other network members.

An alternative research perspective (Halinen and Törnroos 1998) is the dyad-network where a core dyad is examined as a part of a wider industrial network (e.g. Anderson, Håkansson and Johanson 1994). The dyadic perspective can be motivated by the argument that actors perceive their embeddedness in various networks in terms of their interaction with specific partners. Each actor's network is expected to include an actor who is considered as the most important counterpart at that moment. A dyad is also a natural starting point for network research as it represents a concrete level of business exchange.

An action-set is a temporal coalition consisting of a group of organizations that have formed an alliance for a certain period to achieve some limited purpose through collective action (Aldrich and Whetten 1981:387). The object of analysis is the purposeful behaviour of the entire aggregate of the organizations. For example, some project operations and cooperative arrangements between organizations to fulfil a specific task in a predetermined time frame could be seen to be conducted by action-sets. A similar construct is the micronet, which Halinen and Törnroos (1998:193) defined as consisting of several identifiable business actors that form a distinct business activity. This micronet, e.g. a triad, they then set in the context of macronet, which may be formed of the national and/or institutional business or non-business actors. The macronet is constituted of the actors who have a strong influence on the micronet and its activities. The micronet-macronet viewpoint can be seen to mix the concepts of action-set and network to the extent that the network as a whole is possible to study.

According to Aldrich and Whetten (1981:387) it is a question of a network when what is concerned is the totality of all the units that are connected by a certain type of relationship regardless of membership in organization- or action-sets. In practice the network is always a construct of the researcher who needs to draw some boundary-lines to be able to analyse interorganizational relationships. An attempt towards defining the network boundaries is, for example, the concept of innovation community (see e.g. Zhao and Aram 1995:356). It serves for studying both exchange and non-exchange relationships by setting as the requirement for network membership the ability to significantly influence the focal actor. In studies on whole networks the aim is usually to look at the pattern of contacts that can be observed outside it, like a spider's web (Mønsted 1993:195,197). This kind of socio-centric viewpoint has led to research which focuses mainly on the structures and shape of the network's dominating relationships. The problem with this viewpoint is its inability to uncover the multiple contents or purposes of the network and also to respect the dynamics of network structures, which change as a result of new contacts and challenges.

Of the above-presented concepts organization-set and egocentric network are the closest to the focal-net concept chosen to be used in the present study. All of them adopt a positional approach to the network when constructing it from the viewpoint of a single organization, the focal actor. They can be seen as bridging concepts between focusing entirely on a company and the dyadic interaction or on the environment and the totality of the network (Salmi 1995:16). However, when the organization-set includes only the direct linkages of the focal actor the focal net takes into account also indirect linkages to the extent that the managers in the focal organization perceive them to influence the business. This

identification of the relationships and organizations by the individuals in the focal firm is what differentiates the focal net from the total network. Thus, the focal net can also be seen to define the set of most important relationships for the focal firm at any point in time (Cunningham and Culligan 1988). The difference between the focal net and the total network concepts is illustrated in Figure 6.

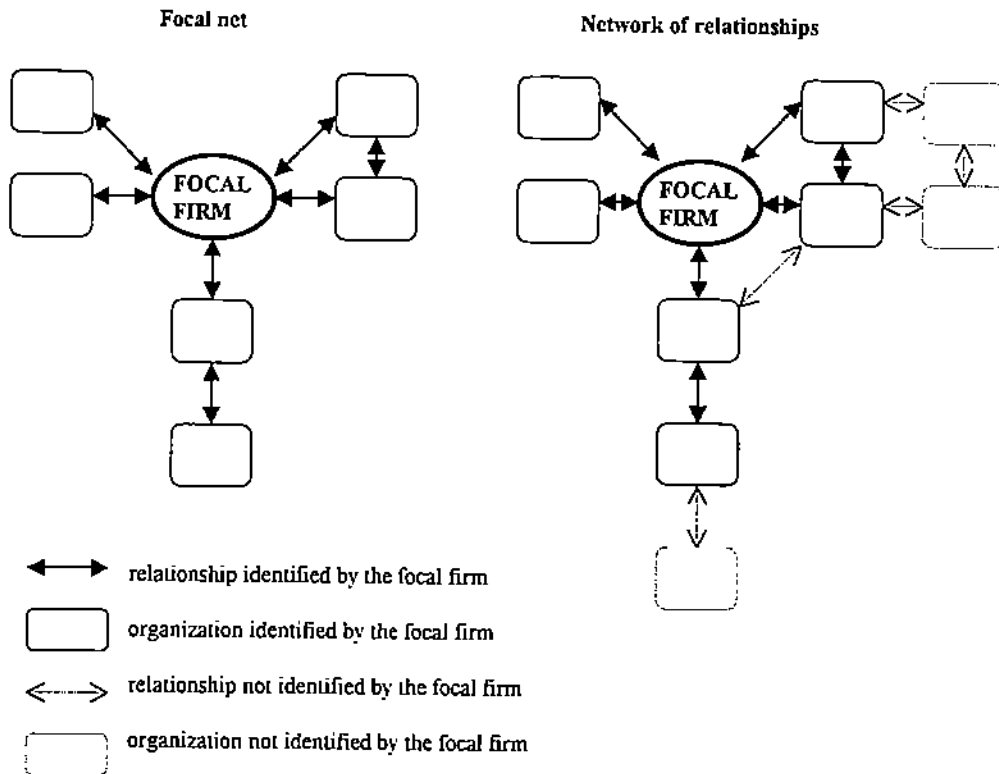


Figure 6. Focal net and network of relationships as different units of analysis in network research (Salmi 1995:47).

Also Halinen et al. (1999:780) note that the network perceived by the individual company is the most relevant to forming the context for its business operations. Törnroos and Halinen (1998:191–193) named this research perspective the actor-network perspective. A business network is viewed from the viewpoint of one actor, a company or an individual (or both). Especially case studies with personal interviews highlight the actor's view. The emphasis is laid on personal dispositions and characteristics because individuals are the organizers and

change agents of the network as well as parts of it. Salmi (1995:44) notes that companies seem to be able to identify not only their relationships with direct counterparts but also the relationships that those in turn have. The perception of managers is important when the company is seen as an active player in an environment and the managers are seen to make strategic choices when handling the company's dependence on the environment. Moreover, the environment is a result of the enactment of individuals (Weick 1979); their perceptions define their business-related actions. This makes it important to let the managers define the network boundaries.

In sum, in the present study the organizational focal net is one unit of analysis. Through definition of the organizations and the relationships that the managers perceive as having influence on their business making the changing network structures are covered over time. However, the study emphasizes the role of individuals, here managers, as actors and thus takes the interpersonal interaction as the second unit of analysis. The organizational relationships are seen to differ on the basis of what kind of interpersonal relationships they consist of and how the managers act in the relationships. This makes some relationships stronger and some weaker in comparison with others.

3.4 The network approach in international joint venture research

As was stated in the previous chapters the research on international joint ventures seems to especially fail to provide insight into and explain the context-dependent and socially-driven development of international joint ventures. The previous research on international joint ventures, in general, has concentrated on the parent relationship and its influence on the development of the international joint venture. This has resulted in lack of knowledge of the actual organizing of the IJV's business.

For studying the organizing and the long-term development of international joint ventures, the network approach can be seen as especially relevant for several reasons. First of all, joint venture is already by definition a small network as it is a sum of contributions of at least two independent organizations in a separate organizational entity. These organizations form a very small network, a triad, already in the initiation. This is a specific type of net, in which legal bonds and long-term cooperative goals play a decisive role. The interaction model by the IMP Group provides the means to go deeply in to the characteristics and processes of these key relationships.

Second, international joint ventures are said to be inherently unstable business units (e.g. Inkpen and Beamish 1997) because of the multi-parent situation and the intercultural interactions required in the operations and organizing of the activities of the joint ventures. The network structures are expected to be stable but not static: they will constantly change in response to changes external and internal to the network (Easton 1992). These forces are mediated to the organizations through their relationships and interactions with other actors. Andersson (1997) notes that embeddedness is especially an approach that avoids atomization of actors. It is seen as a useful concept for studying the context dependence of international joint ventures.

To stabilize the venture and its operations the managers rely on relationship development, i.e. on networking, although the interactions in relationships tend to simultaneously lead to changes in the network. The instability of the international joint ventures is likely to share the equivocality of entrepreneurial new ventures. Like the networking of entrepreneurs, the networking of the joint venture managers may especially in the early phases of the joint venture's development be based on acting-as-if behaviour and social contracting. Networking is another primary concept of the present study.

The social, interpersonal interaction is more and more emphasized as a critical success factor in joint venture relationships (e.g. Spekman et al. 1998; Cullen, Johnson and Sakano 2000). The social side of business relationships has in the markets-as-networks approach achieved attention already in the early interaction model (Håkansson 1982). Interpersonal contacts are seen, for example, to perform vital roles in problem solving, in exchange of social values and information, and in demonstrating commitment and credibility. Thus, all networks have a social dimension characterized by patterns of social contacts between individuals in the organizations. Deeper understanding of the social side of organizing international joint ventures can, it is here suggested, be achieved by acknowledging the viewpoint of entrepreneurship, which emphasizes the actions of the individuals. The research on entrepreneurial processes emphasizes both the strong, personal relationships for social support to the founders of new ventures and strategic use of relationships for resource cooptation, legitimacy and achievement of competitive advantage.

In the case of an equity joint venture, in which a new business unit is established, the knowledge of its development can be suggested to be best reached by looking at everything from the joint-venture viewpoint. The focal-net viewpoint of the relationship networks offers the possibility of setting any chosen organization in the centre of the network and looking at the others from its viewpoint. The focal net consists of the relationships

perceived as relevant by the persons representing the focal firm and emphasizes the individuals as the organizers and change agents in the network. In compliance with the focal net approach the present study concentrates on actor relationships at both organizational and individual levels of analysis. Although the focus of the present study is on the managers and their relationships with each other, these social relationships as such are not, of course, the desired ends in a business network. Of primary interest is how the social relationships can be used to exchange resources, acquire and transfer information and coordinate activities between the actors in order to organize the business of the focal firm.

In sum, in the present study it is suggested that to understand the organizing of international joint ventures over time the international joint venture research needs to develop towards new avenues. The parent-focus should give room for the viewpoint of the joint venture itself and for the analysis of wider relationship networks. The basic assumptions and conceptual developments of the markets-as-networks approach provide a good basis for that. In network approach is emphasized the basic idea that every actor is embedded in a network of other actors and the identity and position of an actor is created in interaction with its various counterparts. All interactions in a dyad are influenced by various interdependencies in the network, which a firm aims at influencing through networking. Networking, in turn, can be seen as the basic cause of network dynamics. With respect to networking the analyses of individual-level actions should balance the organizational emphasis. In this the research on entrepreneurial networking complements the organizational-action-centred markets-as-networks approach.

4. ORGANIZING BUSINESS NETWORKS: DYNAMICS AND EMBEDDEDNESS

Networks have been approached from many different viewpoints in prior research. They may, for example, be seen as relationships, structures, positions or processes (Easton 1992). In the present study the interest is in the connectedness of international joint ventures in networks of relationships and in the dynamics of these networks. Therefore, with respect to the classification by Easton, networks are looked on especially as relationships and processes. However, the changes in the structures and positions in the focal net are also defined as the points of departure for the analysis of the underlying processes and varying relationship characteristics. In this chapter, the organizing of business networks is analysed through the concepts of embeddedness, which depicts the changes in the types and roles of relationships, and of networking, which focuses on the actions of individuals in relationship building and utilization. As the present study is about dynamics in the networks, it is begun with a discussion of stability and change in business networks.

4.1 Stability and change in networks

Network structures are expected to be stable but not static: they will constantly change in response to changes external and internal to the network (Johanson and Mattsson 1989; Easton 1992:23). However, change in some part of a network seems to require stability in other parts or other areas of activity (Håkansson and Johanson 1992). To stabilize the business unit and its operations the development of the relationships with other actors in the market is relied on. Simultaneously the interaction processes in the relationships lead to incessant change in the network (Håkansson and Snehota 1995:10). Relationships and interactions make change and stability intertwined in the dynamics of business networks. Anderson and her colleagues (1998) suggested that this intertwined nature of stability and change is illustrated in the interplay between the position and the role of an actor in the network. Position characterizes especially the structure of the network. The role is what the focal actor does in a relationship with other actors. Change in position is caused by the actions of an actor.

The changes may originate from inside the focal organization, from a dyadic relationship or the environment perceived as relevant by the focal actor. Melin (1989:166) defined the change forces as the "basic reasons behind change in the industrial field". The internal forces he saw as related to intraorganizational enactment of reality. The strategic forces are related to interactions inside the network of relationships whereas the external forces

emerge outside the network of interacting companies. Halinen, Salmi and Havila (1999) differentiated between incremental change and radical change. The former involves change in the nature and content of a single relationship. Behind it are actually forces that maintain stability, manifested in inertia, i.e. the tendency to maintain the deep structure of the network. They include e.g. technical and resource interdependencies, industrial logic, high switching costs and risk-reducing strategies as well as various institutional rules for correct network behaviour. The radical change, in turn, is caused by critical incidents that create changes leading to the dissolving of relationships or the building of new relationships. The final definition of what is a critical event is dependent on the interpretations of the business actors. It may arise from a dyad including e.g. impact of personnel changes, shifts in organizational structure or changes in a company's business, marketing or purchasing strategies as well as acquisitions, bankruptcies or partner-switching. A critical event may also arise from the wider business environment and then include, e.g., changes in technology, industrial structure or economic recession. However, the environmental forces do not have a general impact on networks but their effects are transmitted within the network through individual relationships. Incremental and radical change can lead to either confined or connected change. The confined change remains within a dyad whereas the connected change means that a change in one relationship is received and acted upon by other actors in the network.

Firms aim at stable business networks especially because of the economic and technical interdependencies between the firms. However, there exist many kinds of change forces creating change either in the character or number of relationships. How a change force influences the network can be seen as closely related to interpersonal relationships. The stability of interfirm networks and their persistence partly depend on the existence and type of social networks (Easton and Araujo 1994:75). Early on, Granovetter (1973) noted that especially the strong ties, e.g. between kin, friends and close workmates, seem to stabilize networks. Weak ties, between those less frequently in contact, in turn, seem to stimulate change when adding new information to the interaction between the actors.

Also the change in business networks is related to the behaviour of individuals because change often originates from the networking process (Halinen and Törnroos 1998). The networking process means connecting actor bonds, activity links and resource ties in the relationship building by the individuals in the interacting firms. Johanson and Mattsson (1987) and Easton and Araujo (1994) justified networking activities economically through the concept of investment. In networking investments are made through which resources are committed in order to acquire and build up other resources, which can be used in the

future. In the investment processes relationships may also be used as resources to create other resources, product adaptations, new ways of doing things or access to third parties. The investment processes are not random but take effect over a period of time and are path-dependent (Easton and Araujo 1994:77). Also investments intertwine stability and change in networks because an organization is rarely willing to commit resources in a relationship without a prospect of a continuing relationship (Easton and Araujo 1994:78). This means a need for relationship-specific trust related to strong ties, which cannot be compensated no matter how tight the contracts are.

The formation of close and long-lasting relationships between the organizations in the industrial markets, the striving for stability, is empirically well validated (Easton and Araujo 1994). Also, it has long been known that networks are influenced by various change forces, which cause change both in the nature and number of the business relationships. Industrial networks are also known to consist of exchange relationships between identifiable, intentionally behaving actors in the markets (Håkansson and Snehota 1989). This makes the dynamics of networks both dependent on the history of the relationships and the future expectations of the interacting parties, and on the social context of the interaction (Grabher 1993:4–5; Easton and Araujo 1994). The contextual dependence and the social side of business relationships are discussed through the concept of embeddedness. Networking, in turn, brings to the fore the intentionally behaving actors and the role of managerial actions in network changes.

4.2 Embeddedness of firms in networks of relationships

Relationship building is a prerequisite for a firm that wants to get established in a new market (Johanson and Mattsson 1987). This way it becomes embedded in its context. Andersson (1997, 2001) emphasized that embeddedness is an approach that avoids atomization of actors by studying the characteristics of networks and relationships between the actors. Halinen and Törnroos (1998) saw embeddedness as an explanation of change and development in business networks.

As was stated earlier in section 1.5 embeddedness research can be divided depending on whether it has been more interested in structural or in relational aspects. Structural embeddedness describes the totality of the relationships in a network and looks at the overall network structure (Nahapiet and Ghoshal 1998; Anderson 2001). The primary intention is to define the positions of various actors in terms of the number of relationships

they have with other actors in the network and in terms of how connected the other network actors are to each other. According to Burt's (1992) theory of structural holes, the best position in the network has the actor which connects two or more nets that are not connected through any other relationships. This actor has more power in its relationships because of its access to nonredundant information and new opportunities based on its interaction with actors in different kinds of networks. As interesting characteristics of network positions have also been mentioned, for example, reachability and centrality (Aldrich and Zimmer 1986:13–14). Reachability deals with the existence of a path between two particular actors. The total distance from the focal actor and the number of actors the focal actor can reach define the centrality. Those actors who can easily reach many different parts and are centrally situated have the capability to serve as communication channels, to act in broker roles connecting distant parties or to provide role models and direct the behaviour of others. Centrality is also closely connected with power and influence because the central person will be able to control communication and exchanges in the network (Mønsted 1995:203). A recent example of structural embeddedness analysis is the study by Gnyawali and Madhavan (2001). They related the structure of the network to the flows of assets, information and status among the network members.

However, the present study takes a positional perspective of the networks, analysing a specific focal net. It focuses on relational embeddedness, meaning that in the focal net the characteristics of the relationships and their roles, not the existence of the relationships as such, are seen to be of importance for the organizing of the joint venture and its business. This leads to a discussion of the characteristics and roles of strong and weak ties initially based on Granovetter's (1973) arguments. Relational embeddedness as such can be seen to describe the social, interpersonal side of business relationships. Granovetter (1985:490) stated that the economic action is always embedded in concrete personal relations between individuals. Similarly, e.g. Håkansson and Snehota (1989, 1995:10) have emphasized that business relationships are generally built up as a social exchange process in which individuals become committed beyond the strictly task content. The individuals tend to weave a web of personal relationships, which appear to be a condition for the development of interorganizational relationships. Also Araujo et al. (1998) and Salmi (2000) connected embeddedness with the role of individuals and social relationships in the economic exchange. Nahapiet and Ghoshal (1998) defined the relational embeddedness as the kind of personal relationships people have developed in interaction.

Halinen and Törnroos (1998) provided a wider definition of embeddedness and emphasized that firms are embedded in many separate networks and in the wider industrial settings

involving market, technological, political, social, spatial and temporal embeddedness. The temporal embeddedness is seen in the influence of the history, the present and the future expectations of the actions of the managers in a relationship. This temporal embeddedness is seen in the present study as the developments in the network are analysed along a twelve-year period in time. With respect to the spatial embeddedness the national and international levels are important to a joint venture that is international in nature but aims primarily to serve the national market. The spatial embeddedness together with the political/institutional embeddedness can be seen to emphasize the overall characteristics of the external environment too (see Fletcher and Barrett 2001). In the present study this general environment is analysed at the level of the transition markets in Chapter 6.

However, in the present study the focus is on the technological, market, political and social embeddedness (Halinen and Törnroos 1998) of the joint venture. The embeddedness of business firms in the first three networks can be seen to vary with respect to the contents of the exchange and roles of the relationships in the business activities of the focal firm leading to different kinds of dependence relations. The social embeddedness is created through the individuals who actually interact in the business relationships and create their own contact networks. Here it is of primary interest to look at how the business relationships are mixed up with the social ones (Granovetter 1985:495). For this purpose, embeddedness is divided into two interrelated dimensions. The first dimension, relationships in networks, consists of the organizations with which the focal firm interacts in its business activities, and the character of the relationships between the individuals representing the organizations. The second dimension, dependence, depicts the contents of the interactions and to that related roles of relationships from the viewpoint of the focal firm.

4.2.1 Characteristics of relationships

In the markets-as-networks approach relationships are usually discussed at the organizational level. The major actor groups to which a firm is expected to establish relationships in new markets are usually considered to be the subcontractors and other suppliers in the input sector, distributors and customers in the output sector, competitors, and e.g. government agencies and trade associations in the regulatory sector (Achrol, Reve and Stern 1983; Johanson and Mattsson 1987). Still, it is to be noted that the economic exchange is rarely able to rid itself of the non-economic exchange baggage, such as social exchange, kinship and friendship networks, altruism and gift giving (Easton and Araujo 1994). The informal character of interaction is an important feature of relationship development (Johanson and Johanson 1999:49). How a firm can utilize its relationships in

business depends on their characteristics, which make some relationships more appropriate for certain purposes than others. For example, old relationships are expected to be more suitable for acquiring subtle information and are often used for multiple purposes whereas newer ties are commonly tied to one specific role. Some relationships are purely instrumental whereas others include strong emotional obligations and are supported by trust. These kinds of dichotomies are presented in Table 1 for illustration. (For further details see Mønsted 1995:197–201).

Table 1. Dichotomies of the personal relationships in dyads (Mønsted 1995:197).

Formal	vs.	Informal
Universalistic	vs.	Particularistic
New	vs.	Old
Commercial	vs.	Technical
Professional	vs.	Personal
Instrumental	vs.	Expressive/affectionate
Directed	vs.	Reciprocal
Complementary	vs.	Homogeneous
Weak tie	vs.	Strong tie
Negative loaded	vs.	Positive loaded

The present study picks up the strong vs. weak tie characterization, which can be seen to encompass also some others of the above characteristics. Granovetter (1973) saw the strength of a tie in interpersonal networks to depend on the amount of time spent on it, on the emotional intensity, intimacy and the reciprocal services characterizing the tie. Thus, stronger ties are suggested to involve longer time and stronger emotional commitments and often similarity of the connected individuals, which may be further increased through intentional work to achieve congruency of feelings. Granovetter (1982:105) also connected weak ties to acquaintance relations whereas strong ties mean friendship relations. At the interfirm level the amount of resource exchange, the number of dyadic role relationships in the interfirm interaction and the irreplaceability of the parties have been seen as indicators of the strength of a tie (Easton 1992:11; Johannisson 1995; Zhao and Aram 1995).

Uzzi (1997) concentrates especially on individual-level relationships and makes a distinction between market ties and embedded ties, whose features resemble the weak and strong ties. The former are arm's-length ties lacking reciprocity and repeatedness and concerning narrow economic matters. The latter are close ties characterized by trust, reciprocity, exchange of tacit know-how and joint problem solving with respect to critical business matters. Very similarly Salmi and Bäckman (1999) divided the business relationships in

Russia, which were all seen as person-centred, into two types: First-circle relationships were characterized as friendship relationships with people you know and trust. The second circle consisted of relationships with individuals to whom business relationships are established and maintained and who are contacted in need for assistance but who are seen more as acquaintances, and are not trusted like the first-circle persons.

The above characterizations of the types of relationships already relate them to different uses. The strong ties are characterized by greater trust, even friendship, which makes them suitable for transfer of tacit knowledge and critical information. According to Granovetter (1982:113) the strong ties also lead to greater motivation to be of assistance and are typically more easily available whereas weak ties provide access to information and resources beyond those available in their own social circles. Therefore, the desirability or need for either type of relationship is dependent on the roles the relationship involves. The close and reciprocal strong ties are emphasized, e.g. in product development relations when complex, non-codified and tacit knowledge needs to be transferred in a relationship, whereas weak ties are important for the search of new opportunities and information (e.g. Hansen 1999; Andersson and Forsgren 2000; Rindfleisch and Moorman 2001). For a firm it is always a question of a trade-off between a bigger number of weaker ties and fewer but deeper strong ties because the resources are limited (Andersson 2001). Often it is useful that the network includes both to be activated in different needs. Uzzi (1997) described the integrated network as a hypothesized optimal network structure: the focal firm's direct relationships comprise primarily embedded (strong) ties and its indirect relationship network is an integration of embedded and arm's-length (weak) ties.

4.2.2 Dependence on others

Network as a term implies a special type of a system of interdependence, a system whose internal interdependencies generally change over time (Thorelli 1986). The interdependence of the actors is a result of the exchanges and adaptations in the relationships. From an individual firm's viewpoint an important issue is the interconnectedness of the most of the company's relationships with each other. As Ritter (1999) notes any relationship can affect other relationships both positively (support or even force) or negatively (hinder or even forbid). Thus, a firm should consider these interdependencies while developing and using its network. However, in accordance with the positional perspective of the present study, the focus is here on the dyadic dependence relationships between a focal firm and its counterparts. The dependence is described through the contents and roles of the relationships.

The importance of the participation of an industrial firm in various networks is based on the interdependences and the variety of roles, which the relationships may entail in the business (see e.g. Turnbull 1979; Johanson and Mattsson 1987; Szarka 1990; Mønsted 1995; Salmi and Bäckman 1999). From the strategic viewpoint the relationships may e.g. reduce costs of exchange and production, promote development of knowledge, give the parties control over certain parts of the environment, act as bridges to some third parties, or may be used to mobilize partners against competitors. The resource dependence can be seen as the primary reason for the existence of industrial networks. Embeddedness of organizations in relationship networks makes it possible for them to access other actors' resources needed in their production processes (Håkansson and Johanson 1992). The dependencies are seen in the existence of various kinds of bonds between the firms. The economic bonds are the basis for the industrial networks (Easton 1992:11). The multiple roles and possible uses of relationships mean that the interactions of the firms have also many other dimensions than the economic one. Therefore, the contents of the relationships are multiple including e.g. technological, economic, social, legal and information exchanges and there exist, e.g., technical, logistical, legal, informational and social interdependencies and bonds between the firms (Håkansson 1982; Johanson and Mattsson 1987).

The non-economic aspects of a relationship, the social interactions, have been noted to serve to downplay the contribution of price in determining the behaviour of the two parties (Uzzi 1997). Indeed the stronger the social bond the less importance economic factors seem to have in the process of exchange. Thus, although as the organizational rationale for strong bonding can be seen the trust based on organizational reputation and past performance, trust is also built by social bonds and friendship, which are established in day-to-day personal interaction (Thorelli 1986). Experienced managers often cite reputation and friendship as important decision determinants in business deals (Bonoma and Johnston 1978). Granovetter (1973) already emphasized that the ability of a person to trust another is hindered if there are no personal ties between them. In this case, any cooperative effort becomes dependent on the existence of intermediary personal contact that can assure the trustworthiness of the other.

Interpersonal relationships have also been suggested to have specific functions in business processes. In the interaction model (Håkansson 1982) interpersonal contacts are identified as performing vital roles in problem solving, in exchanging social values and information, and in demonstrating commitment and credibility. Personal contacts are also means of distance reduction (Ford 1980), which is emphasized especially in interaction between firms of different countries. In the early stages they can help business making by facilitating

understanding of differences in culture, education and technical and economic factors between the counterparts (Ford 1998). Granovetter (1985) reminds us that the obligations inherent in the concrete personal relationships discourage malfeasance and generate trust quite apart from the institutional arrangements. Thus, settlement of disputes is eased by embeddedness of business relationships in personal relations. The contacts developed by individuals within business relationships are often significant when a company tries to change away from its existing business relationships and its old technologies because they provide the individuals with the means to pursue their own ideas (Ford 1998:261). Established social networks can form the means for individuals to achieve the changes they want in others. But they can also make it very hard for a company to achieve change.

Hallén (1992) concentrated on non-business personal relationships, which he named the infrastructural networks because they provide underlying preconditions and support for industrial and business activities. Thus, the infrastructural networks are not designed for specific business deals including resource or activity connections but are pure actor connections for acquisition of advance information, for influencing the business framework or for communication possibilities. They are important in handling links to parties with whom the company has no direct or indirect business relationships, i.e. no products are bought, sold or paid for, but the firm is dependent on the actions of these actors (e.g. competitors, government agencies, potential customers or opinion leaders). Turnbull (1979) and Salmi and Bäckman (1999), in turn, gave the personal relationships and interpersonal interactions direct business functions. The personal relationships between individuals were noted to be especially important for the exchange of information and special services, for the assessment of partners, and they were the normal means of persuasion and negotiation. Personal relationships may also provide crisis insurance and even ego-enhancement: personal contacts are established to be used for major problems that cannot be resolved through formal channels of influence, and some persons establish relationships with high-ranking individuals in order to enhance their own status. Personal relationships may also be the basis for the creation of new relationships and, thus, they form the network capital that is the basis for setting up new business as well as maintaining and operating (e.g. by recruitment) the firm. Halinen and Salmi (2001) divided the roles of personal relationships into enabling and maintenance roles and crisis mastering roles, which usefully describes the roles of personal relationships in the life cycle of business relationships. To the above roles they add the door opening and closing, which means that a third person who knows both of two possible business partners may help in or even be necessary for the creation of a business relationship between the parties. They also emphasize the possible negative roles of personal relationships. The roles of the personal relationships are collected in Table 2.

Table 2. Suggested roles for interpersonal relationships in business processes.

ROLE	DESCRIPTION
Enabling and maintenance roles	
Distance reduction	Through personal interaction social values are exchanged, which helps business making by facilitating understanding of differences in culture, education and technical and economic factors.
Information exchange	Mutual trust, respect and personal friendships allow confidential information to be exchanged. Personal relationships provide especially informal market and technological feedback.
Assessment	The assessment of the counterpart's competence is a process usually involving personal judgment based on interaction in formal and informal situations. Personal relationships provide means of demonstrating commitment and credibility.
Negotiation/adaptation	Personal contacts are normal means of persuasion and negotiation. Through them the other party can be convinced about adaptation needs and capability.
Capital function	Personal relationships form the network capital that is the basis for setting up new business and maintaining and operating the firm.
Services exchange	Reciprocal exchange of services: a favour is returned.
Crisis-mastering roles	
Door opening/closing	A third party who knows both of two potential business partners may help in or even be necessary for creation of the business relationship. Recommendations of personal relationships may be of crucial importance. Good personal relationships help in ending a relationship without feelings of unfairness or insult.
Settlement of disputes	Obligations in personal relationships discourage the malfeasance and generate trust quite apart from the institutional arrangements.
Crisis insurance/ crisis creation	The personal contacts taking place between individuals without obvious reason are often deliberately established by companies as a form of crisis insurance. When a major problem cannot be resolved through formal channels of influence, these contacts are utilized. They may even substitute for the absent rule of law. Bad personal relationships or change of the contact person may also lead to ending a good business relationship.
Other roles	
Social exchange	Some contacts exist purely for private social reasons and are not necessary for the business objectives of either company.
Ego-enhancement	Establishing relationships in order to enhance one's own status.
Business infrastructure	Personal relationships are used for the acquisition of advance information, influencing the business framework or providing communication possibilities. They are important in handling links to parties with whom the company has no direct or indirect business relationships.

In sum, the establishment of actor networks in industrial markets is primarily related to the interdependencies in the production systems where resources are employed and developed and activities are performed (Johanson and Mattsson 1992). The interdependencies in the production systems are a basis for the development of economic, technological and legal bonds between firms. These bonds create organization level, market, technological and political embeddedness. The embeddedness of business exchange in networks of social relations leads to the inevitable existence of social structures, rules and norms that both constitute and shape the business processes (Easton and Araujo 1994). The social embeddedness of firms brings forth the person-level interaction required, e.g., to form a channel for business dealings, to transfer technological skills and to create power structures (Halinen and Törnroos 1998). Social bonds of more than minimal strength and content might e.g. be necessary for the development of knowledge bonds, which in turn may be a prerequisite for strong technical bonds (Mattsson 1984, quoted in Easton 1992:13). This means that the social interaction between individuals always underlies business interactions. Actually, it is impossible to understand how business networks function without insight into the social processes explaining the actions (Törnroos 1997). Therefore, it is important to know how the social embeddedness of business relationships comes about and functions when individuals act to organize the business of a firm.

4.3 Networking for organizing

The embeddedness of firms in networks was above described through the discussion of the strength of ties and roles of relationships, especially interpersonal relationships, in business networks. However, as Easton (1992:11) reminds us "*What is being exchanged may have little relationship to how it is exchanged*" and therefore we shouldn't expect that the nature of relationships remains constant even though measures of various flows are the same. These behavioural dynamics are next analysed through the concept of networking.

4.3.1 Organizing of the relationship networks

On entering a network a new member faces the strategic challenge of positioning itself among the pre-existing members of the network (Thorelli 1986). In positioning the organizations operate on the basis of informational inputs that are ambiguous, uncertain and equivocal and there exist many possible sets of outcomes that might occur. In this situation organizing serves to narrow the range of possibilities as the activities of organizing are directed towards the establishment of a workable level of uncertainty (Weick 1979:6).

Happenings that represent a change, a difference or a discontinuity from what has been going on are always an occasion for organizing (Weick 1979:3-4). Thus, also later on every change in the perceived context is likely to induce a new organizing process. In organizing, the individuals collectively elaborate, simplify, and pattern the information to connect the episodes of social interaction in an orderly manner. As business firms are embedded in a network of other organizations the organizing is commenced through interaction in a network to create a manageable business context for the firm. Thus, in the processes of organizing the boundaries of the firm are continuously updated as a result of interactions between the individuals inside and outside the firm (Grabher 1993:7).

Organizing has often been regarded as an internal process for the creation of organizational structures, staffing and implementation of the ways of communication (e.g. Ritter 1999). Here, besides building the organization, organizing is seen to include locating opportunities, accumulating resources, creating markets, legitimizing the venture and solving problems through external relationships. In organizing a firm and its business, an actor aims to establish a workable level of uncertainty by framing its context. Framing is a social process in which individuals assume the structural and dynamic properties of the network context (Håkansson and Snehota 1989). This enacted context constitutes the organizational learning and guides the behaviour of the individuals within the organization. Hence, organizing concerns the enactment of workable realities by the individuals in interaction with each other. Organizing can, thus, be seen as the production of a collective view by the focal firm of its relational context in terms of the members in the network and the functions of its relationships in its business processes and its own role towards the other actors.

Networking is a means of organizing. It is a process of connecting actors through bonding and commitment, and performing activities to get access to the resources controlled by those actors (Halinen et al. 1999; Törnroos and Nieminen 1999). It is also a strategic process in which the external relations are changed and actions taken to place the firm in a stronger competitive position in the market (Cunningham and Culligan 1988; Håkansson and Snehota 1989; Melin 1989). Although organizing can be regarded as a collective, organizational process it is determined by the actions of and social interaction between individuals in relationships (Håkansson and Snehota 1989). Networking is a process that takes place at the individual level and places the emphasis on personnel because power, expertise, perceived trustworthiness and social bonds are person-specific rather than firm-specific issues (Thorelli 1986). Simultaneously the networking of individuals relates an organization to its context and creates its strategic identity, which Håkansson and Snehota (1989) saw even to ultimately determine its effectiveness and strategy.

4.3.2 Managerial and entrepreneurial networking

Networking as a verb emphasizes the interaction that creates, develops and ends linkages between people (see Melin 1989). Therefore, networking is always an individual-level process. With respect to networking, the inter-organizational research, in general, has mostly dealt with relationship establishment and maintenance between firms whereas entrepreneurship research has focused on personal actions and personal ties between individuals. Entrepreneurship research has actually focused on the behaviour of individuals in business networks in the attempt to define entrepreneurship and differentiate entrepreneurs from managers. This has led to a two-edged categorization involving either managerial or entrepreneurial networking. The basic distinction between the managerial and entrepreneurial networking is the behaviour either as an organizational agent or 'qua persona' i.e. in role or personal relationships (see Coleman 1990:531–546; Ring and Van de Ven 1994). Both kinds of networking are usually needed in organizational development and there can be expected to be a continuum of networking behaviour where these two represent the ends. However, the two types are here contrasted to illustrate their basic differences, which are also collected in Table 3.

Table 3. Basic differences between entrepreneurial and managerial networking.

Entrepreneurial networking	Managerial networking
– Acting as a natural person, 'qua persona'	– Organizational role-acting
– Informal interactions	– Formal interactions
– Actions beyond business tasks	– Actions focused on business activities
– Personal relationships based on personal trust	– Contractual relationships, impersonal trust
– Initial commitment usually high	– Evolutionary commitment
– Imbalances stored for future use	– Imbalances immediately regulated
– Affective and moral considerations	– Economic and instrumental considerations
– Non-hierarchical relationships	– Hierarchical relationships
– Activated when problems or opportunities arise	– Long-term/regular exchanges
– Self-organizing network	– Created and managed by design
– Accepts episodic use and renting of resources	– Aims at controlling resources

In managerial networking the personal relationships are focused on the company's business activities, i.e. created by and related to the company of the person disposing of the contacts and therefore they can be expected to be transferable to other individuals (cf. Hallen 1992). An individual represents the organization and behaves according to the expectations

associated with his role in the organizational setting (Hjorth and Johannisson 1997). Thus networking consists of interactions among individuals acting in role positions in various systems involved in the distribution of goods and services (Turnbull 1979). The major concern is the acquisition of ownership or control over the required resources and, then, the strategic implementation of them (Sahlman and Stevenson 1987). Networking behaviour consists of the attempts by the focal firm to create access channels to sources of resources, competence and capabilities and to manage these access channels in pursuit of competitive goals (Cunningham and Culligan 1988). The networking is constrained by the structures of power and dependency. The fact that building networks involves expenditure of money and executive talent over many periods of time also justifies seeing all aspects of networking as strategic market investments (Thorelli 1986). Access to the resources is intended to be long-term and commitment is evolutionary. The relationships are based on task or role hierarchies, and contract-based trust. Official contracts regulate the interaction and managers concentrate on the formal tasks in the interaction (Håkansson and Snehota 1995:8). The networking is usually very formal and takes place on a high management level. Håkansson and Johanson (1988) have claimed that this kind of networking does not often lead to real cooperation relationships.

The entrepreneurial relationships are focused on the persons in their capacity both as businessmen and private persons (Hallen 1992). The relationships and their use are related to them personally and created by them at various stages of their career and are therefore not normally transferable. If acting entrepreneurially (Hjorth and Johannisson 1997) an individual takes personal initiatives and performs acts based on personal trust, acquaintance and liking. Thus, entrepreneurial networking is governed by social controls, like personal trust, confidence and reciprocity and requires commitment beyond strictly task-oriented content (see e.g. Larson 1992). In entrepreneurial networking the relationships are also often used to be able to act "as if" the equivocal events were not equivocal by enacting the realities through dialogue with others (Gartner, Bird and Starr 1992). Existing strong/friendship ties are used to convince the others to establish a commercial relationship. Thereby individuals get support from others to organize the venture and solve problems. Social contracting, based on feelings of personal obligations, trust and gratitude, has been noted to be effective in resource acquisition at reduced costs and legitimacy cooptation for new ventures (Starr and MacMillan 1990).

When managerial activities primarily concern the planning and controlling of resources, entrepreneurial actions aim at influencing others for episodic use or rent of resources (Krackhardt 1995; Sahlman and Stevenson 1987). Thus, the use of relationships is often

more revolutionary and short-term as a relationship is activated as a response to a current need. Also Johannisson (1995:227-230) sees that entrepreneurial persons need to have specific social skills when they activate some network relationships very unexpectedly and the others need to accept minor attention occasionally. Entrepreneurs seem comfortable with the productive ambiguity of social capital as a resource. They often mobilize different networks (e.g. business contacts, family and friends) for various resources (e.g. information, capital, business contacts) to translate their visions and business plans into reality. The use of the same networks for a variety of different purposes and the heterogeneous assemblage of these links in support of entrepreneurial idea is an important characteristic of this phenomenon (see e.g. Starr and MacMillan 1990; Johannisson et al. 1994).

An important distinction between managerial and entrepreneurial networking is also the process through which personal relationships become intertwined with business processes. In managerial networking the social contacts are seen as an inevitable consequence of good functional contacts (Ford 1998). Through the exchange relationships the actors learn about each other and develop some trust in each other (Johanson and Mattsson 1992). Thus, development of trust in business relationships is a slow process that requires proving the trustworthiness in business-related interaction. This is the basis for bigger commitments. If a company tries to restrict personal contacts to avoid some problems that can occur, a company may lose the great benefits that come from extensive and intensive interaction. But the strong personal relationships also make change more complicated because cutting a business tie would mean cutting a friendship tie between the managers. The entrepreneurial networking, in turn, is suggested to begin from good personal ties, which provide the first ground for testing ideas and are the first source for resources (Birley 1987; Johannisson 1987). The personal ties and friendship relations are in entrepreneurial networking often transformed as good functional contacts. This is what has been noted to fit the behaviour of entrepreneurs when launching new ventures and to some countries, like transition economies. For example, Salmi and Bäckman (1999:163) note that personal relationships play different roles in Russian and Western contexts because the social bonds are primarily the origin rather than the result of evolving business relations. The trust is developed first in non-business relationships and then utilized in business making.

In a large part of the network research the personal and organizational networks merge (Zhao and Aram 1995) and a distinction may be difficult to make. Yet, some relationships may be kept quite official by acting in organizational roles and with authority of a formal position while others are strongly based on personal ties and trust. Networks of social relations penetrate irregularly and in different degrees in different sectors of economic life

(Granovetter 1985). As Coleman (1990:541) notes the same person can act in different capabilities on different occasions. The type of behaviour has, e.g., been seen to vary along the development of the venture. All emerging ventures, i.e. ventures in their initial stages of development, should be entrepreneurial and their organizing should require entrepreneurial behaviour whereas existing organizations need managerial behaviour (Gartner, Bird and Starr 1992; Hjorth and Johansson 1997). Also some cultures seem to emphasize either type more or strongly intertwine them (Björkman and Kock 1995; Salmi and Bäckman 1999). For this study the above offers an interesting basis for analysing the behaviour of the international joint venture managers. Do they develop organizational or personal relationships and are they relying especially on either ones in certain situations?

4.4 Conceptual framework of the study

The central theoretical constructs of this study are embeddedness and networking, which lead to organization of business as presented in Figure 7. The type of relationships, actor and relationship characteristics, define the basic nature of the embeddedness. The embeddedness is also defined by the contents and the related roles of specific relationships, which create dependence between firms. Relationships are created through networking, whose nature varies with the amount of managerial and entrepreneurial elements in the behaviour of the individuals. The organizing of the relationship network, and simultaneously the firm and its business, becomes actualized through networking behaviour, which both influences and is influenced by the embeddedness of the firm.

The network approach emphasizes that every organization is dependent on and its very identity created in interaction with other actors in the market. This holds true also in the case of joint ventures, which may be as much dependent on the other external counterparts as on the parent relations (see e.g. Johanson 1999). The studies of subsidiary embeddedness have also indicated how the integration of subsidiaries into the MNC internal network varies and some units are more embedded in their local networks. This is closely related to the personal characteristics and preferences of the managers being responsible for the subsidiary (see Marschan et al. 1996). Their actions define what kinds of relationships are established and with whom although the dependence of the firms on the resources linked to their exchange relationships can be seen as the basis for business relationship development and gives the relationships specific roles. In the present study the focus is on the actions of the managers for relationship development and the use of personal relationships in the organizing processes of the business relationships over time. This idea is emphasized in the

notion by Granovetter (1992:7): "Economic institutions are constructed by individuals whose actions are both facilitated and constrained by the structure and resources available in social networks in which they are embedded."

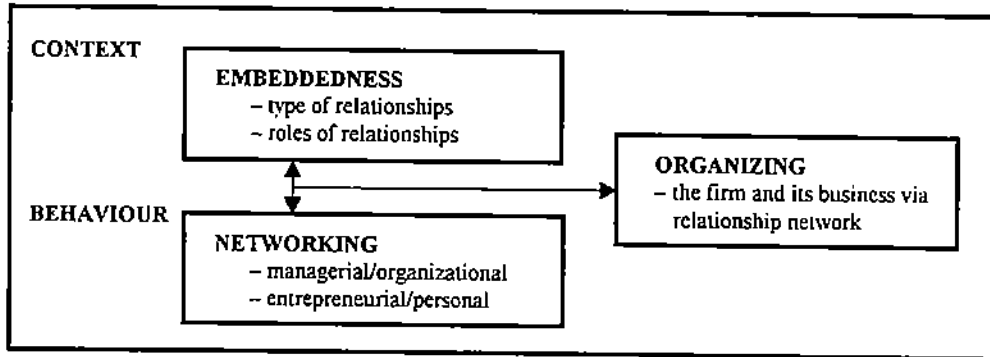


Figure 7. Central concepts of the study.

In the network structures stability and change are intertwined. Because relationship development requires investments of resources, the willingness to commit is dependent on the expectation of some continuity. However, the interactions in the relationships and the strategic intentions of the actors lead to continuous change in networks. Networks are also influenced by the general level economic, political and other changes in the environment. In this study networks are examined from the viewpoint of the joint venture and the changes are traced in the focal net, i.e. the network consisting of the relationships perceived as relevant by the joint venture managers. The focal net of an actor is reshaped as a response to intraorganizational enactment and development, as a result of interactions inside its network of relationships and because of some events outside the network of the interacting organizations, i.e. in the external environment. These three sets of change forces are named internal, relational and external. The classification is the same as that used by Melin (1989) except for naming the strategic change forces as relational ones. This concept is intended to stress that not all the changes inside the focal net are a result of the intentional actions of the focal firm for changing its competitive position, which the term "strategic" seems to connote. In addition to the strategic change forces, the relational change forces include also changes which are more haphazard or take place as a result of internal or strategic changes in the other organizations than the focal one. Some changes are ruled by inertia and hence tend to lead to incremental change involving change only in the nature or content of a single

relationship. Yet, the networks change also because of critical incidents that create radical change, i.e. dissolving or building new relationships. This is illustrated in Figure 8.

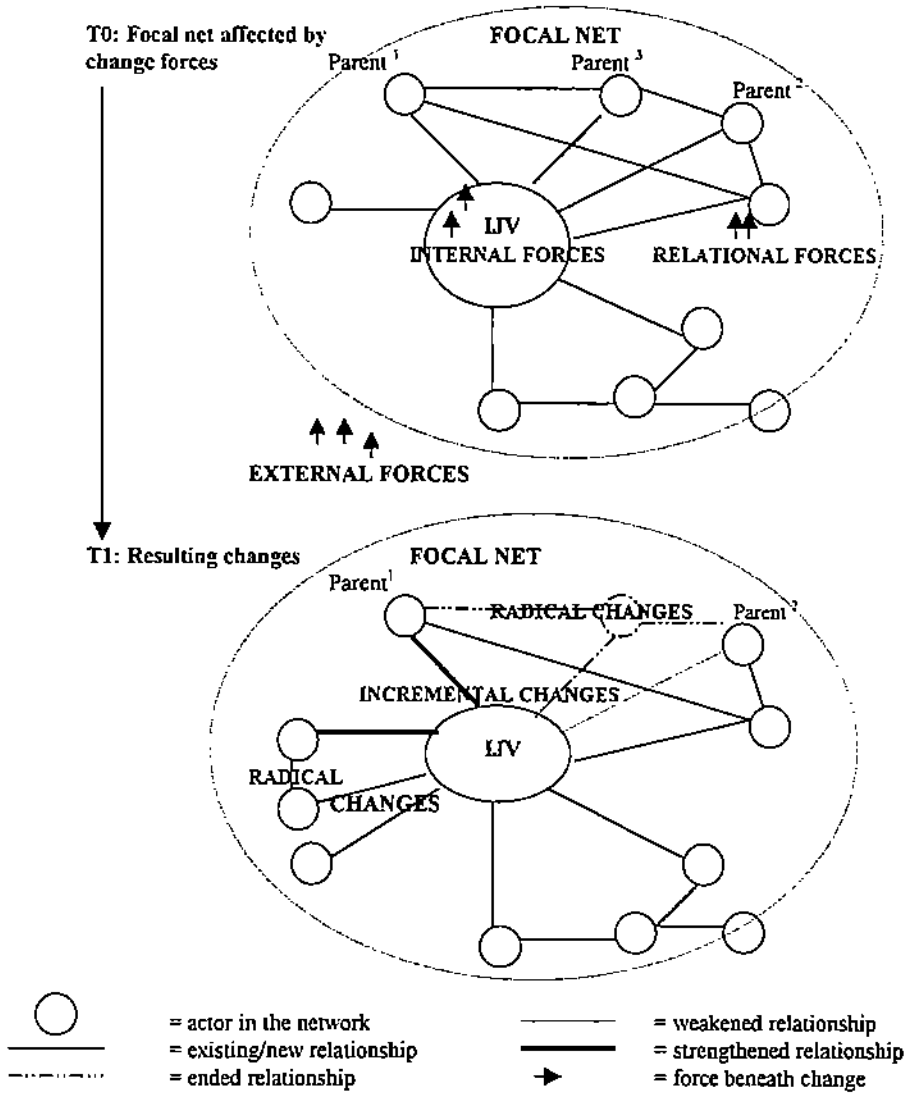


Figure 8. Internal, relational and external change forces, and resulting incremental and radical changes in a focal net.

Through its relationships an organization becomes embedded in its context. As was stated above the embeddedness of a firm depends on the characteristics of the actors, the relationships and the interdependencies between the firms. In the present study the

embeddedness is described to be of a political, market, technological or social type (see Halinen and Törnroos 1998). The political embeddedness is created through the existence and importance of political representatives in the network and the involvement of the firm with the national or local political systems. The market embeddedness is defined by the relationships directly related to the business making, i.e. relationships to customers, suppliers, distributors and competitors. Technological embeddedness, in turn, is created through relationships including especially technological exchanges and e.g. cooperation between the actors in technological development. The type and degree of the embeddedness can be seen to vary with respect to the strength of the ties the individuals in the interacting organizations have with each other. This way the social embeddedness becomes intertwined with the other three types. Most often the strength of the relationships is seen to vary on the basis of the feeling of friendship and trust of the individuals involved in the interaction. In the present study it is looked at how the managers of the joint venture describe their relationships and how the descriptions are related to the specific roles of the relationships. The embeddedness and the incremental and radical change in the focal net are here seen to describe especially the structural dynamics of networks.

To capture the behavioural dynamics of the focal nets we need to look at the actions of the individuals through the concept of networking. Networking emphasizes the communication creating linkages between people and the networks as social organizations (Melin 1989) although the organizational aims are related to getting access to the resources controlled by other actors and creating resource ties and activity links. Thus, networking is always a process of actions by the individuals but it is also a part of the firm's activity and structure (see Dubini and Aldrich 1991).

In networking managers establish, maintain and use different kinds of relationships, which require different kinds of behaviour. Some relationships are handled by acting clearly in the organizational role and with the authority given by the formal position. They are regulated by official contracts, and the interactions are related strictly to business issues. This kind of networking "for business only" can be labelled as the managerial one. The interactions in other relationships are very personal in nature and may be based on feelings of liking or friendship between the interacting persons. This is often called entrepreneurial networking. The networking is regulated by personal trust and requires commitment beyond task content. In a large part of network research the personal and organizational networks merge because that is the case in reality also. Yet, if we look at the interactions at the level of the behaviour of managers, differences can be expected to be found differences in the degree of formality and personal nature of the interactions.

In sum, an international joint venture becomes embedded in its context through the relationship building of the managers. The embeddedness of the firm both facilitates and constrains the networking actions. The types of relationships the managers have and the firm level dependencies in the relationships define the action possibilities and influence how the relationships can be used to create and respond to various change forces confronted by the net. The interactions of the managers in the relationships and their networking actions may lead to changes in the strength of the relationships and dependencies between the firms. As a result of networking the business of the joint venture becomes continuously organized in the reconfiguration of its business network. The organizing, then, is reflected in the changing embeddedness. This cycle of the focal net development is illustrated in Figure 9.

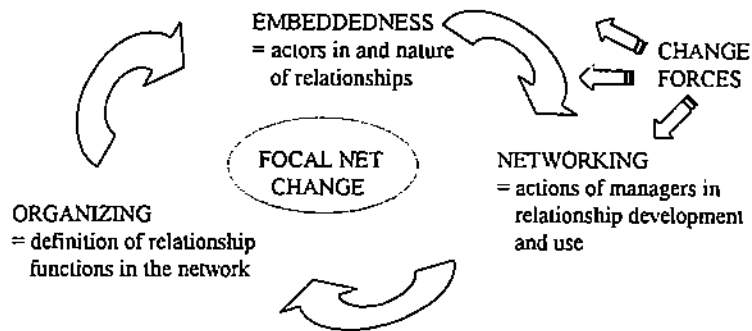


Figure 9. Cycle of the focal net changes at the level of the key concepts of the study.

The structural network changes are in the present study followed at the level of the focal net and in the form of both incremental and radical changes. However, what is even more important in the present study is the search for some underlying logic behind the structural dynamics at the level of managerial behaviour. How this is accomplished in an empirical study is discussed next.

5. EMPIRICAL RESEARCH DESIGN

With regard to the basic assumptions concerning the nature of reality and knowledge this study adopts the realist epistemological orientation presented by Easton (1995). It is seen that there exists a reality to be discovered and that reality is independent of us. However, reality is cognisable and accessible only through human cognition. Reality is not obvious, self-evident or transparent and therefore the researcher's main project is to discover what causal powers act in what ways in understanding the nature of examined objects. The realist view also takes into account the situational and contingent nature of causal powers, which means that causal powers depend upon certain conditions in order to operate (Tsoukas 1989). Realism also fits studies which examine unobservable external world phenomena (Perry 1998). Individuals having experienced the phenomenon under study are seen to be able to tell about the reality by describing the events and their experiences of them. The need to ask several people for descriptions is likely to lead to contrasting views of what happened there. A challenge for a researcher is to combine these personal accounts to form a coherent picture of the whole. All social phenomena are accepted to be concept dependent and theory-laden, which gives understanding and interpretation a central role in research. Thus, the meanings are seen to be created as an interaction of the researcher's concept system and the concept system of the object of the study.

These principles are reflected in the design of the study, which combines case study method with qualitative and abductive approaches. The methodology is ideographic, which stresses intensive research by getting close to the subject and letting it unfold its characteristics during the investigation. Through analysis of subjective accounts the aim is to reach rich descriptions of real-life situations and to get beyond the directly observable. Universal laws are not looked for as in nomothetic research design but rather understanding of the phenomenon under study and the generative mechanisms underlying the examined events.

5.1 Research strategy

As Borch and Arthur (1995) noted the choice of the methodological approach of a research should depend on the nature of the phenomenon to be explored. Yin (1989:17) has for his part emphasized the type of research questions, extent of researchers control over behavioural events and degree of contemporary nature of events as determinants of an appropriate research strategy. This study aims at uncovering and understanding the mechanisms behind the dynamics of business networks. For studying networks case

research and a subjectivist or relativist approach have been seen as the most appropriate (Borch and Arthur 1995; Easton 1995; Perry 1998). In search for knowledge of how and why the networks have changed in an ongoing joint venture operation of which the researcher has no control a case study is again a preferred research strategy (Yin 1989:21–23). Easton (1995) thinks network researchers to have had good reasons for favouring case research. This is because cases make sense of the examined phenomenon, industrial networks, which have characteristics such as indistinct boundaries between industrial nets, connectedness among and between various actors, and constantly changing dynamic form.

On the basis of the above arguments, case study was selected as the empirical research strategy. Case studies have been divided into exploratory, descriptive and explanatory ones (Yin 1989:16; Gummesson 1991:75). With respect to Yin's (1989) division the case of the present study would be mainly descriptive because the aim is to describe network change processes and analyse the meanings of the selected conceptual constructs in a specific context. However, the search for an understanding of the logic behind the particular network changes fits the realist explanation suggested by Easton (1995:377), which *"requires the researcher to identify the contingent causal powers that are operating in the particular situations under research and the ways in which they combine and interact in order to create the particular events observed in the empirical domain"*. This kind of realist case research Easton considered capable of providing valid explanatory knowledge. However, the explanation is not the type of positivistic research that aims at predicting the probability that there exists a causal relationship between certain variables. Instead the explanation is given at the level of theory when the causal mechanisms underlying the dynamics in the observed events are searched for (see also the analytical generalization by Yin 1989). Eisenhardt (1989) and Perry (1998) similarly emphasize the ability of case studies to contribute in theory building and the development of propositions.

The major advantage of the case study method can be seen in its ability to provide a basis for acquiring a holistic view of the phenomenon (Gummesson 1991:76). Case study method allows one to study the subject in its natural setting without focusing in advance on a limited number of variables. Thus, unexpected changes, different viewpoints and complex relations can be considered when they occur or if they exist. This results in rich descriptions of the routines, problematic moments and meanings in the social settings (Denzin and Lincoln 1994:2). Case study is also an appropriate research strategy for process studies, i.e. for understanding the dynamics of a single setting (Eisenhardt 1989; Gummesson 1991:30). The analysis of the dynamics actually makes case studies explanatory (Easton 1995) because the empirical events are described and their links are traced over time.

Van de Ven (1992) and Pettigrew (1997) have provided definitions of what process research actually is. The present study is processual in the sense of Pettigrew (1997:338): it aims to define the sequence of events, actions and activities unfolding over time in context. This involves that actions drive processes but actions are also embedded in contexts which shape the actions and are shaped by them. Therefore time and timing are extremely important aspects in the attempts to explain processes: the past is always shaping the future and what happens, how and why it happens is dependent on when it happens. Appreciation of the time in processual analysis also means linking the processes to outcomes of them. The key dimensions of processual research are presented in Figure 10.

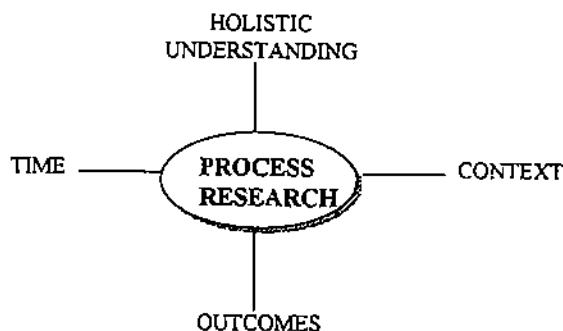


Figure 10. Key dimensions combined in process research.

The present study aims at producing a case study, in contrast to case history, by letting the research questions and objectives of the study lead the analysis and by looking for patterns and underlying mechanisms which shape the patterning in the observed change processes (see Pettigrew 1997). It is aimed at understanding the sequence and flow of events over time through reconstruction of the focal net development process and the actions underlying it. In this attempt an approach that Hedaa and Törnroos (1997) have named the event-network perspective has been used as the major analytical device. This involves that the events, i.e. "outcomes of human acts or changes caused by nature" (ibid: 6), affecting core actors and their acts and the network-change mechanisms, have been traced over time. The event-based analysis consists of a triangle of events, actors and acts (see Figure 11). Events need to be perceived by actors. On the basis of the perceptions and the willingness to take actions in response to the stimuli actors, then, act. These acts may be a basis for new events and acts, or may follow and be passive reactions to the event. An actor may also ignore the event.

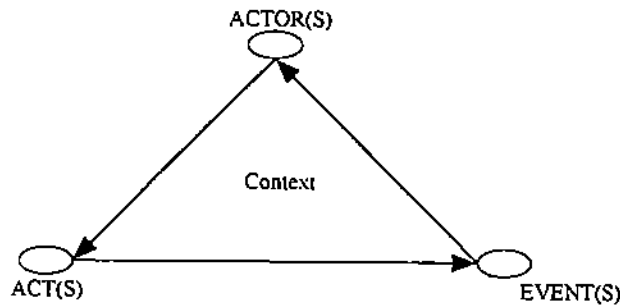


Figure 11. The triangle of event network relations (Hedaa and Törnroos 1997).

The case study research strategy was combined with qualitative methods of data collection and analysis (the procedure is discussed in detail in the next sections). However, the study has not adopted a purely inductive approach, which is often connected with the use of qualitative methods. The approach used could be termed an abductive one, which is a kind of middle-road between inductive and deductive and allows moving back and forth between the previous research, empirical evidence and the researcher's own reasoning (Grönfors 1982: 33–37, see also systematic combining in Dubois and Gadde 2001). Pettigrew (1997) considered these kinds of cycles of deduction and induction appropriate for process research. The move between prior knowledge, gradually collected data and interpretations provoked by the step-wise study leads to a hermeneutic spiral. This way the researcher gets farther beyond the surface in search of meaning and can achieve deeper understanding.

In the present study a platform for the study was first made by a selection of background theories and major conceptual aspects to be covered in order to get some preunderstanding of the phenomenon. This preunderstanding was seen to be needed to be able to get as deep as possible in the case examination. Some researchers (Grönfors 1982:151; Patton 1990:59; Gummesson 1991:61) have also stressed both the impossibility of entering the field without any prejudice and the importance of preunderstanding to be able to find alternative interpretations. The need for practical responsiveness (Patton 1990:39) has been kept in mind along the whole research process. This means that the research has not rigidly followed one route advocated by one approach and chosen at the initiation of the study. The research issues, the analytical framework and the empirical research strategy have also along the research process been reoriented when they have been confronted with the empirical world (e.g. the number of case firms has dropped from two to one or the focus and the theoretical framework of the research have been changed). This is also typical of the

case research process (Easton 1995), which is not a mechanical one but takes into account that what happens in the later stages is dependent on what is found in the previous ones.

Easton (1995) mentions as the major problem in case research that it in practice often lacks an epistemological base. This has simply resulted in rich descriptions of events or only in presentation of examples of data that appears to provide partial support of particular theories when used in a quasi-deductive theory-testing way. As a response to major criticism of case studies about the deficits in generalizability of results based on analysis of only one or a few cases, multiple case studies have been made to be able to rely on some notion of statistical generalization. However, a case researcher should not be worried about the statistical generalization. Yin (1989:40) emphasizes the aim of analytic generalization in case studies, which makes the sampling logic and issues related to it irrelevant. In realist case research one case can create and/or test a theory to the extent that it uncovers reality (Easton 1995). Also Gummesson (1991:85) suggests that all social phenomena are too liable to change and too dependent on circumstances to allow any meaningful statistical generalization. Therefore, developing a "local theory" which consists of knowledge created in a certain social context and is applicable when dealing with a specific situation is the appropriate level of generalization (cf. empirical generalizations in Grönfors 1982:31–32). In all, this study has progressed along the logic presented by Grönfors (1982:31–33) from empirical descriptions and empirical generalizations to contributing to the theory by analytic generalizations. This is hoped to improve an understanding of the phenomenon and initiate new ways to approach it.

5.2 Selection of the case company

This study represents an embedded single case study. The study aims at understanding and explaining the causal mechanisms behind the dynamics of one particular net. The empirical part analyses the development and utilization of relationships in one Nordic-Polish joint venture over the time period 1989–2000. For understanding the dynamics of a single setting the multiple levels of analysis have been seen to be appropriate (Eisenhardt 1989). This embedded design is of concern when, for example, analysis is conducted using both organization as a whole and individuals as units of analysis (see Yin 1989:50). In this study the relationship development is analysed at two levels. Firstly, the changes in the company-level focal net of the joint venture are analysed. Secondly, the actions of the individuals in the relationship building as a response to different change forces, leading to changes in the focal net, are analysed.

As the experiences and insights of the individuals who have participated in the organizing of the joint venture were of primary importance for the study, the main concern in the case selection was access to the company. Therefore, great emphasis was laid on the cooperation willingness of the key persons in the Finnish parent firm. They had to be able to assist the access to the joint venture managers and other persons who had had important roles in the joint venture's development. When possible solutions were searched for in 1997 the present case company was found to be suitable on the basis of a lecture on the East European operations of the Finnish parent firm given by the key person. After the lecture the general manager was told about the research project and asked about the possibility of studying the joint venture. He proved to be willing and interested in participating the study and on the basis of this contact the case was initially chosen. He became the key informant to the researcher especially concerning the first phase of the study. In the second phase the managing director of the joint venture had this role. As the key informant was named a manager occupying a role that makes him/her at the general level knowledgeable about the issues studied and willing to communicate with the researcher (cf. John and Reve 1982).

The research project actually began with two cases (see Mainela 1999), but the number was reduced to one in 1999 due to both practical concerns and changes in the overall research setting. On the basis of the contacts with the key persons in the case of one firm it seemed unlikely that the depth of data would be as desired with respect to the other case. This was partly due to the person changes in the Finnish shareholder firm and the expected poor access to the managers of the joint venture. The other difficulty was related to the change in the research setting from organization level analysis to the analysis of individual level actions and the role of social networks, which were considered too delicate issues in the company.

However, the reduction of the number of cases from two to one can be seen to be reasonable also from the point of view of the research practice and the depth of the empirical analysis. For example, Borch and Arthur (1995) saw the search for representativeness and statistical generalizability through analysis of multiple cases in their study to have led to greater breadth but at the expense of depth. In their analysis of the role of managers in the governance of the interfirm relationships the need to divide the research efforts between several cases led to a lack of understanding the social network and criticism from managers of bias in the description of their actions. Easton (1995) sees research on a greater number of cases to often result in a situation where the number of identified contingent causal powers may increase but understanding of how they operate is lost. As this study is especially concerned with social networks and managerial actions and aims at

explaining the network dynamics through discovering the mechanisms behind them, a single case study can be considered appropriate and even recommendable.

In addition to the access question, the chosen company was expected to fulfil some specific requirements. The joint venture should have lived through the transition process quite from the beginning and have existed for a few years. The transitional context was expected to make the organizing processes differ from more stable contexts, particularly to make them more recurrent over time. The older age of the joint venture would also make it likely that multiple changes had taken place during the development process. The case selected for the study has experienced and been affected by the influences of the transition process from the very beginning of it. Based on its ten-year lifetime it can be expected to well illustrate the dynamics of the organizing processes in a transition market. A further advantage of this case-company is that it operates in chemical water treatment for which no markets actually existed in Poland at the end of the 1980s and the beginning of the 1990s. Especially for sewage-water-treatment chemicals there existed a heavy need from the environmental point of view but the commercial markets had to be created from scratch. This aspect is likely to once more make the organizing activities of the managers multiple, which can make the case more revelatory with respect to the network organizing than cases in other industries.

The case company analysed in the present study is Kemipol Ltd., a company producing water treatment chemicals in Poland. It is a joint venture between Kemira Kemi, a Swedish subsidiary of the Finnish Kemira Group, and the Polish Zakłady Chemiczne POLICE. A minority shareholder in the company was for the first four years the Nordic Environmental Finance Corporation, Nefco, and a current shareholder is the Polish National Fund for Environmental Protection and Water Management. The major partners and the case-company are described in further detail in section 7.1.

5.3 Methods of data collection

The data collection was aimed at getting rich primary data through interviewing the people who have been actively involved in the organizing of the joint venture and its business during its lifetime (See Appendix 1 for the list of interviews). Thus, interviews with the Nordic and Polish joint venture managers form the main source of information. Yet, they are supported by secondary data, such as feasibility studies and company documents as well as published articles in trade journals and newspapers dealing with the case. The multiple sources of data are used in case studies to increase validity and reliability (Yin 1989). This

kind of triangulation of data, i.e. combining sources of evidence while moving between analysis and interpretation may also reveal new aspects of the phenomenon unknown to the researcher (Dubois and Gadde 2001). Easton (1995) has especially recommended the use of both qualitative and quantitative data in case studies. In the present study quantitative data has not been used. The only attempt to collect more structured data was a one-page questionnaire (see Appendix 3) used to get some background information concerning the Polish interviewees (the management of the joint venture) and their relationships and roles in the joint venture's operations to make the personal interviews more efficient.

The data collection proceeded as follows. After an initial research framework was developed through review of previous research the basic ideas were presented to the key person in the case firm to secure the suitability of the case for the research project and access to the informants. The initial working knowledge (Borch and Arthur 1995) of the companies involved was achieved through discussion with the Finnish key informant and review of some secondary data including annual reports of the Finnish shareholder, its bulletins and newspaper articles. The researcher was also allowed to become familiar with the feasibility study of the joint venture and the initial joint venture agreement. These provided an important point of reference when the development process of the joint venture was traced in time. The collection of primary data was realized in two phases through semi-structured, focused interviews. (See Appendices 2, 3 and 4 for the question outlines.)

In the first phase four managerial level persons were interviewed in June–December 1997. Three of the interviewees represented the Finnish parent, Kemira Chemicals Oy (one is a Finn, one a Swede and one a Norwegian). They formed the managerial establishment team of the joint venture and, thus, have been involved in the earliest steps in Kemipol's organizing. The choice of these persons to be interviewed was also based on the fact that the Nordic units of the Finnish concern have in cooperation accomplished the joint venture project. The official owner of the joint venture is the Swedish subsidiary of the Finnish concern and the Swedish and Norwegian subsidiaries have been responsible for the Central East European subsidiaries and operations of the business area in question.

In addition to the Nordic managers, the Polish managing director of the joint venture was interviewed. To be able to conduct a face-to-face interview with her and visit the joint venture under study a one-week field trip was made to Poland in October 1997. The crucial importance of this interview was that it brought to the study the Polish viewpoint and insights which are created in a Polish cultural setting. To get as rich data as possible from this intercultural interview and firm visit, it was joined by another researcher who

concentrated on observation. After the field trip he wrote observation notes, which provided an additional source of evidence and a basis for exchange of ideas about these situations. Discussions were held also right after the interview about the most striking and possibly unclear points.

The initial analysis of the data from this first phase of the data collection is reported in a licentiate thesis (Mainela 1999), whose conclusions led to a new formulation of the research questions and a change in the research focus. To be able to understand what is the central question in the development process of an international joint venture it was considered crucial to study the joint venture as a context-dependent focal actor. What proved the most useful contribution of the interviews in the first data collection phase was that the interviewees had been asked to give an account of the joint venture's development process. Their stories were used to find out the chronological order of the events the individual interviewees considered as critical for the development of the joint venture. Telling about the joint venture processes in the form of narratives was also thought to help the interviewees to better remember their experiences and actions in the events that had taken place as long as eight years ago. Due to the focus of the licentiate thesis the other interview themes dealt with the characteristics of the technology transferred to the joint venture, interaction between the parents, and the joint venture and the parents, the role of the other stakeholders in the joint venture's development, and the specific features of the transitional Eastern Europe as a target for foreign investments. This kind of theme-based but unstructured interviewing was aimed at covering the aspects seen as important by the researcher but also at reducing her influence on the way the themes were discussed (see Grönfors 1982:106; Hirsjärvi and Hurme 1993:35-37). The questions posed to each of the interviewees differed considerably from each other as they depended very much on the experiences of the interviewees and on their personal way of expressing themselves.

Each one of the four interviews took between one hour and one hour and a half and the interviews were, by permission of the interviewees, tape-recorded. The tapes were transcribed soon after the interviews and the transcripts were sent to the interviewees for comments. This way they could correct possible misinterpretations and add some details if needed. Some of the interviewees made comments orally on the phone and some in writing.

As a final point in the first round of data collection the Finnish key informant was met in October 1998. During an informal conversation, the latest development of the joint venture and the early research report of the case were discussed. As the first step of the data processing, a report of the process developments based on all the interviews had been

made. This report was delivered to the key informant some weeks earlier to be checked and could now be discussed. In addition to the possible incorrect information, he was asked to point out if there were issues that he considered of special importance. The researcher also presented her preliminary ideas of the major findings of the study based on early analysis and data processing. This was aimed to provoke discussion to get the insights and reflections of the person who had actually experienced and participated in the operations, on the findings.

As a result of this first round of interviews a detailed description of the development of the joint venture between the years 1989–1997 was got. However, although the interviews provided understanding of many events in the development process, they also posed new questions especially concerning the role of the joint-venture managers and the social relationships as the determinants of the organizational-level developments. The influence of other parties than only the parents on the joint venture's development was also striking. These findings made the researcher reconsider the research focus and led to the new research questions presented in Chapter 1 in the present research report. The changes in the research focus required going back to the theory and findings of the earlier research to create a solid basis for further data collection.

At the beginning of the year 2000 a newly focused research framework was developed as a basis for further empirical research. The earlier Finnish key informant was contacted again to secure the possibility of studying the case further (at this point the second case was dropped). Then the managing director of the joint venture was contacted through a letter explaining the research purpose and the other basic issues of the study. Her approval for an interview and possible support for interviews with other managers of the joint venture was asked. After her approval to participate in the study all the five operative managers of the joint venture were approached with a letter explaining the basis of the research and asking for the possibility of interviewing them. Simultaneously, they were sent a one-page questionnaire to be answered and returned to the researcher before the interviews. The questionnaire (see Appendix 3) served as a tool for preparation of the once-for-all face-to-face interviews with the managers by asking them for some information on their background, history in the joint venture, roles and responsibilities in its operations, and the relationships they considered most important for performing their jobs.

The second round of interviews took place in the autumn of 2000. Because of the importance of the viewpoints and insights of the individuals acting in the joint venture and looking at its development from the inside, the five local managers of the joint venture were

interviewed during a one-week field trip to Poland in September 2000. These five persons formed the operational management of the firm. In addition a discussion was held with one representative of the Polish parent who was at that time a member of the supervisory council of the joint venture. The possibility of this interview opened up quite unexpectedly and was, thus, not as well prepared as the other interviews (the question outline used in the other interviews was of only limited value in this interview). Still, it brought out the viewpoint of the other major partner of the joint venture's development and the relationships between the parent companies and the Polish parent and the joint venture (see Osland and Cavusgil 1998). The interviews took between one hour and three and a half hours and were tape-recorded. Some discussions continued more informally at lunch or dinner. These more informal discussions added some new aspects to the organizing processes, and then also covered interesting issues of Polish culture. These situations were, moreover important for the creation of an open and trusting atmosphere for the interaction between the researcher and the managers.

The interviews were held in English, which is a foreign language to both the interviewer and the interviewees. This may have resulted in some misinterpretations and makes it impossible, for example, to make any discursion analysis of the interviews. However, the interviewees proved to be fluent in English and no problems were felt in communication. These crosscultural interviews were also joined by another researcher who made notes during the discussion and with whom the interviews could be discussed right after they had been held. The raw data, transcribed from the tapes, was also again written out as more fluent stories, which at the beginning of November 2000 were sent to the interviewees to be commented on, corrected and supplemented with details if needed.

In December 2000 the earlier Finnish key informant was interviewed to complement the earlier interview data and to get his viewpoint on the current operations of the joint venture. The procedure of the interview was similar to the above presented ones in Poland, i.e. it was semi-structured on the basis of the earlier knowledge of the researcher of the case and the interviewee was allowed to freely tell about the specific events and the crucial relationships along the joint venture's development. However, as this person had been contacted several times before, the interview could be based on the earlier discussions and more questions were posed on some definite issues which had become of interest to the researcher during the research process (the same holds also with the managing director of the joint venture). The interview was tape-recorded as well. An exception was that the language of the interview was Finnish. The one-hour interview continued with a more informal discussion at lunch.

Discussing with all these persons was seen as very useful from two viewpoints. Firstly, they had been involved in and responsible for different aspects at different times of the organizing of the joint venture. However, most of them had had good opportunities to follow the process also outside their own operational responsibilities and proved to be knowledgeable of and involved in many key events in the development process. The other important point in interviewing several managers was that they were all able to give different, personal views. Taken together these views form a rich picture of the joint venture's development. Particularly for research aiming at theory building and concept development Strauss and Corbin (1994:280) recommend a systematic search for multiple perspectives. The whole data collection with respect to the period of analysis is illustrated in Figure 12.

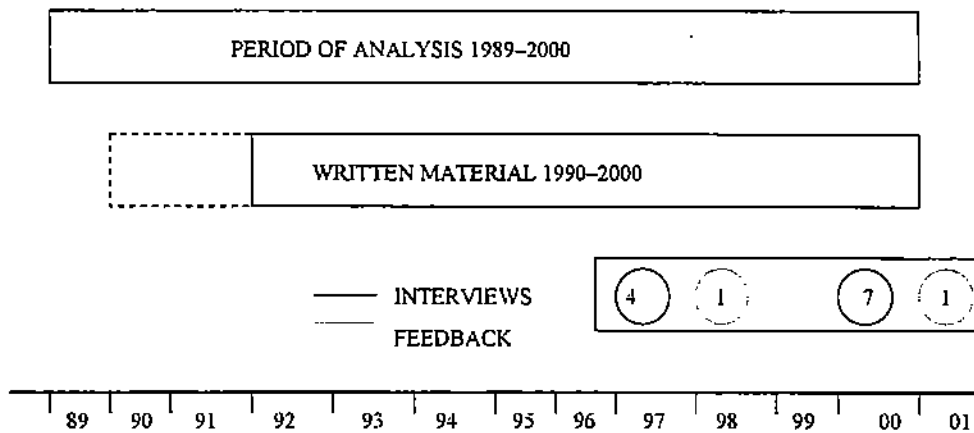


Figure 12. Empirical data collection and period of analysis.

As this study is interested in the organizing processes of the joint venture the primary period of analysis naturally begins from the establishment of the joint venture in December 1990. However, some analysis is also needed concerning the period 1989-90 when the parent companies began the planning of the joint venture establishment, since their interaction has greatly influenced the organizing of the joint venture and the development of its focal net. The written material begins with the feasibility study and the initial agreements in the year 1990 and after that includes newspaper articles and articles in internal newsletters concerning the company. The most relevant and informative secondary materials are the yearly reports of the managing director of the joint venture covering the years 1992-2000. The ideal situation for process research would be that the process could be followed in real

time during the whole development. However, as was explained above, in this study it has been necessary to rely very much on retrospective data. The interviews have taken place at two time points, in autumn 1997 and autumn 2000, on which there thus exists in time data. The description and analysis of the earlier developments are based on retrospective interview data and various secondary data. In addition, some interviewees made reference to the latest developments in their comments on the interview transcripts. The feedback discussion in 1998 also formed an important point of data gathering as the preliminary research results and ideas were presented to the key informant and subsequent feedback on them was received. Wider feedback on how acceptable and truthful the findings and interpretations of the researcher seem to the managers was received from the managing director of the joint venture in November 2000. She had the possibility of reading the whole case-analysis and was asked to give feedback on the suggested research findings.

5.4 Methods of data analysis

In the data analysis the focus was on the main episodes of organizing, which have created changes in the focal net of the joint venture along its ten-year lifetime (see Halinen, Salmi and Havila 1999). Interaction between two parties is seen as a stream of acts and a set of acts that are close in time and related to each other constitutes an episode (Håkansson and Johanson 1988). Such an episode may concern a negotiation, a delivery, a complaint, a technical problem, or so on. The analysis of the data aimed at finding the essence and structure of the phenomenon from the viewpoint of the interviewees and taking into account the situational factors and conditions (Patton 1990:24,69,84–85). This study is also a process research, which means that the interest is in a sequence of individual and collective events, actions and activities, which develop over time in a context (Van de Ven 1992; Pettigrew 1997).

As the interviews were tape-recorded the first task after returning from the field was to transcribe the tapes. The interview transcripts formed the raw data of the analysis. The interviews were transcribed with almost the exact words of the interviewees to maintain the connections created by them and also to get the more implicit points under examination. Then, after each round of interviews, they were written as more fluent descriptions, which were sent to the interviewees. They checked the correctness of these early reports and were able to supplement them with lacking items and details if needed. The outcome was a description of the development of the joint venture and the organizing of it through various interaction episodes as experienced by each interviewee. After receiving the comments from

the interviewees and making a few corrections, detailed reports of the joint venture processes were constructed based on all the individual descriptions. The reports were written in the form of stories that progressed in time to reflect the sequence of the major events and the behaviour of the various actors. These descriptions could then be combined with all the other data (the secondary data and observation notes) to form the case study narrative (see Patton 1990:388). This narrative is presented in the next chapter to give the reader an insight into the development processes.

The time framework from the beginning of the joint venture establishment in 1989 to the final interviews in 2000, the year of the joint venture's ten-year anniversary, exposes the initial chronology, which has been the first organizing mechanism for the further analysis (see Pettigrew 1997). In the construction of the chronology attention was paid to key sequences of action and transition points, i.e. interaction episodes and critical events, in the development of the joint venture and its focal net. This means an event-based analysis of the process and change as proposed by Hedaa and Törnroos (1997).

Then it was time for deeper interpretation aiming at attaching significance to particular issues, explaining the findings and putting patterns into an analytic framework (Grönfors 1982:32; Patton 1990:375). In the present study the analysis was conducted with the help of the QSR N'Vivo qualitative analysis program. The software package is designed to aid the handling of non-numerical and unstructured data in qualitative analysis. The program is especially appropriate for identifying, coding and categorizing the primary patterns of the data, which is the aim of content analysis (Patton 1990:381). All the operations made by the software in the present study could also have been done manually. The major advantage of the program was that it made the data more easily accessible and, thus, the analysis faster, more systemic and better reported.

In the present study the content analysis began with an intensive reading of the different interview reports to get an overview of them. Then the original, word-by-word interview data were imported to the QSR N'Vivo program and the coding was begun. By coding, the data are made more organized, which is needed as a basis for drawing conclusions (Grönfors 1982:161). The basic categories were chosen on the basis of the conceptual framework of the study developed during the research process. This means that the data were arranged on issues of characteristics of the relationships, networking actions of the managers, relationship types and change forces. The sentences or paragraphs of the original data were first coded according to these dimensions. However, the 'child' categories and definitions of them were allowed to rise from the data to let it reveal its special

characteristics and to describe the reality of the organizing of an international joint venture through the words of the managers instead of creating the categories on the basis of the theoretical preunderstanding of the researcher. This was seen as important due to the dynamic setting of the study and the search for deep understanding of the specific case. During the coding process so-called free nodes were also constantly created in which were put data that seemed important for giving meaning to the data but did not fit the existing coding scheme. Some of them were later arranged in the structured coding scheme when the understanding of the researcher developed further. Some of the free nodes were background information nodes, which formed supporting categories for the primary ones. Hence, in the analysis were combined the etic and emic types of categorization (Alasuutari 1995:100–101): both predetermined categories fulfilling theoretical criteria and categories arising from the data were used. The major coding categories are presented in the following Table 4.

The categories are divided into primary categories of 'relationships', 'actions', 'relationship regulators' and 'change forces' and secondary categories of 'actors', 'shareholders', 'persons' and 'Kemipol-development'. This means that the primary interest in the analysis has been, firstly, in defining what kind of relationships the managers describe as existing in the focal net over time (types of social relationships). Secondly, the type of relationships was seen to be related to specific actions in relationship development and their utility for specific purposes (networking). The roles of the relationships and their utilization were seen to be greatly influenced by the characteristics of the relationships (nature of embeddedness). Thus, the actions and relationship-regulators categories were cross-checked with the relationships category to establish the relationship profiles. These elements of the research problem of the present study were then connected with the various change forces and the chronology of the major interaction episodes to illustrate how the embeddedness and networking have been related to the evolution of the focal net.

The last four categories at the end of the table were used to support and enrich the analysis with respect to interesting sounding background issues that provided a context for the primary nodes. In practice this meant that the text units belonging to certain basic categories (e.g. actions or relationships) were also coded to some background categories (e.g. actors). An important aspect of context creation was also the chronology of the events of which notes were made along the coding process.

Table 4. The basic coding categories and their data-based definitions.

DIMENSION	DEFINITION
1. Relationships	Descriptions of the types of the interpersonal relationships between the joint venture managers and the people with whom they interact in business related issues.
1.1 Reporting relationships	Internal reporting to shareholders. Also relationships described like the following: "I need to send them some reports and papers, but no obligations or responsibilities on their side".
1.2 Organizational contacts	Relationships more critical for the business functions, face-to-face interaction important but relationship as such official/organizational. Interaction related to quite rare occasions such as permission applications, etc.
1.3 Personal relationships	Personal, friendly contacts between the parties. Usually the relationship is more formal, like an acquaintance. However, relationships are carefully nurtured by paying attention to the contact persons but not so thoroughly trusted as friends.
1.4 Friends	People you know and trust. Persons whom can be relied on in problems and to whom personal favours are done. People tend to minimize risks by asking a friend who can help e.g. by giving information. I help you, you help me: reciprocity.
1.5 Influence	The actors to whom there are no direct relationships but who are known to "exist" and who are known to influence the operations of a company, e.g. competitors, relationships of relationships.
2. Networking	The actions of the managers in relationship building, maintenance and disruption. How they have approached various network actors and how they have tried to influence the nature of the relationships and the development of Kemipol.
2.1 Resourcing	The acquisition of facilities, machines and equipment, raw materials, financing, employees, business relationships, patents, which are external to the focal company, i.e. through interaction in relationships.
2.2 Internal organizing	Building the organization and creating productivity through e.g. creation of organizational structures, staffing, building of the production process and the internal logistics, improving quality and adding new products to offering, distribution and transport arrangements.
2.3 Legitimising	Actions to gain external approval, credibility for the venture, e.g. proven quality of operations, image, good business partners, reputation. Includes also very concrete legitimizing, like permissions from authorities.
2.4 Compromising	Actions to achieve a win-win solution in situations of disagreement.
2.5 Convincing	Actions to persuade the other party when it is hesitant about making a decision.
2.6 Helping	On one hand, business related helping: optimizing chemical use, translating documents, developing special products, aiding in business negotiations. On the other hand, being available in any other problems: providing own networks for use in personal problems, recommending good doctors.
2.6 Information exchange	Firstly, formal, organizational type reporting. Secondly, related to the fairs, seminars and seminar trips where more hidden information on future events are exchanged.
2.7 Technology transfer	Concerns primarily the relationship between Kemipol and Kemwater. Has child categories of technical support, adaptations and innovations. The first two are related to Kemwater's know-how and technology transfer to Kemipol but the last concerns the technical development made in Kemipol and transferred to Kemwater.
2.8 Opening the doors	Provision of access to some new network actor by another.
3. Relationship regulators	Major characteristics of the relationships that seem to regulate and determine the basic nature of interactions between the actors.
3.1 Agreements	Notions of how contracts influence the relationships.

3.2 Reciprocity	Notions of the mutual commitment and mutual actions in the relationships.
3.3 Cooperation	Really two-sided efforts for creating wider common interests in Kemipol's relationships. Also some descriptions of the cooperation inside Kemipol.
3.4 Penalties	Authorities have the possibility of forcing to obedience by monetary measures.
3.5 Dependence	Notions especially of dependence on raw materials or some services of the other actors in fulfilment of business deals and business operations. Notions have usually negative connotations.
3.6 Socialist organisation	Notions of how the legacy of the command economy is seen in the behaviour of some actors and how it influences interaction with them.
3.7 Disappointment	Notions of how the kind of feelings that the other party has let you down or is not performing as expected have changed the roles of the relationships
3.8 Service/technical aid	Examples of very concrete assistance or support in some business related problems.
3.9 Trust	Notions of ability to be able or unable to rely on a certain person in problems.
4. Change forces	Triggers of change in the relationship nature or number in the focal net.
4.1 Internal change forces	Changes in the organizational structure or strategies and person changes inside Kemipol. The other type of change forces concerns the operational problems and changes related to those inside Kemipol, like financial or management arrangements.
4.2 Relational change forces	Creators of change that take place inside the focal net. Most often they are related to the strategic position building of the Kemipol's managers. But they include also the person or other changes inside some of the focal net members, which are out of any control of the joint venture managers.
4.3 External change forces	Creators of change outside the focal net of the joint venture.

SUPPORT CATEGORIES

5. Actors	Has categories of authorities, competitors, consultants, cooperation partners, customers, distributors, family, financiers, lawyers, suppliers
6. Shareholders	Has categories of Kemwater, Police CW, Nerco, National Fund, supervisory council
7. Persons	Has categories of required characteristics, roles, teamwork, opponents
8. Kemipol-development	Has categories of initial motivation, growth, market, problems, success

Ad-hoc notes about the impressions, ideas and questions provoked by the data were made all the time. The notes illustrate the thinking of the researcher and are stored in the case study database of the program. By analysing the contents of the nodes and by cross-tabulation of them data-based meanings could be assigned to the theoretical concepts, and relationships between them could be specified. The outcome was an empirically grounded model of the organizing of an international joint venture over a ten-year period in a transition market. The model describes the major change forces that have caused changes in the focal net of the joint venture and created a need for organizing the network anew. It suggests ways in which the networking actions of the managers and the characteristics of the relationships are related to various types of the social relationships characterizing the organizational tie. In all, the analysis of the data could be seen to fit the abstraction proposed by Grönfors (1982:145-146), which means that the final aim was to organize the

data so that the conclusions could be detached from the individuals and specific instances and could be transformed to the conceptual level. Thus, after the detailed description of the examined events (see case study narrative in section 7.2), underlying meanings and logic were looked for (see sections 7.3 and 7.4). Finally these were related to the network and joint venture research fields in the conclusions of the study.

5.5 Criteria of quality

The validity of research design is usually seen to be related to the generalizability of the results implying the extent to which the research findings can be expected to apply also to other populations than the one studied. In case studies the statistical generalizability has been seen as irrelevant due to the unique nature of such studies (e.g. Gummesson 1991:85). The essence of validity could be seen to be in finding as good a fit as possible with the studied aspects and reality (see Easton 1995). Yin (1989:40–45) discusses the validity of case study designs in three different parts. Construct validity is achieved through establishing correct operational measures for the concepts. Internal validity deals with establishment of causal relationships whereby certain conditions lead to other conditions, i.e. the relationships between the theoretical definitions are logical. External validity indicates the fit between theoretical conclusions and empirical data (Grönfors 1982:174).

Reliability is the other measure of the quality of the research design. Basically a reliable study can be repeated. Another researcher should be able to do the study again and get the same results by using just the same research procedures. This requires, for example, minimizing the researcher's effect. However, to the realist orientation and ideographic approach adopted in the present study belongs acceptance of the fact that the view of the reality is created in interaction between the subject and the researcher. This is seen as crucial for understanding and creating meaning (see Burrell and Morgan 1979:6–7). Also from the practical point of view repeating a qualitative study based on interviews has been seen to be impossible because every interview is unique (Hirsjärvi and Hurme 1993:129).

However, there exist several means of improving the overall credibility of the ideographic and realist studies if the research process as a whole is considered. In the present study validity and reliability were improved especially through triangulation (see Jick 1979) and some of the specific tactics suggested by Yin (1989:41). The construct validity was enhanced through the use of multiple sources of evidence. In addition, interviewees were given an opportunity to read the transcripts of the interviews and comment on them. Also,

the narratives combining all interviews of each case were discussed with the key informants. Internal validity was striven for by using previous research and theories as a frame of reference. With respect to external validity the aim in this study was analytic generalization and, therefore, the use of only one case is not a problem although small sample size is considered as a serious impediment to statistical generalization.

In a study which is based on interviewing, validity considerations are also connected with the evaluation of the extent to which the interviewee has given truthful information (Grönfors 1982:174). In the present study the correctness of information was ensured by using multiple sources of evidence as well as multiple interviewees. Moreover, the risks of incorrect interpretations were big in this study due to the crosscultural setting in all but the two interviews and the feedback discussion with the Finnish manager. Interviews between persons from distant countries and different cultures are inevitably confronted by many possible biases, e.g., due to the need to use a language which is foreign to both the interviewee and the interviewer. Also the different cultural backgrounds may create problems in interaction and result in misunderstandings. To avoid this the interviewees were in advance sent some basic information on the research project and an interview outline of the themes to be discussed during the interview. The interview transcripts were also sent to the interviewees for comments to avoid incorrect interpretations. These procedures would not be enough in the case of a more standardized question outline or survey questionnaire in which the correct definitions of the concepts and appropriate wording is of primary importance. However, in the case of informal, face-to-face discussion with the possibility of asking questions and providing further explanations on the spot this was considered sufficient. As indications of a relaxed and confident atmosphere during the interviews are seen the informal discussions at lunches, dinners and in other situations.

With respect to credibility, the subjective judgments which may result when one person is conducting all phases of the study, are seen as additional risks in qualitative studies (Yin 1989:41). Then the researcher's constructs are rarely exposed to examination by others. In the present study during the interviews and joint venture visits to Poland the researcher triangulation was realized. In practice, this meant that the interviews were followed up by another researcher who made notes, presented some clarifying questions as well as observed the interaction. As was mentioned above, this procedure provided an important basis for discussing the various opinions and ideas with a person who could be expected to have insights, which are less predirected than mine as the developer of the conceptual framework. Eisenhardt (1989) sees researcher triangulation as very important for both building confidence and increasing the likelihood of surprising findings.

The reliability of the case study design was improved by developing a case study database as proposed by Yin (1989). Because the study was conducted by one researcher in a hermeneutic manner, the strict and wide case study protocol suggested by Yin was not made. As protocol served the short description of the research, which pointed up the main issues to be covered in the interviews and could be used to present the study to the interviewees. Due to the intentionally flexible nature of the study design, the exact contents of every interview became modified and adapted to the personality and experiences of every individual interviewee. The second round of interviews relied heavily on the findings of the earlier round and the new theoretical constructs taken up after the first round.

The main ingredients of the case study database are the tapes of the interviews and the word-by-word transcripts of them. The notes by the other researcher who participated in the interviews in Poland and the first-impression notes by myself are also stored. The database includes the "stories" of the case as well. These were written, first, on the basis of every single interview and, then, as a combination of all interviews in the case. These more modified and interpreted documents facilitate following up the development of thinking and interpretation of the researcher and, thus, could help others to follow the research process. The N'Vivo database includes also memos and short notes through which the development of the researcher's thinking of the subject phenomenon can at least to some extent be followed in time. The basis for the interpretations and conclusions is also illustrated by direct citations from the interviews in the following presentation and analysis of the empirical data. In all, an endeavour has been made to describe the research procedures above in such a detailed manner that it facilitates evaluation of the research process as a whole and makes it accessible to readers.

Networks in different countries can be expected to have different characteristics, e.g. as regards the character of the interaction and relations, the roles of the actors, the transparency, power structure, interest structure, stability of the networks, and interdependencies with networks in other countries (Håkansson and Johanson 1988; Johanson and Vahlne 1994). That is to say, the networks differ with respect to the degree and type of embeddedness. Similarly, the networking behaviour is supposed to vary between cultures and countries (see e.g. Zhao and Aram 1995; Björkman and Kock 1996; Salmi and Bäckman 1999). Next the specific features of the East European transition markets are analysed in order to describe the empirical setting of the present study. The emphasis is on the expected characteristics of the networks and networking behaviour in these turbulent markets.

6. ORGANIZING JOINT VENTURES IN TRANSITION MARKETS

The opening of the markets in the former socialist countries of Eastern Europe in the 1990s and the still ongoing transition processes have made them an interesting expansion area for western firms. Considerable opportunities in the market exist, especially, for transfer of new technologies (Dyker 1997). Yet, the often dramatic transition process has created turbulent circumstances where the rules of behaviour are vague and changing. Therefore, entry into the East European market often happens through interfirm cooperation, especially joint venturing (see e.g. Törnroos and Nieminen 1999). Joint ventures may provide significant benefits for the partners and have traditionally been preferred by the local governments (Contractor and Lorange 1988). Yet, they also set great requirements for the managers responsible for the development and management of them (see Hellman et al. 1993:14). They need to act in a complex, intercultural setting, and establish relationships to various actors in unknown markets. In the case of international joint ventures in transition markets radical changes in the institutional and other environment are added to the complexity of the multi-parent, intercultural setting of all international joint ventures.

6.1 Change processes in transitional Eastern Europe

The sudden collapse of the communist regimes in 1989 and the striving for market economy in East European countries created unstable circumstances, which are very likely to be reflected in the business establishments. The countries have aimed at creating a market economy through stabilization of economy, liberalization of trade and prices, privatization of state enterprises, and restructuring of industries and the basic infrastructure. However, the transition process is slow and the strong command-economy inheritance can be expected to make the former socialist countries differ from the western market economies for quite a long time. In addition to the economic and political changes, totally new institutions need to be created to govern the behaviour of people (Sjöstrand 1992; North 1997). These institutions do not consist of only a set of legally defined rights and obligations but are mental constructs created through human interactions and exchanges (Sjöstrand 1992: 1010–11). To illustrate the many-sidedness of the transition Nieminen (1994) divided it into three dynamic change processes: systemic, structural and behavioural.

The systemic change process concerns the dimension of transition, which aims at meeting the challenges of a democracy and market economy. It includes political actions, such as the establishment of new legislative and institutional regulations. The two basic patterns of the

political and economic transition at the system level have been shock therapy and gradualism. Poland, for example, adopted the former, which meant very rapid speed of the reforms. On the 1st of January 1990 the newly elected solidarity government introduced a very heavy stabilization and liberalization programme (Hardy 1994:28). The result was that the GDP dropped significantly, inflation was almost 600 per cent in 1990 and still in 1991 about 70 per cent, and the living standard of people decreased constantly. The devaluations of the Polish zloty in January 1990, in May 1991 and in March 1992 were hard steps towards convertibility and strengthening of the zloty. Fortunately quite soon at least partial recovery began. In the political sphere was opened the possibility of a real multi-party system and democracy that, however, has not yet resulted in strong, stable governments. The legal framework has tended to be defective, to change rapidly and create contradictory rules although especially creating more favourable conditions for FDI. (See details on the economic and political developments in Poland in e.g. Mainela 1999; Wysokinska and Witkowska 2001).

The structural change process aims at removing the main economic structures from state control by the restructuring of industries and several elements of the infrastructure. The modernization of the material- and energy-intensive industries, privatization of the state-owned enterprises and move from heavy industries to services and from giant enterprises to smaller ones present some of the greatest challenges in the transition (Nieminen 1999). Also new ventures need to be launched to make it possible to catch up with the West. The older enterprises tend to be constrained in innovating because in the socialist economy the enterprises were only the passive executors of the planning authorities' decisions, and their technology bases are out-dated (Dyker 1997; Johanson 2000). To support the business transformations also the infrastructure, i.e. telecommunication and distribution networks, logistics, information transfer, legal and banking infrastructures need to be restructured.

The above two change processes concern the macro-level changes in the economy. Besides, Nieminen (1994) emphasizes the role of individuals and organisations in the implementation of the transition process. It means change of values and attitudes and ability to implement behavioural patterns that were not allowed in the previous system. In business networks this change evolves through interaction of all the connected actors and the resulting institutions form the new, informal "rules of the game" (Salmi 1995:20). The change of the behavioural patterns at microlevel is likely to be the hardest and slowest of the change processes (Nieminen 1994; Mattsson 1999). The informal social norms and cultural characteristics are not subject to change by laws and regulations. For example, Hamilton and Roszkovski (1991) believed the social environment of Poland would be characterized as an interesting

mix of socialist principles and values and new Polish life style. This may lead to situations where the interactions and behaviour in the market are ruled neither by socialist nor by market economy principles or where either one or the other is applicable in different situations. For example, Kostera and Wicha (1996) have described the peculiar problems that arise from the need to reject the deeply rooted communist principles and adopt market economy principles especially in the Polish state-owned enterprises.

All these three change processes influence the business practices in a transition economy. Therefore, they form also the specific context for the development of an international joint venture and its focal net in the Polish markets. The systemic changes lead to economic and political structures, laws and regulations, which influence the business transactions and which an organization must obey, possibly quite unexpectedly. The structural changes lead to the emergence of new and the disappearance or restructuring of old actors in the market. This is likely to influence the network context of an international joint venture. The behavioural change processes define together with the macrolevel institutions the correct behaviour in business relationships at the level of organizational and individual interactions. To understand the business development in this kind of specific context, for example, Salmi (1995) has seen it reasonable to seek for the emerging network structures.

6.2 Features of international joint ventures in transition markets

In the present study, the interest is in the organizing of a specific type of a business net, in which the core is a cooperative relationship, concretized in the formation of an international joint venture, between distant parties. Therefore, here is briefly discussed the parental determinants of international joint venture development suggested by prior research and the specificities of the East-West joint ventures.

The joint-venture development usually begins with a realization of an opportunity or a threat by one of the future parent companies, e.g., in the form of a product-market opportunity, resource dependence or change in the earlier relationships (Ford 1980; Woodside and Pitts 1996). To realize the opportunity or avoid the threat the firm begins to investigate the different options and starts the search for a partner. In entries into Eastern Europe the Western managers often rely on contacts with embassies, export councils or colleagues for early general information about the markets (Seyed-Mohamed et al. 1996). However, in Eastern Europe even finding a possible partner company may prove difficult. In Poland in 1990 the finding of a possible partner for the Danish plastics pipe

manufacturer, Nordisk Wavin, could not be helped by embassies. Instead, the first step was taken after a Polish businessman, who by chance was seated next to the managing director of the company, named five factories in Poland by putting dots on the calendar map of the managing director (Vestergaard 1999:259). In partner selection, then, the reputation of the local firm and its possibilities of providing knowledge of business conditions, economic trends, products and clients have been the major determinants of partner selection (Arino et al. 1997). The East European firms tend to be very anxious to establish relationships to Western firms to get financial resources and technological or managerial knowledge (Nieminen 1999). Uncertainty about the costs and benefits and distance between the possible partners tend to complicate the early interactions (Ford 1980). In East-West relationships the distance is inevitably great because of the differences in the economic systems, languages, etc. Yet, if the exchanges lead to favourable expectations of reward-cost outcome, perception of resource complementarity and fit in strategic goals at the firm level and sufficient similarity of values at the interpersonal level the process will go on to negotiations (Lorange and Roos 1992:30; Ring and Van de Ven 1994).

In the negotiations the focus is on the formal bargaining over the terms of the agreement but also the informal, social-psychological processes of sense-making need to result in perceived functioning of roles, initial trust, and feeling of fair dealing (Ring and Van de Ven 1994). The general division of responsibilities in the East-West joint ventures may be quite straight-forwardly agreed on (see e.g. Arino et al. 1997; Fey and Beamish 1999; Steensma and Lyles 2000): The eastern partners most often contribute industrial facilities, factors of production and market access, including especially the authority relationships. The western partners, in turn, usually contribute knowledge transfers and financial resources. The agreement-making, however, tends to be complicated because of the incapability of the eastern and western managers to understand each other's business practices (see e.g. Mainela 1999). The idea needs also to be successfully sold to all the relevant individuals in the parent firms (Lorange and Roos 1992:34). In the Nordisk-Wavin case (Vestergaard 1999), mentioned above, this meant selling the idea to the Workers' Council of the Polish factory and convincing the headquarters of the Danish parent with further feasibility studies.

The following interactions in the early implementation of the joint venture are mostly based on agreements. They determine, e.g., the responsibilities and rights of the partners and the formal division of power, and they create the basis for rules and norms guiding the exchanges (Ring and Van de Ven 1994). Consistent, mutual inputs are needed as well as ability to resolve the conflicts and make the learning possible through training or assistance (Bronder and Pritzl 1992; Farhang 1994). In East-West joint ventures the operation start-up

is likely to be hindered by the cultural and operational differences between the parents (Arino et al. 1997; Suutari 1998). The conflicts often concern the striving for goal achievement, time awareness and initiative-taking in problem-solving, which the Eastern managers often lack but which are heavily emphasized by Western managers. Eastern managers have been noted to experience difficulties in understanding the practices of price setting, investment policies, cost and quality control and organizational structures.

Often the Western firms initially appoint their own manager to avoid these difficulties (Estrin, Hughes and Todd 1996; Seyed-Mohamed et al. 1996). However, the western expatriates are also challenged by the need to adopt authoritative leadership styles, strong supervision and complete responsibility for decision-making in the whole organization (Vlachoutsicos and Lawrence 1990; Suutari 1998). The efforts to transfer managerial know-how are worth making. Steensma and Lyles (2000) noted especially the managerial support by the foreign parent to enhance IJV-learning and that way the possibilities of survival of an East-West joint venture.

Seyed-Mohamed and his colleagues (1996) also report that the completion of an operation in Eastern markets will take more time than is usual in Western markets. The managers describe the process as an art to get to the right contact person, to go through the right papers, etc. Bureaucracy is complicated especially if the process includes privatization of a state-owned company (see e.g. Vestergaard 1999). Due to the high uncertainty of the markets, the process of commitment is also often slower. The successful implementation of obligations and resulting satisfactions usually lead to willingness for further commitments and to interactions beyond those formally required (Ring and Van de Ven 1994). The instrumental transactions are institutionalized to taken-for-granted expectations of behaviour, personal relationships increasingly supplement role relationships and informal contracts substitute for legal ones. Finally, the relationship may be dissolved because of fulfilment of its objectives, inability to respond to changed circumstances, internal conflict or dissatisfaction, or the cooperation may be widened based on mutual satisfaction.

This is in general the development process of an international joint venture as it has been described on the parental level. However, especially in equity joint ventures, in which a new business unit is established, the joint venture itself begins to have an independent role quite soon (see e.g. Lorange and Roos 1992:80). This role, and the actions of the IJV-managers in the organizing of the joint venture, seem often to be forgotten in research (Spekman et al. 1998:748). Yet, especially in the East European markets, characterized by great turbulence, the decisions on the operations can be made only by the local operatives with access to day-

to-day information flows (Seyed-Mohamed et al. 1996:91). Through the managerial actions the joint venture is not only internally organized but it is also positioned in the network consisting of relationships with the suppliers, customers, authorities and other actors, as well as with respect to the competitors in the market.

6.3 Relationship dynamics in transition markets

The transition process has greatly changed the nature of business relationships in East Europe. In the command system the formation of all business relationships, both domestic and foreign, were dictated by the plan authorities (see Nieminen 1999; Johanson 2000). A well-defined hierarchy was the main foundation of the whole economy and the driving forces in the networks were not compatible with western networks (Johanson 2000). Mattsson (1999:133) notes, for example, that the connections between the actors were only positive since competition did not exist. The interaction, i.e. cooperation, was very limited as well and direct linkages between the economic actors were more or less non-existent (Seyed-Mohamed et al. 1996). Kostera and Wicha (1996) describe the business making as having needed to be extremely extrovert in the political sphere while it simultaneously was very introvert in the economic sphere. Also the foreign traders were in contact almost only with the state-owned foreign trade organizations (FTOs), which arranged all commercial trade issues. As a result, e.g. Salmi (1995) describes the business contacts of the 1980s as bureaucratic and routinized. This made the planned economy networks very stable.

From the beginning of the 1990s on, the central planning authorities have no longer controlled trade, and business relationships have been based on voluntary cooperation between partners, making e.g. the establishment of international joint ventures and other partnerships possible and common. Besides the freedom of relationship building, the overall turbulence of the environment and the structure and functioning of the markets in general have been seen to create a particularly strong need for relationship building among various actors (Nieminen and Törnroos 1997:192; Johanson and Johanson 1999). This means a great change in comparison with trade under the communist system. For local firms it has meant freedom to pursue own strategies, i.e. establish, develop and disrupt relationships in order to achieve a favourable network position (Salmi 1995:110). Foreign firms have been confronted by the need to actively seek for business partners in an environment where no reliable, detailed information on local firms can be obtained nor public information on the markets exists (Salmi and Bäckman 1999).

For locally operating firms in a transition economy, it has also been seen as a major problem that the old market networks have been severely damaged in the transition and their usability is questionable (Mattsson 1999; Johanson 2000). Also relationships are difficult to establish due to the undeveloped state of the input and output sectors and the bureaucratic regulatory sector. It is not enough to build relationships only the customers when entering any market. But in transition markets the firm may need to get involved in building totally new distribution and supplier networks, banking and other service relationships, even the actors, and the relationships with local authorities are often crucial (Nieminen 1999). A large network of relationships helps the firm to cope with the turbulent environment. However, the turbulence also makes the networks extremely dynamic.

In joint ventures, the network of relationships becomes important already in the partner selection: due to lack of information, references from known actors in the market about a possible partner are important means to assess the partner's capabilities (Arino et al. 1997). In the early stages of the business establishment, an extensive contact network to public administration has been noted as important (Törnroos and Nieminen 1999). The authorities are often essential sources of information and particularly the bureaucracy of a business establishment can be eased and quickened through direct contacts with the authorities and with political actors (Ghauri and Holstius 1996). An example of this is given in the case where the Baltic manager of Vattenfall, a Swedish energy company, could use his personal friendship with the deputy minister of energy to cut through the bureaucracy (see Seyed-Mohamed et al. 1996). Along the development of the joint venture the need to be in contact with the government and other authorities usually diminishes (see e.g. Törnroos and Nieminen 1999). But "own people" in customs, tax bureaus and banks facilitate the handling of business bureaucracy also later on (Salmi and Bäckman 1999). Thus, contacts based on personal acquaintance with the joint venture's permanent staff are often the most beneficial in handling the business bureaucracy in authority relationships.

Creation of customer relationships is likely to be problematic in transition economies. Firstly, as was mentioned above no detailed information on local firms exists. Secondly, new business typically emerges from old business relationships (Salmi and Bäckman 1999:148). Because a new firm does not usually have these contacts, its early relationship creation needs intermediation from high authority or governmental levels or by local entrepreneurs (Bäckman 1997; Ghauri and Holstius 1996; Salmi and Bäckman 1999). Then when some customer relationships are established, they may be directly used as a reference in new business dealings (see e.g. Salmi 1995:161). Overall, the need for references makes business friends an important actor group in East European business life. They may be

customers and suppliers, local entrepreneurs or other businessmen and colleagues. As a major function of these relationships has also been mentioned the acquisition of market information (Seyed-Mohamed et al 1996; Bäckman 1997:46). The most reliable information is got by talking to other businessmen because the statistics are contradictory, inconclusive and out-dated.

As was mentioned above the supplier and subcontractor networks may be very undeveloped in many East European industries. The few existing local firms may also feel it difficult to respond to the demands of the multinational producers entering the market. Therefore, international joint ventures have become common in crucial supply sectors of some global industries. The MNCs have also encouraged their suppliers in Western markets to follow them to Eastern Europe (Dyker 1997). However, the local suppliers are all the increasing in number and can be expected to gradually develop as higher quality producers. The markets do, as well, lack money for any investment, which is likely to bring about various cooperative financing arrangements. Ghauri and Holstius (1996) emphasized especially the role of international and national financing when entering the Baltic States.

Overall, the business making in Eastern Europe is slowly being transformed from hierarchies to network-based as it is in the Western countries. However, the East European markets seem also to differ from Western markets, especially with respect to the stronger roles of interpersonal relationships in business networks.

6.4 Interdependence of business and social relationships

The network approach emphasizes especially that the organizational developments in any business firm are influenced by exchanges and interdependencies in its relationship network with other actors in the market (see e.g. Johanson and Mattsson 1987; Håkansson and Snehota 1989). In business networks also individuals, on different levels and in different functions, build up their own personal networks of contacts. Some are on strict business terms but some develop to become personal contacts (Seyed-Mohamed et al. 1996:77). These webs of interpersonal relationships are the basis for conduct of business transactions.

However, countries have been seen to differ in the relative importance of firm and person relationships in business making (Johanson and Vahlne 1994:92). Importance of personal relationships seems to be a feature of the East-Asian business cultures, particularly Chinese and Japanese (Björkman and Kock 1995; Salk and Brannen 2000). Also in Poland the

personal relationships belong to the culture. This is pointed out by, e.g., Hamilton and Roszkowski (1991). They saw the "załatwik networks", consisting of personal contacts with individuals who are able to provide some services, as one of the most significant parts of Polish life style. Due to the importance of these networks the best way to achieve support is personal interaction. This can also be suggested to have wider applicability in the East European markets because a similar finding was made by Salmi (1995:193–194) who noted the crucial importance of personal relationships in business making in the former Soviet Union. Also Törnroos and Nieminen (1999:293) saw the networks as a prerequisite for doing business in Eastern Europe and as more personal in character than is typical in Western countries. It can be seen to illustrate the need for relationships and the complexity of doing business in the transition markets that lack money, experience of the practices and structures needed in the market economy. When the State cannot be relied on any more and new business is emerging, the only stable aspects seem to be the personal relations, which are used to reduce risks (Johannisson 1995; Salmi and Bäckman 1999:148).

The tendency to rely on personal relationships can also be seen to have its roots in the relationships between the plan authorities and the managers of the command economy (Johanson 2000). Although the relationships were generally one-sided and anonymous the managers had some room to manoeuvre. If the manager had close relationships with individuals in the ministry he could negotiate for additional resources, faster deliveries or reduced quotas in problems to achieve the planned production goals. The institutions of the planned economy did not safeguard the interests of individual partners in business exchange, which made relying on interpersonal trust as the only option (Mattsson 1999:136).

Trusting relationships between the parents have been emphasized in all international joint ventures (e.g. Kemp and Ghauri 1998). However, in Eastern Europe the dramatic institutional changes make the establishment of a joint venture greatly dependent on personal relationships and seem to require early development of personal trust between certain individuals in the parent firms. A great deal of the development of the joint ventures also culminates in the capabilities of the managing directors to create trusting relationships with the parents. Unsuccessful joint ventures seem to differ from successful ones (see cases in Törnroos and Nieminen 1999), especially, due to their failure to win the confidence of the crucial individuals in the parent companies and, thus, to mobilize their critical resources.

In the positioning of their companies in the East European market the western managers have been noted to intentionally make use of both their own and corporate contacts (Seyed-Mohamed et al. 1996:82). The customer-supplier relationships in Russia have been claimed

to rely as a whole on personal acquaintance and direct personal contacts (Bäckman 1997; Salmi and Bäckman 1999) and also the relationships with banks and authorities to be maintained through the person-centred network system. Knowing someone inside or with a relationship with the other actor is crucial to all business dealings. Instead of relying only on the top managers, the relationships to the whole organization can be used (Salmi 1995:112). However, especially in customer relationship creation it is important to find the right person (Salmi and Bäckman 1999:156). Sometimes the decision-maker may not be the obvious one on the basis of the organisational hierarchy.

As was pointed out earlier (see pp. 63–64) the roles of the personal relationships have been noted to be especially related to risk reduction, e.g. lowering the buyer-perceived risks and improving supplier credibility (Turnbull 1979). The risk-reducing roles are very important in the turbulent transitional context. In Eastern Europe the personal relationships may even substitute for the rule of law that is absent (Salmi and Bäckman 1999:162) and, hence, diminish the uncertainty related to the overall functioning of the market (Nieminen 1999). The other important roles are the exchange of reliable information and special services, the assessment of partners, and the persuasion and negotiation (Turnbull 1979; Salmi and Bäckman 1999:162). Personal relationships may also provide crisis insurance and even ego-enhancement. Nieminen (1999) adds to their advantages their direct usability as competitive weapons in Eastern Europe. That is emphasized in the capital and new relationship creation functions (Salmi and Bäckman 1999:162): personal relationships form the network capital that is the basis for setting up new business as well as maintaining and operating (e.g. through recruitment) the firm, and most of the new relationships are created on the basis of recommendations and information obtained from personal relationships.

6.5 Eastern Europe as a context for studying IJV-net dynamics

Previous research on international joint ventures in general, and on the East-West JVs in particular, has primarily concentrated on the parent relationship and its influence on the development of joint venture. This has resulted in a lack of knowledge of the actual organizing of the joint venture's business through interpersonal interaction in the relationship networks. Thus, we don't know much about what international joint venture managers actually do and how they develop relationships with various stakeholders.

The economies in the former socialist Eastern Europe are gradually changing from centrally planned systems towards market economies. This means big political changes aiming at the

establishment of democracies and market-regulated economic systems. The political actions include e.g. liberalization of prices and trade from governmental control, establishment of convertible currencies and privatization of state-owned enterprises. The changes in legislation are also inevitable but the too fast pace of changes has often led to confusing, contradictory and inconsistent laws and regulations. These political actions may be significant change forces causing changes in the focal net of an international joint venture. The structural changes include restructuring of whole industries, in which the major issue is the privatization of state-owned enterprises, and building up many sectors of business infrastructure. Simultaneously business relationships are changing from centrally planned hierarchies to more network-type relationship structures. The business relationships are becoming more and more characterized by voluntariness, cooperation and competition. New actors with new behavioural models are entering the old business networks and the old actors are changing their nature and also totally disappearing. This means that the old ways of behaving in business relationships may not be valid any more. Yet, behavioural changes do not take place quickly but the legacy of communism is likely to be still seen for a long time in the business practices of many actors. The primary change processes in the East European transition markets are presented in Figure 13. These change processes are likely to be reflected in the focal net changes of an international joint venture and the actions of joint venture managers.

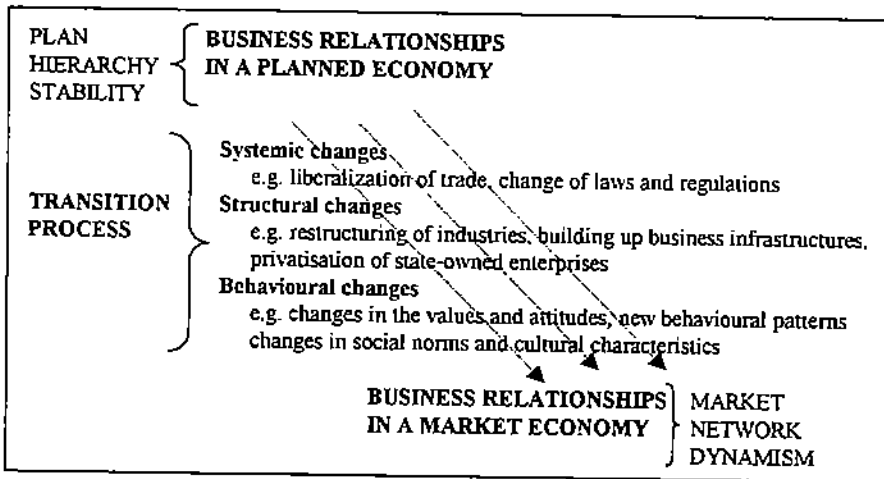


Figure 13. Major change processes in a transition economy of Eastern Europe.

The transition processes have also made the formerly very stable business relationships characterized primarily by dynamism and insecurity. From the beginning of the 1990s on,

both the local and foreign firms have been confronted with the need to actively seek for business partners in an environment where no reliable, detailed information of local firms can be obtained. Therefore, the firms are likely to use various risk-reducing strategies in the establishment of business relationships. One of them is the reliance on personal relationships and another the establishment of joint ventures. The establishment of East-West joint ventures could be seen as based on the inefficiencies of the centrally planned economies. The collapse of the system, on one hand, revealed economies with out-dated technologies and inefficient organizational systems. On the other hand, it opened up great business opportunities and huge potential markets for Western firms capable of risk-taking. Yet, the further development of the joint ventures has been found to be hindered by both the turbulence of the environment and the cultural and operational differences between the parents of different economic systems. In addition, in their attempts to position the joint venture in the markets the international joint venture -managers have been constrained by e.g. lack of information, a bureaucratic regulatory sector and undeveloped input and output sectors with organizations unused to business-relationship building. Therefore, the organizing of joint ventures in Eastern Europe has been suggested to create a need for entrepreneurial individuals. They are able to realize the organizing processes because they use networks to access resources, information and opportunities and manage environmental ambiguities through personal relationships.

At the moment the East European context can be seen to provide especially fertile ground for studying the role of social interactions and personal relationships. This is due, firstly, to the historically and culturally based importance of the personal relationships in these countries. Secondly, the context with undeveloped economic and legal institutions and changing value systems can be expected to strongly push the economic actors towards the use of personal relationships. The reality of an international joint venture in a former socialist country is concretely very turbulent. With the equivocality connected with every new venture and, especially, with intercultural international joint ventures, is combined the huge systemic, structural and behavioural changes in the economy and the institutional instability when both the formal and informal "rules of the game" are changing. The turbulence means that the changes are more rapid and more frequent than in more stable contexts. Therefore, the managers are engaged in recurrent organizing of the joint venture's business. Because of the underdevelopment of the institutions they are likely to rely on personal relationships.

7. CASE STUDY OF THE ORGANIZING OF A NORDIC-POLISH JOINT VENTURE

As stated above, this study is an embedded single case study. Below the development of Kemipol, a Nordic-Polish joint venture, is firstly, presented as a case narrative in which the major events are seen in chronological order. Especially the changes in the organizational focal net are pointed out and these structural dynamics are illustrated in the drawn figures. Secondly, the analysis is focused on the main episodes of organizing, which have created changes in the focal net of the joint venture. The episodes are analysed with respect to the triggering change forces, behaviour of the managers and type of embeddedness. Finally, general-level patterns of how the type of the relationships is related to the behaviour of the managers in their use, and their relatedness to the focal net changes are looked for.

7.1 Background of the joint venture establishment

Kemira Kemi Ab, the Swedish subsidiary of the Finnish chemicals industry group Kemira, initiated the establishment of the Nordic-Polish joint venture, Kemipol Ltd. for production of water treatment chemicals. Kemira operates in the chemical industry with four main businesses: Kemira Chemicals producing industrial chemicals, Tikkurila producing paints, Kemira Pigments producing titanium dioxide pigments and Kemira Agro producing fertilizers. In 2000 Kemira had net sales of approximately EUR 2.5 billion and about 10,000 employees. Kemira Chemicals, which is of interest in this study, has three strategic business units: Pulp & Paper chemicals, Kemwater and Industrial chemicals. Kemwater is the world leader in water treatment and is here the business unit under study.

At the end of the 1980s, Kemira Kemwater was looking for new markets and Poland was one of the areas which were of interest. At that time there was no chemical sewage water treatment in Poland, but there was a big government-owned titanium dioxide producer, Zakłady Chemiczne POLICE (the PLC), creating a vast amount of the basic raw material, called copperas, for water treatment chemicals. This by-product can be refined to water treatment chemicals. The PLC produces titanium dioxide and fertilizers including, e.g. sulphuric acid, phosphoric acid, sodium fluorosilicate, ferrous sulphates and ammonia. The number of employees in the company was about 5,000 in 1990.

In 1989 in total only about 10 per cent of the outlets of the Polish municipalities and industries were sufficiently purified in accordance with Polish rules. Although in the

second half of the 1980s the Polish legislation regarding the protection of the environment had been upgraded and strengthened, only a few companies could fulfil these requirements. Due to this fact Poland was heavily polluted and the water could in many places not be used even for industrial purposes. Not only was there a lack of chemical sewage-water treatment in Poland, but for drinking-water treatment only aluminium sulphate was used. For that purpose only one local producer existed in Poland. The opportunities due to the undeveloped water treatment, the emerging environmental awareness and the cheap raw material were recognized in Kemira Kemwater. The full utilization of opportunities was seen to require the building of a local production unit and the ability to use Polish raw materials and labour to get a competitive cost position in the local market.

At once Kemwater was threatened by price competition in its Nordic home market because the PLC planned to export copperas to the Nordic market and compete with Kemwater's more processed products. This would have harmed Kemwater's operations in the home market. To avoid this, Kemwater suggested that the PLC could process the by-product in cooperation in a joint venture. The PLC had great problems with the copperas that it had only stored for some 20 years of its operation. Copperas made the PLC an inducer of a big environmental problem. It was very important to get good and reliable outlets for copperas because otherwise it would have to stop titanium dioxide production. The joint venture was a means of getting rid of the waste.

In 1990 Kemira Kemwater and the PLC agreed on the establishment of a joint venture of which 40 per cent was owned by both Kemira Kemi (the Swedish Kemira Kemwater unit) and the PLC and 20 per cent by the Nordic Environment Finance Corporation (Nefco). The joint venture aimed at utilizing the opportunities in the emerging markets for water-treatment chemicals and contributing to the solving of the water-pollution problems in Poland. The development of Kemipol over the years 1989–2000 is described below. The development process is divided into six periods, which were seen to differ with respect to the major forces (change forces, actors, actions) driving the development.

7.2 Overall development of the joint venture and its business

1989–1990: Kemipol initiation

Kemira Kemwater started the joint venture project in 1989 by learning more about the possible new market. At that time getting knowledge of Polish markets was quite difficult

because it was the last period of communist rule. In the autumn of 1989 the communist regimes of the Soviet Union collapsed and in Poland began the transition from a planning economy towards a market economy. First, the Kemwater team visited the Polish business development bureau, the Polish embassy and their various symposiums. This resulted in many initial contacts with the market. From the very beginning it was known that the PLC was the partner Kemwater should have in Poland due to the cheap raw material. However, instead of going directly to the PLC the team visited the Ministry of Industry in Warsaw and told about looking for a partner in Poland. By listing the characteristics of the desired partner they got the expected answer: the PLC. The Ministry contacted the PLC. Then Kemwater's team was invited to pay a visit there. As a result the PLC managers became interested in the joint venture establishment and negotiations were commenced during the second half of 1989.

One major issue for Kemwater's team was to sell the idea to Kemira board. The entry into Poland was also a defensive act, which Kemira's board usually rejects in investment decisions. The feasibility study and investment proposal had to clearly point out the opportunities. Additional convincing was needed because this was one of the first Western investments in the East European market about which very little was known and from which it was generally thought to be wise to stay away. As the major problem was regarded the lack of money for environmental investments, such as sewage-water treatment, because the country had severe economic problems. This made direct customer contacts topical in a very early phase, when the selling of the idea to the board in the headquarters required commitment from some big customers that if Kemira started to produce water treatment chemicals in Poland they would buy from the plant. For example, the city of Gdansk was just about to establish the first international joint venture, a treatment plant, for managing water and sewage treatment in Poland with a French company, which made them interested in the modern chemicals of Kemira.

Overall, the risks were considered so big that further risk sharing was required. Therefore, contact was taken to the Nordic Investment Bank (NIB), which was about to establish a new institution for environmental investments, Nordic Environment Finance Corporation (Nefco). As a result of Kemwater's negotiations with the NIB, in September 1990 NIB's board decided to recommend Nefco to participate in the Kemipol-establishment with both share capital and a shareholder loan as soon as the institution is registered. Also the Polish universities and authorities were contacted to get information about how aware they were of chemical water treatment and how they regarded the possibilities of its use in Poland.

The negotiations took in total over one year. The liberalization of East Europe, which took place at this time, made the situation unstable and the rules of behaviour unclear. Legislation was constantly changing and new laws were made all the time, which made the rules of contract-making unclear and created mutual suspicion. The biggest obstacle in the bargaining was the inexperience of the two negotiation teams regarding each other's business cultures. The Finnish-Swedish team was unaware of the Polish way of doing business. The incapability of the Polish managers to understand the concepts and the way of doing business in a market economy created an exceptional problem in the negotiations as told by one manager: "It was negotiation and education at the same time". The situation was further complicated by the language barrier and internal disagreements in the PLC. Quite soon the PLC hired a law firm to take care of part of the formal negotiations. During the negotiations the partners considered very different issues as the most important ones but the greater experience of Kemwater's team made them gain. For example, Kemwater got the exclusive right to sell copperas outside Poland. The inexperience of the PLC was reflected especially in getting some big concessions through without any questions whereas deciding a single word in a contract could take hours of negotiation.

Finally, the joint venture agreement was signed on the 16th of December 1990. The Polish government had announced that a new law of investments would be introduced at the beginning of 1991 and the three-year tax holiday in the then law of investments applicable to all international joint ventures would be cancelled. Therefore, the signing of the agreement had to be in December although all arrangements were not yet clear. Because of this hurry the company was initially registered as a 50-50 joint venture having as its owners only Kemira Kemi and Zakłady Chemiczne POLICE. Nefco was not yet registered and therefore it was decided to increase the share capital to include Nefco right after it had its legal body. Kemwater secured keeping the majority of the shares on Western partners by option on Nefco's shares. In addition to company agreement, other agreements were made about all kinds of activities of the company, e.g., raw material supply, marketing and company formation. As a result seven contracts regulate the operations of the joint venture and the cooperation between the parents.

During this initiation period of 1989-1990 there was no joint venture yet. Therefore, the early network, illustrated in Figure 14, is the network around the focal dyad of the major partners. However, the network is already quite large especially with respect to the official ties.

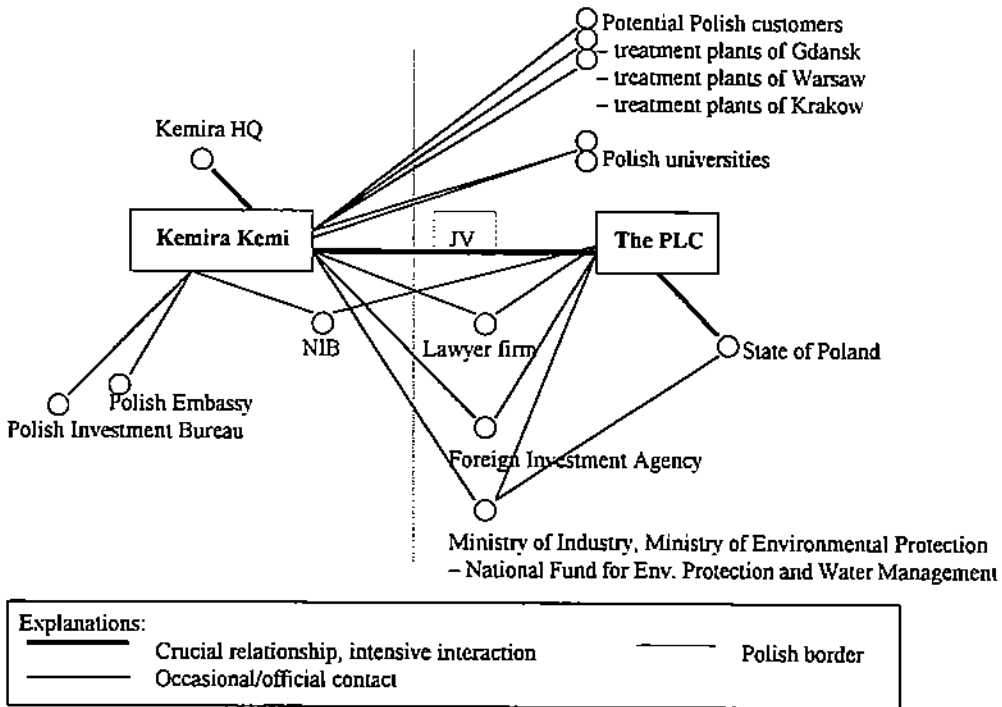


Figure 14. Initial network for Kemipol establishment in 1989–1990.

1991: Kemipol construction

At the beginning of 1991 the implementation of the joint venture agreements was begun. Nefco was registered and became a shareholder of Kemipol with 20 per cent ownership. It financed the joint venture with this equity investment and a loan. With respect to operation start-up the managing director of Kemwater's Norwegian unit took charge. He acted in practice as the managing director of the company for the first half a year before Kemwater could find a managing director to effectuate the two-year period of the management contract that Kemwater had made. Kemira Kemi's Finnish marketing director, in turn, was responsible for market creation and marketing support for the new company. From the PLC they were supported by a technical manager who had represented the PLC from the very beginning. The technical manager was appointed as the production manager. Together the Kemwater's managers and the technical manager started to look for personnel for the company and controller was hired in February 1991. The first office of Kemipol was located in the buildings of the PLC.

The plant construction was the responsibility of the PLC and it began in March. Because the PLC had also agreed to supply Kemipol with the basic raw material, copperas, as well as sulphuric acid, process water, steam and electricity the companies were connected by pipelines. The technology transferred from Kemwater to Kemipol consisted of the basic design, process know-how, production licence and management and marketing know-how. The PLC made the detailed design containing machines and equipment, and acquired the hardware according to instructions from Kemwater. There was also a project group from Kemwater which took care that everything was in practice made to fit the basic design. In May 1991 Kemipol hired a managing director from Sweden. He was a Swedish citizen and had acted as a manager of a Swedish company for the last few years. He had lived in Sweden some 30–40 years but was originally Polish. Thus, he was thought to be well suited as the transferor of management know-how and as leader of the Polish staff.

The plant construction created the first serious conflict in the cooperation between the partners. The difficulties were generated by low estimates about the costs, for which the PLC was paid a lump sum by Kemipol. Although the negotiations about the sum had taken a very long time, already in a meeting in June 1991 the PLC announced that it needed three times more money than had been agreed on. The numbers calculated by the PLC had seemed low to Kemwater's people when compared with the Western costs but it was hard to estimate the Polish costs. When the construction started the PLC noted that the only way to construct the plant in accordance with the planned time schedule was to buy equipment from Germany, France and other Western countries. Soon the management became worried about the time limits and the capability of their own staff to complete the plant in accordance with Western standards. An East-German company was asked to complete the plant construction as a turnkey project. Due to the huge increase in the costs the PLC asked Kemwater to compensate for the costs but Kemwater's managers were afraid that if they gave in now the same would be needed in other contracts too. They appealed to the joint venture agreement, which stated the terms approved by both partners. This made the cooperation in the supervisory council of Kemipol impossible. The situation was made still worse by the simultaneous change of the top management of the PLC. Finally, Kemwater gave some concessions and the PLC did not use the East-German contractor. Still the plant construction became much more expensive than planned.

Simultaneously with the plant construction the market development for Kemipol's water treatment chemicals was begun. In addition to the fact that the marketing function had practically not even existed during the communist regime, the challenge was widened by the need to create the market from scratch. In Poland nobody could apply chemicals in

sewage-water treatment; there had not existed coagulants. Also in drinking-water treatment only aluminium sulphate was used. Introducing ferric coagulants needed different expertise. Thus, close cooperation was needed. To speed up the market creation Kemwater made an export marketing agreement with a Czech firm, Precheza, which produced similar kinds of chemicals as Kemwater. Precheza's chemicals were transported to Poland, the product was presented and many early customer contacts were created. The biggest success was that the Warsaw water works was this way got as a customer, which was initially supplied from Pracheza. It meant several thousand tons of yearly coagulant sales.

In sum, 1991 was the year of Kemipol construction during which the facilities were built and the first employees were employed. The relationships of Kemipol, other than with the parents, were still mediated by the parents. They got in contact with customers, suppliers and others. The direct relationships of Kemipol were quite occasional as seen in Figure 15.

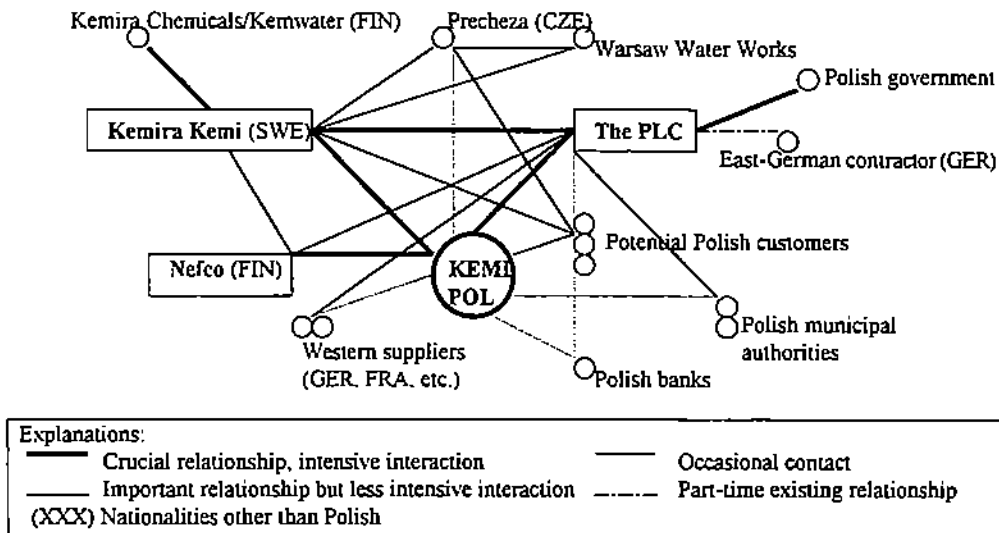


Figure 15. Focal net of Kemipol during the plant construction in 1991.

1992–1993: Start-up of Kemipol's operations

The plant construction took about 14 months, which is a normal time although somewhat delayed in relation to the plans. The trial running of the production was in April 1992. The first operators were employed four months before start-up. Kemwater was responsible for

starting up the plant based on the know-how and technology agreements. Kemipol's core staff was involved from the very beginning in the company's development as they worked with Kemwater's people, who were in Kemipol during the start-up for a couple of weeks. Due to the language barrier the staff was mainly trained by working together with Kemwater's people. The start-up of the operations was financed by shareholder loans from Kemira, the PLC and Nefco. Also Swedfund granted a loan in the beginning of 1992.

In the first year of operation Kemipol's marketing efforts were concentrated on the drinking-water sector, although the future of Kemipol was known to be in sewage treatment. In drinking-water treatment chemicals were used and Kemipol's iron-based coagulant, PIX, was competitive in comparison with more expensive aluminium-based ones. In April 1992 Kemipol signed PIX-supply agreements for drinking-water treatment with water works in Warsaw and Tomaszow based on the efforts of Kemwater's marketing team. Between 1992 and 1993 a special sort of PIX was produced at Warsaw's request.

In 1992 an oxygen-supply agreement was also signed with a Polish supplier and a transportation contract with Tankpol Ltd for hiring wagon-tanks. However, this required a railway siding on the customer's site, which was seldom available. The truck-tank alternative became more frequently used and a transportation agreement was signed with Anneberg, a Polish-Danish joint venture. Based on an agreement between Kemira Kemwater and a Swedish producer of storage tanks, Hjalmar-Andren, Kemipol, ordered tanks needed by its customers from Hjalmar-Andren's Polish subsidiary Metalchem-Andren. The other equipment needed by Kemipol's customers came from Kemwater in Helsingborg. When Kemipol could start the commercial activities the imports from Precheza were stopped. Because the commercial activities could only start at the end of May, Kemipol reached only half of its sales budget of the year 1992, but during the autumn the sewage-water sector began to show signs of development.

In 1992 the devaluation of the Polish zloty caused the second serious crisis in Kemipol. When the devaluation was combined with inflation of some 40-50 per cent, the loans of Kemipol, which were all in foreign currencies, generated big extra costs. When the loans needed to be revaluated the loss of Kemipol became even comparable to its share capital. The outcome was serious lack of money, which caused a lot of discussion between the partners. As a solution the loans by Kemira Kemi, the PLC and Nefco were transferred to the share capital in 1992. The financial structure was totally changed and a stable financial situation created. This made the company profitable very quickly. The only loan that had to be paid back was that from Swedfund. The struggle with financial problems also resulted

in a decision to offer a share of Kemipol to the Polish financial institution National Fund for Environmental Protection and Water Treatment (the National Fund hereafter). The managers of Kemira Kemi and the PLC had already had contacts to the National Fund earlier because it grants loans to ecological investments in Poland. In September the shareholders decided to increase the equity of Kemipol by issuing 115 new shares and 15 per cent of Kemipol's shares were sold to the National Fund. Before the revaluation the National Fund granted Kemipol a loan of PLZ 6 billion. After this change Kemira Kemi and the PLC owned 34 per cent and Nefco 17 per cent of Kemipol's shares.

The production of ferric coagulants had started without problems and PIX quality was noted as good by the Polish Health Authorities in 1992. But more support was needed in marketing. Kemwater's managers participated in the selection of marketing personnel and to Kemipol was hired at first two and at the beginning of 1993 another marketing engineer, who participated in marketing training in Poland and in Scandinavia to learn the basics. One of the marketing engineers left soon and Kemipol had only two marketers travelling around Poland. The Nordic experts from Kemwater spent almost every second week of the first couple of years in Poland. They realized the marketing support through training the local engineers on the spot. The marketing manager of Kemira Kemi and the other Nordic marketers met the potential customers with the Polish engineers in order to transfer knowledge and to make them able to learn from Kemwater's experience. To make the potential customers acquainted with chemical treatment and the firm, Kemipol took part in fairs, arranged seminars and seminar trips to Scandinavia for the customers during 1993.

In April 1993 Kemipol made an agreement with the PLC about sole agency for selling copperas on the Polish market. The sale was stable during the year and together with copperas used for PIX, Kemipol fulfilled the condition of using 20,000 ton of copperas per year. In the first half of the year 1993, the pollution in copperas caused problems in the PIX-production but after complaints the second half was better. During the holiday time Kemipol had also problems with supply of technical steam from the PLC. As a result it was agreed that the PLC should build an additional steam line as an emergency supply.

During the year the choice of the first managing director of Kemipol proved to be unsuccessful. Although originally Polish he was not able to understand the situation in Poland and work in the turbulent conditions in a small firm. This made the cooperation between him and the Polish staff, as well as with the shareholders difficult. Due to these problems Kemwater's Norwegian manager was required to spend a lot more time in Poland to support him than was expected. During that time he taught Kemipol's controller

how to manage the company, to do the reporting and to handle the economic planning and other managerial issues. In practice, the controller soon became the real partner of Kemwater's managers. Officially the change of managing director took place in May 1993 when the controller of Kemipol was hired for the pose. The new controller was hired in June and in November, Kemipol employed three operators. At the end of 1993 Kemipol had eight operators working in three shifts and in total the number of the personnel was 16. The period 1992–1993 was the time for the real start-up of Kemipol's operations. It began to have direct customer and supplier relationships although with respect to the customer relationships it was still largely supported by Kemwater's experts. The relationship with the biggest customer Warsaw Water Works became strong because of the heavy dependence of Kemipol on these sales and the technical cooperation between the organizations. Due to financial and management problems the parent companies also interacted intensively during these years. The focal net is illustrated in Figure 16.

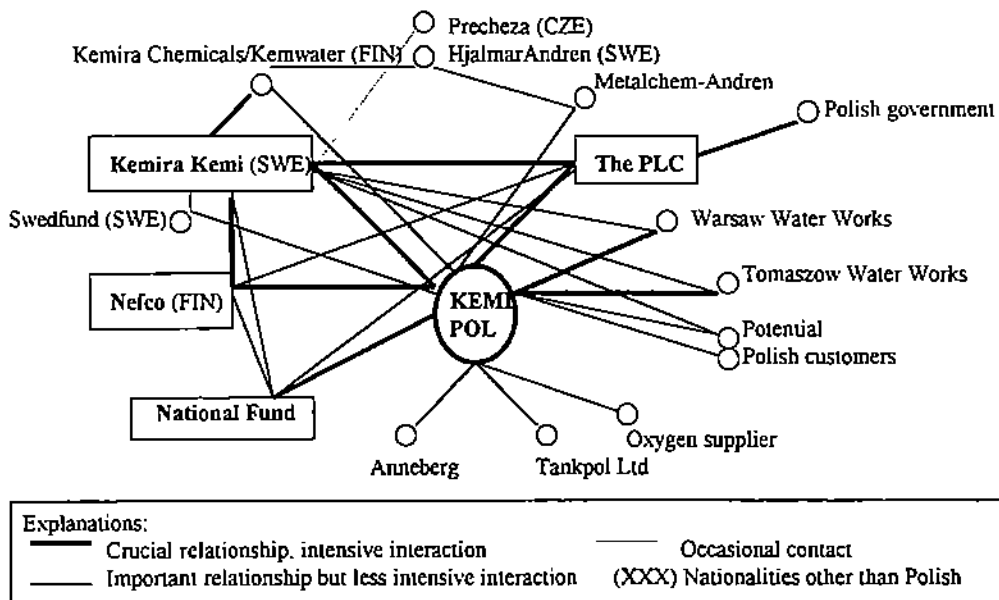


Figure 16. Focal net of Kemipol during the operation start-up in 1992–1993.

1994–1996: Stable growth

The year 1994 included many internal changes in the organization of Kemipol. After the new managing director had taken over in mid-1993, the activities of Kemwater's

Norwegian manager in the management of Kemipol were reduced. The new managing director could take care of the operational management of the company. At the beginning of 1994 one of the marketing engineers was promoted as the logistics and equipment manager and a new person for the logistics was hired. After having imported equipment packages to the Polish customers from Kemwater for two years, now it was decided to try to complete the installations with parts available in the Polish markets. The clients were such different sizes that it was quite uncomfortable to order the installations from Sweden. Kemipol made agreements for tanks and accessories with Polish companies but could not find a good local company to supply dosing pumps. They were imported from Germany. At the end of the year Kemipol's equipment was used in 60 plants in Poland and there were also direct sales of equipment without full-scale tests. This made a change of organization structure reasonable: a two-person equipment department was established to ensure professional customer service and to be independent of third parties in equipment installations. During the year the personnel of the company was also increased with two new marketing engineers (in the end of the year Kemipol had five marketing engineers) and one person to the financial department. The implementation of the ISO 9002 standard was begun with assistance from Kemira Miljo.

With respect to the parent relationships, problems were still caused by the almost yearly change of management in the PLC. This also meant yearly change of the members of the supervisory council of Kemipol. The changes created lack of commitment on the part of the PLC because the people who had initially been committed to the joint venture project left. This made a development of trusting relationships impossible and relying on gentlemanly agreements impossible. On the part of Kemira Kemi, in turn, Kemipol's development was well supported. The management and production of Kemipol was noted as well organized. On the production side, Kemipol's production manager was asked to give technical support to Kemwater's Kemivesi subsidiary in Estonia. Marketing assistance, however, was still needed. Although the every-other-week visits of the Nordic experts were not needed any more, the experts still came in problematic cases to help customers with chemical application. The aim was to help the Polish marketing engineers to avoid the most common difficulties.

In the supervisory council continuous disagreements were caused by the amount of coppers use which the PLC all the time considered too small. Yet, the bigger conflict concerned the amount of exports. When the zloty became normally convertible currency the earnings in Western currencies were not absolutely needed and when the local market grew exports diminished. The PLC could not see the development of the local market as

removing the need to export and saw the exports to be less than Kemwater had promised to get the exclusive right to sell the copperas abroad. Probably the unclear targets of copperas use and decrease of exports combined with the exclusivity given to Kemwater to make the PLC feel tied. When to these was added the belief that it had paid too much for the plant, the PLC started to export copperas to Germany, thus violating the agreement with Kemwater. To solve this, in a situation of low trust and lack of understanding of the market mechanisms by the Polish partner, took a long time. Finally, the PLC stopped the exports and to compensate Kemwater made a contract for a concrete amount of future exports.

In the Polish market the marketing engineers served without quality problems the current customers and performed full-scale tests with new customers. In addition to the technical support and tests, the market creation was intensified through information given in fairs and conferences arranged all over Poland. Kemipol also organized seminars and seminar-trips for customers, for design and consulting offices and for professors. Kemipol also got its biggest export order when German Berlin Tegel ordered half of its yearly need from it.

From 1995 on Kemipol has again had three owners with ownership shares of 51 per cent by Kemira Kemi, 34 per cent by the PLC and 15 per cent by the National Fund for Environmental Protection and Water Treatment. At the end of the year 1994, Kemira Kemi bought the shares of Nefco. The National Fund supported Kemipol by waiving half of its loan. It strengthened Kemipol's financial situation and that was seen as a big concession. On the technical side Kemipol developed new technology for oxidizing PIX and trained operators from Kemwater's newest Central-European subsidiary, Kemifloc, regarding the oxidizing of raw materials. Also Kemwater's intensive marketing support was stopped and Kemipol began to be operationally very independent of its parents. However, there still remained strong dependence on the PLC for the basic raw material, copperas.

In marketing one new engineer was employed. The sales of PIX increased by double of the budgeted amount. However, the sales of PIX for drinking-water treatment decreased and the increase in sales was the result of a fast-growing number of sewage-treatment customers. Thus, Kemipol's customer focus was changing in the planned direction. Kemipol also began the introduction of a new aluminium-based chemical, PAX, through imports from Kemwater in Sweden. PAX is especially appropriate for drinking-water treatment, because it is easier to use and does not give any colour to the treated water. The exports of Kemipol increased as well remarkably because a two-year contract was made with Berlin Tegel. The information transfer and position creation continued in 1995 and 1996 with taking part in fairs, conferences and seminars and organising seminars by itself.

Kemipol also started cooperation with Gdansk Water Fund. As a result of the growing number of customer relationships the number of transport suppliers was increased to four. Three Polish transporters made the majority of the domestic deliveries. They charged lower prices than Anneberg, which took care of exports. The railway transports by Tankpol Ltd were stopped. In 1996 production capacity of Kemipol was increased from 50,000 tons to 80,000 tons a year. The implementation of the third reactor was finished in September. Market creation for PAX continued and about 2,300 tons of this aluminium-based coagulant was imported from Kemwater in Sweden and sold in the Polish market. The domestic and export sales of PIX increased also significantly compared with 1995. In April 1996 Kemipol reached a new sales record of 5,200 tons of PIX sold within one month.

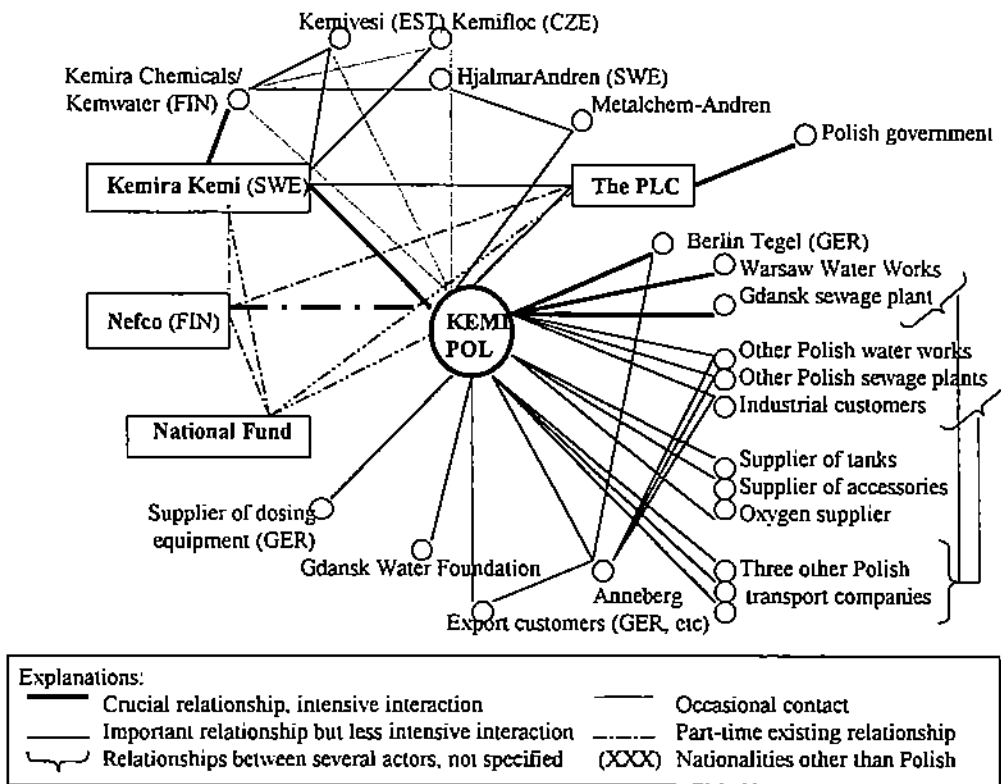


Figure 17. Focal net of Kemipol during the growth period 1994–1996.

During the years 1994–1996 Kemipol became operationally more and more independent of the parents and began to have a certain position in the Polish market. Yet, the focal net was

widening considerably as a result of success in customer creation and a related increase in transport and equipment suppliers as seen in Figure 17.

1997–1998: Market problems and new strategic focus

Towards the end of the previous period the relationships of Kemipol with the PLC began to stabilize especially because of the more stable management situation in the PLC. From 1995 on, it had had the same president, which meant that the supervisory council members were not changed every year either. During both 1997 and 1998 there were some problems in production due to too much titanium dioxide in copperas delivered from the PLC. These problems were solved on an everyday basis. On the Kemwater side the Swedish vice-president of Kemira Kemi and the Norwegian managing director of Kemira Chemicals had been named as members of the supervisory council from 1995 on. They had been very much involved in the early development of Kemipol. Also the controller of Kemira Kemi, the third council member, proved to be cooperative with regard to Kemipol's managers. PAX imports from Sweden continued and strengthened the offering of Kemipol in the Polish market. Kemipol acted also as an agent for Kemira Finland by delivering paper chemicals to Polish customers. Supported by Kemwater in Finland, Kemipol exported also PAX for a water treatment plant in Kaliningrad for half-year periods in both 1997 and 1998. Based on the smoother interaction between the supervisory council members also the relationships between Kemira Kemi and the PLC were seen to be finally good.

However, problems were about to arise in customer relationships. For 1997 Kemipol lost the tender for its most important export customer of the last two and a half years, Berlin Tegel. In 1997 there was also a big flood in Poland that made Kemipol lose its oldest and biggest drinking-water customer, Warsaw Water Works. This was a dramatic change in the focal net because Warsaw Water Works had been a very important customer of Kemipol from the very beginning. Besides, the chemical dosing at some of the other biggest customers were optimised, which meant somewhat lower consumption. Simultaneously the modernization of the water treatment began in several plants. The old mechanical systems were replaced by biological treatment systems, which again meant lower consumption of chemicals. As a result, in the second half of 1997 the sales of PIX stabilized at a lower level than earlier. However, the creation of new customer relationships was successful and one new transport company, Siergiej Transport, was hired.

The lobbying activities and the relationships to consultants and authorities were noted as more and more important due to the strong pressures from the supporters of biological

water treatment. The designers and consultants seemed to favour biological treatment and preferred modernising the plants for biological treatment methods. The relationships with the designers are important because Kemipol's installations must be made according to their plans. In 1997 Kemipol signed the first agreement with a designing office in Krakow. As a whole the financial development and the feasibility of the operations were satisfactory but this was felt as a disappointment after so many years of more rapid growth.

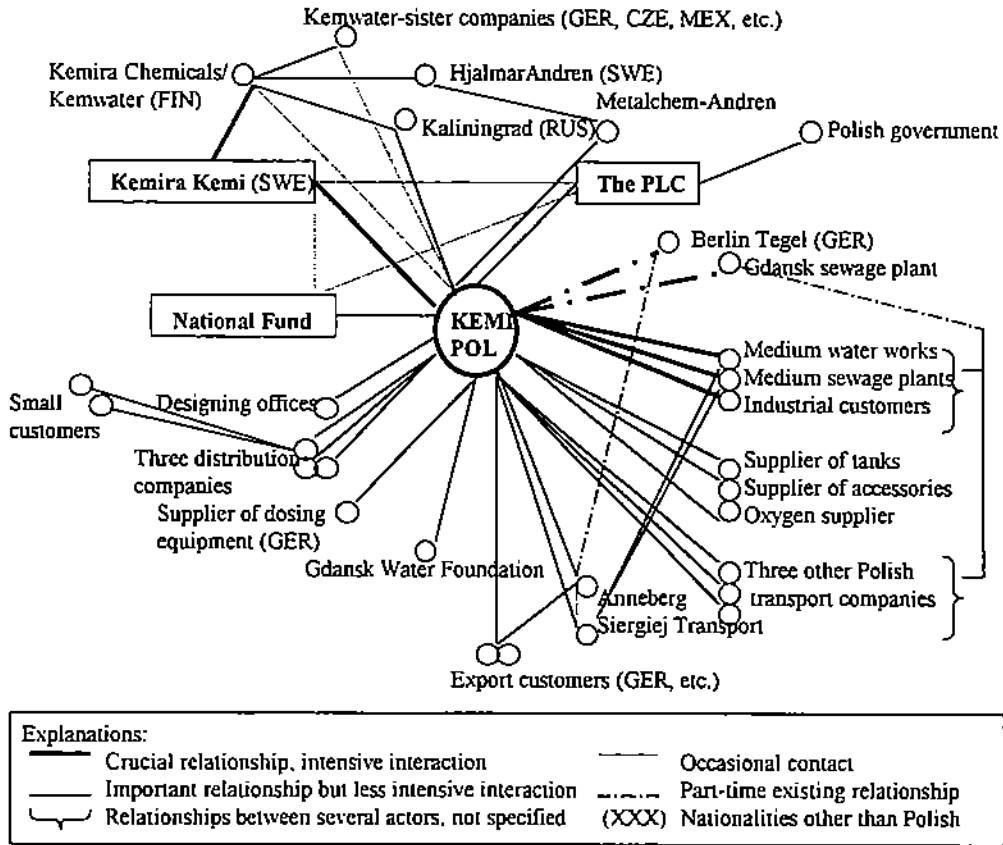


Figure 18. Focal net of Kemipol during the period of market problems and change of strategic focus in 1997–1998.

In 1998 Kemipol lost its biggest sewage-water-sector customer when the sewage plant of Gdansk was modernized and a biological treatment system was installed. Fortunately, Kemipol came strongly back to exports as Berlin Tegel came back. However, after the loss of the two biggest customers, Warsaw Water Works and the Gdansk sewage plant, there

was seen to be a need to change the market strategy. The marketing efforts were changed more towards smaller customers to decrease the dependency on a couple of very big ones. As a result the number of the small and medium sized customers increased considerably and the company became more securely positioned in the market although their influence on sales was not so big. In spring 1998 Kemipol also began its own production of PAX. The introduction of PAX provided a safeguard against the competitors' entries, made Kemipol more flexible and made its product assortment more complete. In 1998 Kemipol also made agreements with three distributors who began to serve the smallest customers. Kemipol continued its marketing activities in the form of taking part in international fairs and seminars and organising seminars for customers both alone and in cooperation with the Gdansk Water Foundation. Also Scandinavian seminar-trips were arranged. The development in 1998 the managing director of Kemipol describes as "positive despite the difficulties connected with the introduction of biological methods for the biggest customers". The sales of both PIX and PAX increased.

In all, the years 1997–1998 proved to be quite problematic, since Kemipol lost three of its oldest and biggest customers. As a result the company chose a new strategic focus: it added the production of PAX to its product line and actively widened the customer basis to small and medium-sized companies to decrease the dependence on a few very big ones. The focal net of Kemipol in the years 1997–98 is illustrated in Figure 18 above.

1999–2000: Coming back to stable development with wider focus

The years 1999–2000 finally made the relationship of Kemipol with the PLC primarily cooperative. The managing director describes them as having good supervisory council members whom she can consider as partners in the business development. From 1999 on Kemipol has finally been able to sell PIX to the PLC, which is considered as a great success in this relationship although they still do not use PIX in the sewage plant. In the relationships with Kemira Kemi changes occurred in 2000 when two supervisory council members were changed. Only the Norwegian chairman stayed. As a whole Kemipol had become well linked to its Kemwater sister companies and Kemipol's staff cooperates with many persons from e.g. Sweden, Finland, Germany, the Czech Republic, Spain and Mexico. The relationship with the National Fund became more and more characterized by disappointment. It had been expected to support the implementation of chemical treatment in Poland and that way assisting Kemipol's marketing. Yet, in this respect it was felt to have done nothing and its supervisory council members were often seen to hinder effective decision-making. Some managers even thought that there was no need for this partner.

The preference for biological methods in building the new sewage treatment plants and for modernizing the old ones restricted especially the PIX-sales of Kemipol in 1999, and the monthly growth of sales could not be kept up. The sales of PIX also still suffered from the loss of Gdansk and Warsaw. PAX-sales, in turn, increased almost twofold from 1998 and this was a big success of the year, because the competition from the old Polish competitor Zlotniki was hard. The strong competition meant the necessity of offering different kinds of PAX (five types in 1999) and demanded larger flexibility in fulfilling customer needs. The small and medium-sized customers became more and more important. The number of customers served directly from Kemipol was 242 (207 in 1998). In addition, there were the smallest customers, which were served by the distributors. In 1999 Kemipol began negotiations with Cytec, an American producer of polymers for the agency agreement in Poland. After hard negotiations Kemipol was chosen as the agent in Poland for Cytec's polymers and a challenge of the year 2000 was the introduction of this new product to the Polish customers. However, the competition was very hard because in the Polish market already existed three multinational polymer producers.

In 2000 Poland applied the strict environmental requirements similar to the directives of the European Union. The phosphorous limits, requiring the use of chemicals also in biological treatment plants, influenced Kemipol's PIX-sales in about the middle of the year. Of the previous very important customers e.g. Gdansk began again to use PIX for sludge handling although in smaller quantities than earlier. In July and August 2000 Kemipol could come for the second and third time to the record line of over 5,000 tons of PIX sold in one month (the first time was in 1996). Now it was achieved based on the medium-sized customers. The sales of both PIX and PAX rose remarkably and the number of customers buying over 100 tons per year rose to 128. The number of medium-sized customers rose by about one third and the distributors served more and more small customers. Intensive cooperation with customers and striving to fulfil their distinct needs increased the number of PAX-specialties. In December 2000 the PAX-plant enlargement was finished. Equipment sales were also growing and the polymers sales began satisfactorily. As a result of an increase in number of smaller customers and in equipment sales two new persons were employed in the equipment and logistics department. Cooperation was started with two new distributors, and the number of transport companies was increased to seven. Kemipol also continued the participation in fairs and seminars, and the arrangement of seminars for both customers, authorities and Kemwater-subsidaries.

In sum, during the years 1999–2000 Kemipol was able to come back to strong growth and development with a wider strategic focus. The result was a wide focal net (see Figure 19).

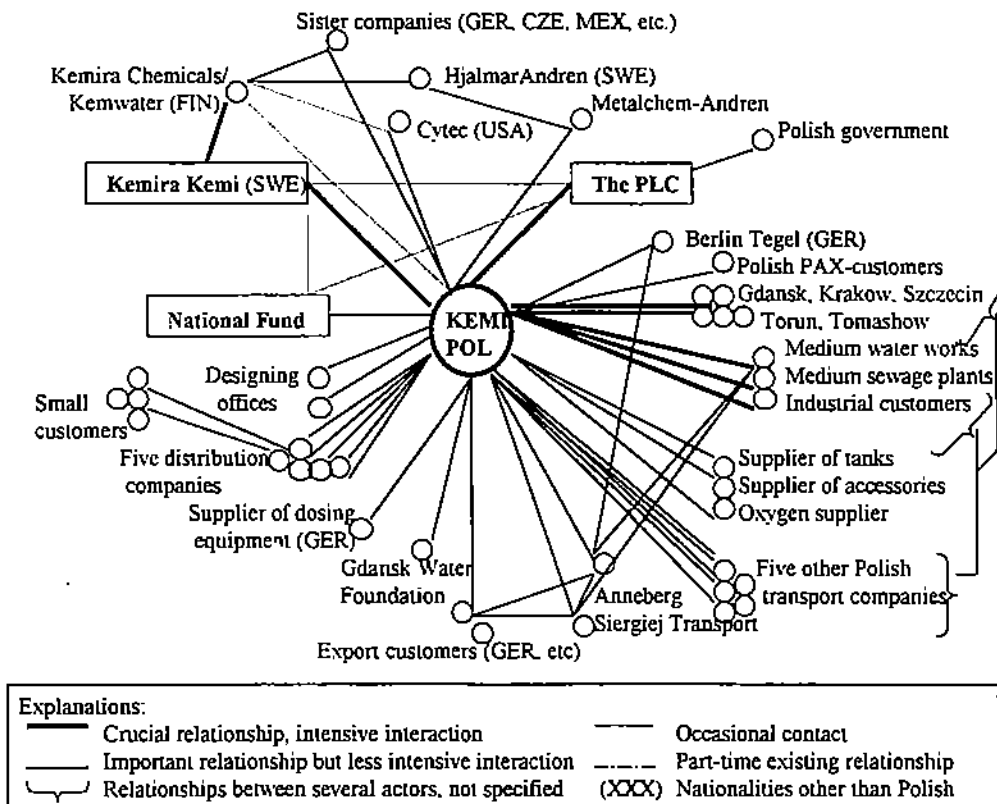


Figure 19. Focal net of Kemipol when coming back to strong growth in 1999–2000.

7.3 Dynamics of the focal net

Above the development of Kemipol was described at the overall organizational level. The structural changes in its focal net and the major episodes of organizing over time were pointed out. Now a more thorough look will be taken at the events that are related to the changes in the focal net. It will begin with the analysis of the change forces. Then a deeper scrutiny is made of the managerial actions in the events to find out about the behavioural dynamics and the role of the interpersonal relationships in the development of Kemipol.

7.3.1 Change forces

To begin, the major change forces during the years 1989–2000 are divided into internal, relational and external ones. The external change forces consist of the creators of change

outside Kemipol's focal net (see Figure 8 p. 71). As relational change forces are named all the creators of changes that take place inside the focal net. Most often they are related to the strategic position building of Kemipol's managers. But they also include the personal or other changes inside some of the focal net members, which are outside any control of the joint-venture managers. The internal change forces consist of the creators of change inside Kemipol. Many of them are changes in the organizational structure or strategies and person changes. The other type of change forces concerns the operational problems and to them related changes inside Kemipol, like financial or management arrangements. The major change forces are presented in Figures 20–24. However, this division into three kinds of change forces simplifies the reality. In practice the external, internal and relational change forces are often related to each other, i.e. a change in the external environment may cause a change in the selling strategy of the firm, which then causes a change in how it approaches its customers. The trigger for change may also be managerial action.

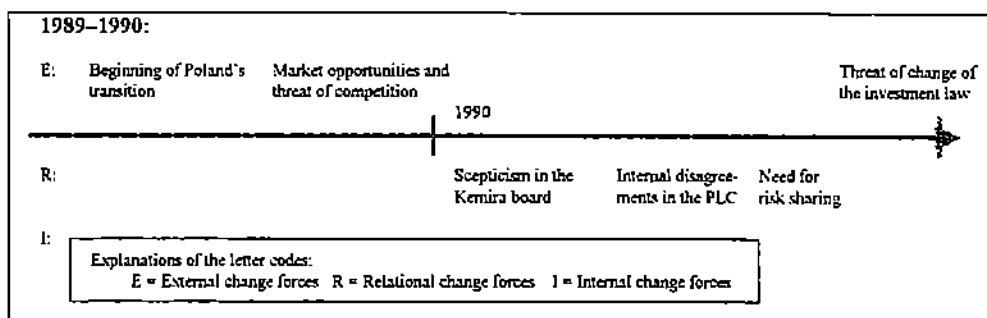


Figure 20. Change forces in 1989–1990.

In the initiation period of 1989–1990 all change forces can be seen to be related to the beginning of the transition of Poland to market economy. The opening of the new possibilities to both foreign and Polish firms, the lack of knowledge of the Polish markets and the insecurity of the Polish developments are the basis for all change forces. This big external force, the transition process, leads to perception of two external threats by Kemwater-managers: the competition created by the exports of the PLC and change of the favourable investment law. They are related to acts to begin and speed up the Kemipol-establishment between Kemira Kemwater and the PLC. At the relational level (in the parent relationship) all actors are insecure about how they should behave in the turbulent business context and feel the need for risk reduction. These forces induce acts to establish relationships supporting the joint venture establishment.

At the beginning of 1991 Nefco was registered and could buy the initially agreed shares of the joint venture. The year 1991 was also very much influenced by the transition process. Although as the dominating change forces arose the conflicts in the parental decision-making, behind them to great extent laid the external turbulence created by the transition. The distrust of the capabilities of the Polish employees was a result of the insecurity as to how well the planned economy practices fit the emerging market economy. Behind the budget excess in the plant construction was the great inflation in Poland and the incapability of the managers to evaluate the costs when the value of money was changing very rapidly. The management changes in the PLC were related to the systemic changes at the governmental level as well. The underdevelopment of the markets inherited from the planning economy led to special actions to create the markets. Internally the first employees of the joint venture were hired and got involved in the market relationships.

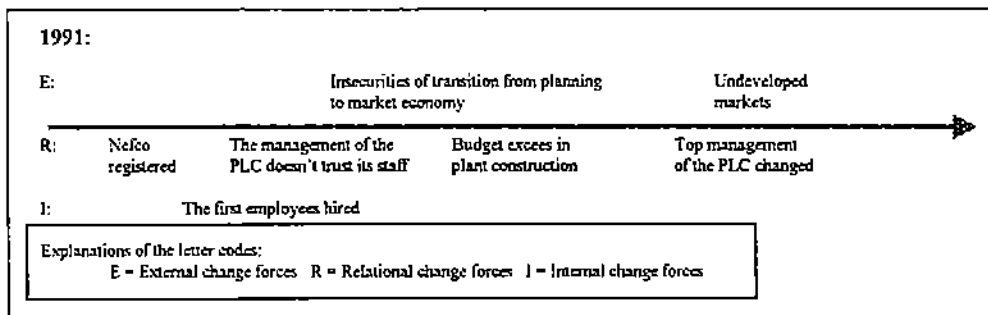


Figure 21. Change forces in 1991.

During the period 1992–1993 the production start-up meant establishment of direct customer relationships and the actualisation of the financier relationship to Swedfund. Kemwater realized the transfer of marketing know-how with an attempt to create initial markets for Kemipol in connection with the intensive training of sales engineers. Also these events were greatly affected by the socialist background of Poland, which was seen e.g. in the recruitment and training procedures. The financial problems were to great extent due to an external force, the devaluation of the zloty. The management problems resulted from unsuccessful choice of the managing director of Kemipol who was unable to lead the Polish staff as well as to take care of the parent and customer relationships in Poland. The creation of relationships with the former-socialist, often government-owned organizations in the Polish market required different behaviour than is needed in western markets. A Polish managing director was hired.

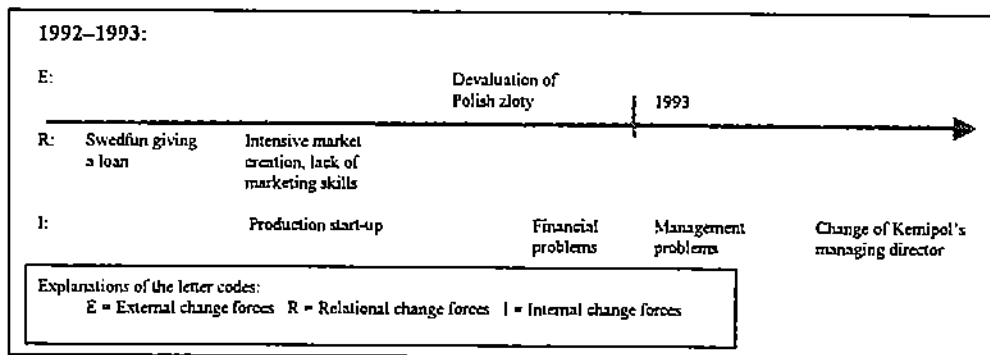


Figure 22. Change forces in 1992–1993.

The years 1994–1996 were characterized by more stability. The external environment was not causing such big surprises any more. The risk investor Nefco was now bought out. Kemipol developed technically and participated in technical cooperation with Kemwater-units. These cooperation projects were influences of the wider network embeddedness of Kemipol in Kemira's subsidiary network. They did not have big effects on business but had significance as proofs of Kemipol's technical expertise and intensifiers of the personal relationships, especially, between Kemipol's production manager and other Kemwater people. The focal net, still, changed significantly as the number of customer relationships increased and necessitated new internal arrangements (e.g. equipment department, focus on sewage treatment, investment in production capacity) and new supplier relationships. Kemipol began also to import an aluminium-based coagulant from Helsingborg to prepare the market for possible production of its own. Cooperation agreement with Gdansk Water Fund was established to influence the customers and authorities.

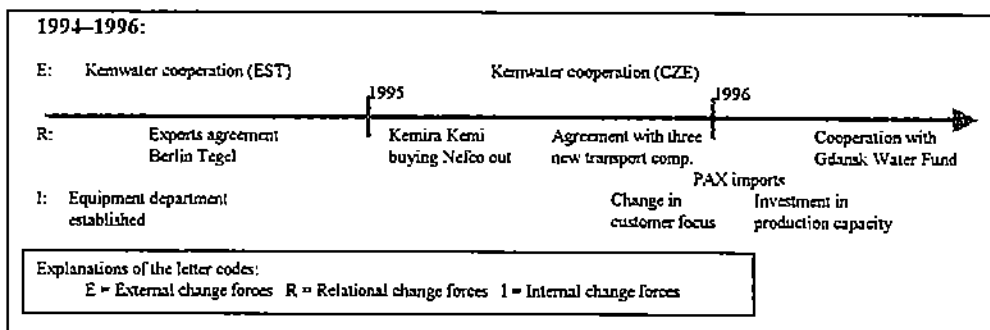


Figure 23. Change forces in 1994–1996.

In hard years of 1997–1998 Kemipol lost three of its oldest and biggest customers (one coming back after a year). Both the ending and development of relationships were directly related to relational change forces (see Figure 24).

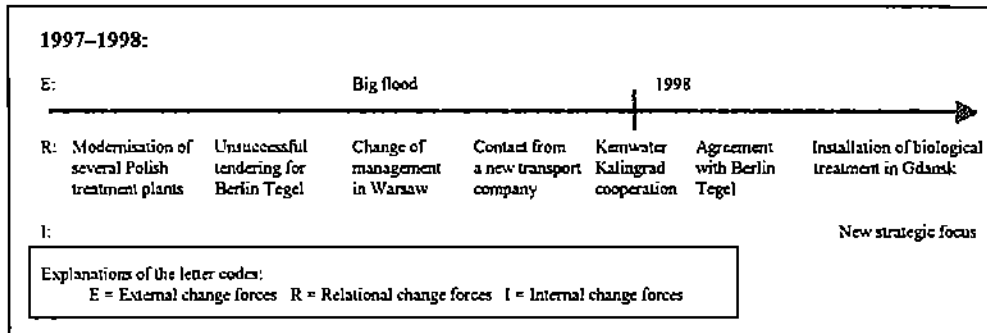


Figure 24. Change forces in 1997–1998.

However, in loss and weakening of some customer relationships can also be seen the influence of wider industry-level changes when water treatment plants are modernized and often apply biological treatment methods. A big flood in Poland was also directly the main reason for loss of Warsaw Water Works. However, the problems caused by the flood were intensified by a change of the company management, which made the decision to change the chemical supplier. In the end Kemipol chose a new strategic focus when adding a new product to the production line, PAX, and widening the customer basis to small and medium-sized companies.

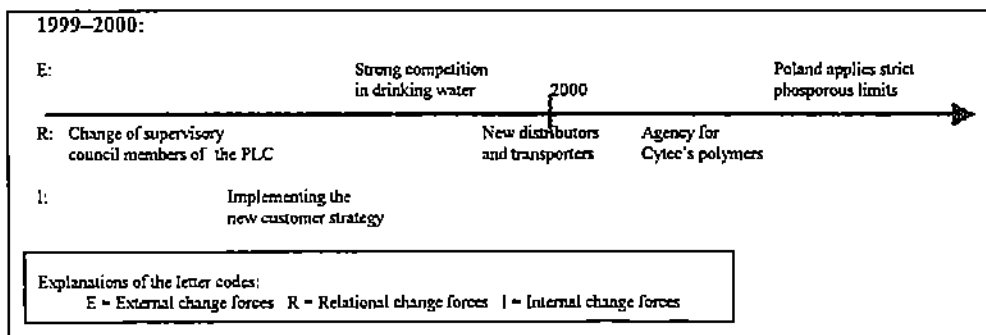


Figure 25. Change forces in 1999–2000.

The development in the final period 1999–2000 was affected by both the internal strategy changes and the external changes in the Polish environment. Internally very much emphasis was laid on product specialities and offering a total package of chemicals (agency for polymers). The distributor network was also widened and new transporters were hired to satisfy the needs of the smallest customers. Changes in the supervisory council members of the PLC and the intensive Kemwater-interaction strengthened the parent relationships and made them cooperative. Strong competitors and legislative changes were the external forces influencing the actions and the focal-net relationships. To understand what lay behind these changes in the focal net, the actions of the managers in these episodes of organizing are in the next section described in detail.

7.3.2 Actions for organizing

1989–1990: convincing in two ways

As a starting point for the joint venture establishment can be seen the opening of the Polish markets after the collapse of the Soviet Union and its socialist regime. The combined opportunity and threat perceptions by the managers of Kemira Kemi induced the early interactions in the emergence of the joint venture. The actions of the managers were primarily related to information search and initial legitimizing of the venture through early contacts with the Polish market. They were done through quite formal channels when using the Polish embassy, investment bureau and their seminars to get some insights and the ministry of industry to open the doors to the selected partner. It was known that it is difficult to get to the negotiation table with Polish managers. Therefore, Kemira Kemi's managers went to visit the Polish ministry of industry and discussed with the officers the plan to invest in Poland. The visit resulted in the hoped-for reaction:

“By doing this [visiting the Polish ministry of industry] we got the ministry to send a letter in which it was said that they recommend them [the PLC] to team up with us [Kemira Kemi].”

This is an example of a third-party-mediated convincing act, which resulted in opening the doors for the creation of a crucial cooperation relationship. It is also an example of a proactive act to create events. After a letter by the ministry to the PLC Kemira Kemi's managers were invited to the PLC. They arranged there a seminar telling about chemical water treatment and their success in other markets to persuade the PLC to cooperate. Further convincing was needed to persuade the Kemira headquarters to invest in the joint venture. The Finnish board was known to be sceptical about the investment. Therefore, the project managers travelled around Poland to meet experts in universities and managers of

the potential customer plants. Again the proactively created third party relationships were used to convince the board:

"It was a market about which people said: Don't go there, they don't have money even for food. I needed to get a commitment, e.g., from the city of Gdansk that if we start to produce in Poland they will buy from us. Then when I presented it to the board I had already created customers."

Negotiations were begun but during them it was revealed that in the PLC some managers preferred to take care of the copperas problem by themselves. Two top managers proved to be the persons both willing and able, i.e. having interest and power to convince the others:

"The president at that time was very important in getting it through [...] He was the big boss and didn't normally participate in the negotiations. Only when we had problems to reach consensus he came in and made it happen. [...] And the other very important person was the vice-president. If we wouldn't have had him on our side I don't think that we would have got it done. He was a more modern thinking person and had very much power. He bought the idea and pushed it very hard."

However, the Nordic and Polish managers were unable to really understand each other and the entry was seen as extremely risky. The PLC very soon hired a lawyer firm to take care of the agreement-making and negotiations. Kemwater managers suggested Nefco to become a risk-sharer through equity investment and a loan. The announcement by the Polish government of a change of the foreign investment law at the beginning of 1991 made the partners hurry. However, the intended risk-sharer and financier, Nefco, was not yet registered. Nefco's role was considered very important and, especially, the leader of the Polish team, the technical manager, made an effort to persuade the president into a temporary 50-50 joint venture. This way Kemipol became established with an ownership structure not actually intended:

"When we registered Kemipol it was 50-50, temporarily. I wanted to establish it as soon as possible but Nefco was not yet registered. What could we do? I told our director that maybe we could establish temporarily a 50-50 joint venture. Then when Nefco was registered, they would buy the shares."

The above examples illustrate how convincing was the major role of individual-level relationships and interactions that were needed in the initial stages of the joint-venture establishment. Interestingly, there can be seen two ways in which the convincing can be done. In the first two cases the managers proactively build relationships with authorities and customers and use these relationships to convince the counterparts to cooperate in the crucial relationships. Proactiveness is a feature of entrepreneurial networking but the contacts of the managers were based on impersonal trust and organizational roles and were thus managerial. Also the early interactions of the parents were based on the reputation of the firms and complementary resources and capabilities. However, when the project was during the negotiations confronted by unexpected problems, the personal relationships and

trust were the means of convincing the PLC to continue. The character of the networking actions and use of relationships is illustrated in Figure 26.

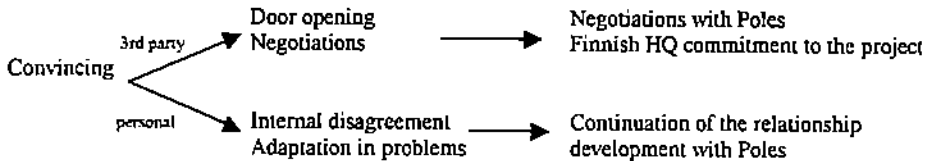


Figure 26. Convincing in two ways.

1991: Resourcing with compromising

The Kemipol-construction in 1991 was dominated by networking for resource acquisition including facilities, machines and equipment, raw materials, financing, employees and business relationships. The Nordic managers hired the first employees of Kemipol. Nefco was registered and the relationship was formalized as an owner relationship. It brought to the venture capital and to the supervisory council a person most searching for compromises and mutually-satisfying solutions:

"It was a very good guy from Nefco. Oh, I liked him very much, [...] very well qualified, smiling, silent. [...] We made a compromise... still smiling... and finally we solved the problem."

As agreed in the negotiations the PLC began the plant construction. The lack of high-quality supplies in a transition economy and the distrust of capabilities of their own staff, yet, ended up with great budget excess. The project leader of the PLC and the project leader of Kemira Kemi had an important role in compromising:

"I introduced them to new calculations, reality in my opinion. Then I remember [the project manager of Kemira Kemi], he was very good friend of mine, said to me: 'Impossible, there will be no joint venture if you introduce these figures.' I said to him 'Okay we must sit down I will not leave Sweden before we have solved the problem'. And it was negotiation after negotiation and then we finally compromised. Then it was one step forward."

The managers of the PLC appealed to the Kemwater managers to compensate the cost increase. The Nordic managers were afraid to make any concessions and denied. The Polish managers interpreted this as letting them down and began to send to the meetings only deputies without any decision-making power. The relationship became useless and cooperation impossible. Simultaneously the top management of the PLC changed. The managers committed to the cooperation left, which further complicated the problem-

solving. This almost destroyed all the trust between the parent companies and required hours of negotiations and the managing director of Nefco to act as the peacemaker:

"He had the role of a mediator between the Poles and Swedes... against our tight business thinking he suggested that we could also yield and somewhat compromise. He really had an important role."

On the marketing side the peculiar situation of the need to create the markets almost from scratch made the Finnish manager, responsible for market development and transfer of marketing know-how, establish a somewhat risky cooperation relationship:

"[When I discussed with the managing director of Kemira Kemi] I said to him that as I'm already in the neighbourhood I will go and visit that firm [a Czech chemical producer] and he said don't return with any paper. I then called to him that I'm going to make a letter of intent. I made the marketing agreement with them because realized the possibility that we could this way begin the marketing of the products in Poland."

This networking act can be seen to be committed in response to the undeveloped state of the market. It is also an example of the proactive networking in which relationships are established to avoid some problems beforehand. When the product, very similar to the one to be produced in Kemipol, was exported to Poland and applied by the Nordic experts together with Kemipol's marketing engineers, initial personal relationships with customers could be created and convincing customers began by introducing the chemical water treatment in many Polish plants. The most important relationship the Finnish manager established based on the marketing agreement with the Czech firm was the one with the Warsaw Water Works. It was for many years the biggest and most important customer of Kemipol's. The story of the manager illustrates the need for emergence of friendship relations to convince the Polish managers of business deals:

"We visited Sweden, spent a week in Finland, travelled in a minibus to see some reference plants and that way good contacts and trust were created... The then president of the Warsaw Water Works when I went there... I remember a sunny summer morning when he said: "Hey, do we need to sit here in my grey office?" I said that to me it is the same where we sit. He had a summer cottage a couple of dozen kilometres from Warsaw and said: "Let's go there". We went there and sat there in the middle of nature to discuss these issues."

Thus, in problem solving in crucial relationships compromising is extremely important. Yet, to make the parties willing to compromise without personal trust or understanding and in turbulent environmental conditions seems to require a kind of neutral person with a calm personality to intermediate interactions. In this case the representative of the financier and a minority shareholder could act as a mediator between the major partners. Some persons in both parent companies should also be able through personal interaction to reach a compromise. The other primary type of actions in this period is the resourcing of the new venture through relationship establishment. When a company is just about to emerge and is

thus totally unknown in its markets of operation, proactive, personal initiatives are extremely important. The last two quotations above are examples of an entrepreneurial kind of proactive and personal relationship-building for quickly organizing the business. The major networking actions in the year 1991 are illustrated in Figure 27.

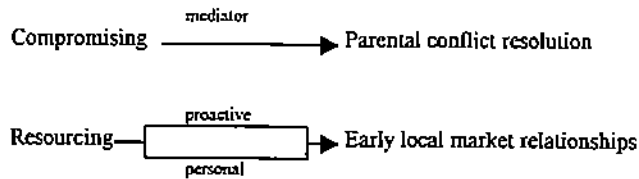


Figure 27. Resourcing with compromising.

1992–1993: Further resourcing through formal agreements and personal relationships

The production start-up needed further resourcing of the joint venture. The shareholders and Swedfund granted loans as had been agreed on. In personnel recruitment the production manager of Kemipol was noted as a great help. He had followed up the plant construction as the representative of the PLC and besides had worked there some 20 years. On the basis of his relationship with the PLC and his attentive character he was able to pick the best employees for Kemipol. The production start-up was realized without any problem and the operators, chosen by the production manager, were capable of operating the plant without much support from the Kemwater project group:

"I observed the constructors, electricians and others during the establishment. I was walking, looking, checking how the people were working, how they were interested in what they are doing, how many of the people were only sitting and drinking coffee, who was really working. Then I had, for example, two guys whom I had never known before but were electricians in the establishment phase and became employed here... I knew that they knew the installations very well."

The tests and sales efforts in Polish customer plants made the best channel for marketing training by the Kemwater managers and experts for which the need was great in an economy where no marketing function had belonged to business making. This resulted in the establishment of close relationships between the Kemipol and Kemwater marketing staffs. The marketing efforts resulted in supply agreements with two quite big treatment plants. The exports from the Czech firm were stopped. The organizing of the business was also concretized in transport agreements with two local firms. Kemwater's team secured

the supply of storage tanks to the customers by making an agreement with a Polish subsidiary of their Swedish cooperation partner about supplies of the tanks. Agreement on the delivery of the other equipment needed by the Kemipol's customers was made with Kemwater. The storing of the equipment was at first a problem because Kemipol did not yet have any warehouse of its own. However, the personal relationships of the production manager with the PLC could be used for acute organizational problem solving:

"I was involved in everything: transportation very quickly, collect equipment in store... because I know people in the PLC and they had a warehouse free and then I arranged that warehouse and kept all the equipment in the right place because the equipment is very expensive."

After the plant construction the PLC had for some time had quite a passive role of a raw material supplier in the net. However, in 1992 the devaluation of the Polish zloty made the loans of Kemipol in foreign currencies too heavy a burden for the new venture. Also the PLC's supervisory council members were now activated to take part in the decision-making. However, the decisive interaction took place between the Nordic managers:

"The partners then decided to transfer the loans to share capital. Whose idea was it? [The managing director of Nefco] was sitting together with [the president of Kemira Kemi] to consider how to solve this problem and they proposed and Polish people accepted the solution."

Simultaneously the Kemwater manager struggling with the market creation got the idea to try to commit a governmental shareholder to the joint venture. The National Fund had already in the very beginning been contacted to collect information on the markets. Now a loan was applied for and it was suggested that the organization should become a shareholder of the company. This is again an example of proactive networking. In addition to providing financing to the company it also had a proactive network function to legitimize the new venture. It was expected to create trust in the primarily municipal customer base by giving a governmental and a Polish status to the venture and to support the Kemwater's way of water treatment in building new plants. Overall, the relationship with the PLC and the internal relationships in Kemipol did not develop well. The Swedish managing director of Kemipol, despite his Polish roots, was incapable of handling the relationship with the PLC and the operational management of an emerging venture:

"He saw the Poles as a kind of second-class citizens... And he had also partly a confrontation with the PLC: he really couldn't make it [the cooperation between the parents] any easier by acting as a mediator but rather aggravated everything. We even sometimes needed to say that he could try to be understanding even though we couldn't."

The Kemwater managers sought, however, for person-level trust and intermediation in their interaction with the PLC. The managers used the production manager of Kemipol as a bridge builder and communicated with the Polish managers almost entirely through him.

Similarly to the equipment-storing problem he could use his friendship relations with the middle management to solve the problems with raw material supplies from the PLC:

"For example, there have been some problems with copperas. I know the manager superficially, but I have also friends working there in the titanium dioxide plant... I don't like to blame them about the copperas. I want to help them even, I have been very many times [in the PLC] discussing that "You are making something wrong because our copperas is sometimes bad. Maybe you don't know exactly what happened but I can maybe help you because I have long experience with copperas." [...] For me it will be better when I will get better copperas and for him it will be better when he keeps the titanium in the plant not in the heaps. [...] Then I ask that they also should do something."

The quotation shows the importance of both respect and reciprocity in the establishment and maintenance of personal relationships with the Polish managers. The managing director of Kemipol couldn't solve the problems probably because he was not able to develop trusting personal relationships with the Poles and therefore did not get access to their resources. The Kemwater manager who had responsibility for the operation start-up noted that the controller of the company had good basic knowledge of accountancy and was eager to learn. He began to teach the controller matters related to company management and soon she became the other partner of the Kemwater managers in Kemipol. When the two-year agreement with the first managing director ended the former controller was assigned as the managing director. The change removed the major "misfits in personal chemistries" that had harmed the internal working relationships.

The start-up of the company operations needed a lot of resources, whose acquisition was the main reason for relationship building in 1992–1993. The resources included both human resources in the form of employees and knowledge and physical resources, like raw materials and equipment and other supplies. With respect to the human resources close personal relationships were of major importance. To be able to find good personnel in transitional Poland the earlier work relationships of the production manager in the PLC were extremely important. Also because of the knowledge transfer, establishment of close personal relationships was important as was seen in the case of managerial, marketing as well as technical know-how. Resource acquisition was done also through formal contractual arrangements as is seen in the loan arrangements and supply agreements with the tank supplier and Kemwater in Sweden. The solving of the financial problems illustrates again the proactive networking and the personal relationships as a means of negotiating. The two types of resource acquisition methods are illustrated in Figure 28 on the next page.

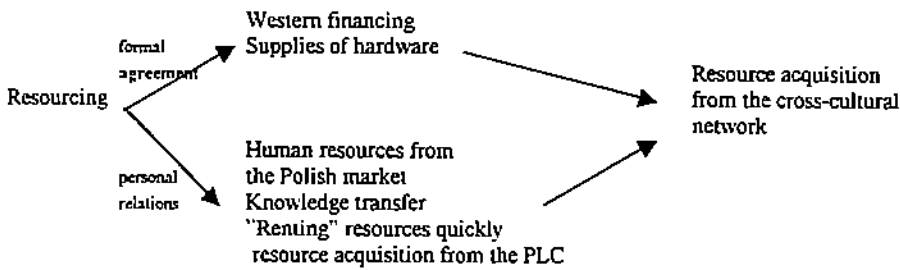


Figure 28. Further resourcing through formal agreements and personal relationships.

1994–1996: Internal organizing and institutionalization of cooperation

From the year 1994 on Kemipol began to make profit and have the basic relationship network organized. The actions of the managers became primarily related to internal organizing, i.e. creation of organizational structures, staffing, development of the production process, improving the quality and adding new products, distribution and transport arrangements. The previous service and sales engineer was named as the logistics and equipment manager and an equipment department was established under his control. He began to arrange the installations at customers based on primarily Polish equipment supplies instead of importing from Kemwater. Kemipol's marketing efforts became more and more directed towards sewage water treatment, which had been the initial intention. Also exports rose remarkably when a tender was won for a big treatment plant in Berlin.

At the beginning of the year 1995 Kemira Kemi bought the shares of Nefco, which made it the majority owner of the joint venture. The changes in the Polish economic system, pushed e.g. by privatization authorities and trade unions, made the PLC more and more concerned with internal rearrangements. This decreased its role in the network of the joint venture although the great dependence with respect to the raw material supply still existed. The Nordic managers took Kemipol's managers with them in the Kemwater-cooperation projects as consultants for the newer Kemwater-units. This cooperation strengthened the relationship between Kemwater and Kemipol especially because of leading to the establishment of friendship relations between the managers. As a response to the favourable development of the customer relationships the supervisory council made the decision to invest in the increase of the production capacity of the joint venture. Kemipol began also to export from Kemira Kemi PAX, which was easier to use in drinking-water treatment. The relationship between the parents was largely mediated by Kemipol's managers as one supervisory council member described it:

"[we have relationships] only to Kemipol... or we have the board meetings three times a year and there is also the representatives of the PLC".

Although the internal organizing consisted of formal organizational arrangements and the relationships seemed to institutionalise personal relationships were especially important because of the two features that characterized the customer base and interaction with the water treatment sector customers in transitional Poland. The very close relationships help to find the decision-maker in the huge customer firms and they may help in finding out about the state of the customer:

"Who is the key person for us? It is not always the director. The director of a big company just thinks about how to maintain his position, the salaries of the employees, the general policy. [...] Sometimes the technologist is the decision-maker and the director is only signing the agreement.

The difference [between two types of customer] is that the communal companies are rather poor in Poland but reliable. You can be sure that you get your money for the products you sell. [...] We had some very painful cases with the industrial clients, which means that we delivered them a few lorries with no payment. You never know if the company is just about to go bankrupt."

Overall, in the mid-1990s the networking of the managers became more formal, characterized by cooperation and institutionalization. Still, although the organizational networking behaviour seemed to dominate, especially the establishment and maintenance of the customer relationships required very personal relationships. Also the technological cooperation in Kemwater, and Kemipol's mediation between the parent companies were based on the close personal relationships established. The ways of acting behind Kemipol's stable growth and institutionalisation of the relationships are presented in Figure 29.

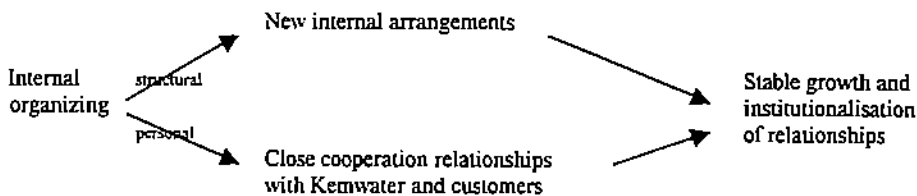


Figure 29. Internal organizing and institutionalization of cooperation.

1997–1998: Legitimising efforts and newly organized local network

After the quite stable years of the mid-1990s, in 1997 the situation changed when many external change forces influenced the Polish market of water treatment. The competition

between biological and chemical treatment methods became all the time fiercer. Interesting additions to the focal net of Kemipol were the informal, legitimizing relationships. These relationships were represented by the contacts of the managing director with the Polish academics, which were used to influence the modernization and construction of the water works and the decision-making of the authorities. The National Fund was, besides providing financing, intended to serve in the same role but in practice its efforts were seen as a disappointment:

"However, it [the investment in Kemipol] is very little for them. But they are proud of it... you see it is something concrete. little but however concrete. No obligations with regard to this partner, for which I'm a bit bitter because they could play an active role in the promotion of our style of water treatment. But they don't want to support us in this respect. I don't know how to handle these Warsaw people."

Despite the convincing and legitimizing efforts in 1997 several of the customer plants were modernized for use of biological treatment. This influenced the sales of Kemipol. The exports sank also because Kemipol lost the tender in Berlin. The designers and consultants seemed to favour biological treatment. In 1997 Kemipol signed the first formal cooperation agreement with a designer. The flood of spring 1997 meant to Kemipol the loss of its oldest and biggest drinking-water customer. To the loss was connected the change of management, which meant that the personal relationships that would have been needed for convincing the managers to continue with Kemipol were cut off:

"It was one sixth or seventh [of the sales] at that time. We had a great flood in 1997. The water in the reservoir where they take water changed the quality completely. Practically at the same time the management of the plant changed to people who didn't want to experiment very much. [...] the water was treated with the aluminium sulphate much better. Then the water started to be normal again and we started with ferric salts. Then the water changed quality within one day and then it is dangerous... ferric salts are brown and if this colour goes through the filter to the net it becomes a political question. They were afraid and we started tests for one month. Then they wanted to have aluminium sulphate from a competitor without any experiments. The sulphates didn't work very well, the water was bad but at least you couldn't see that and the parameters were within the limits."

At the beginning of 1998 the export agreement with the customer in Berlin was won again but now the mechanical treatment system in the biggest sewage water customer was replaced by a biological system. This meant that they stopped the use of chemicals entirely. After having experienced two great losses with respect to the big customers the networking actions were directed more towards the small and medium-sized customers to decrease the dependence on only a few big ones. New business possibilities were also tried when PIX was two times exported to Kaliningrad in cooperation with Kemwater Finland. In 1998 Kemipol also began to produce aluminium salts, PAX. The widening of the customer base to more but smaller customers and the new product offering meant that networking was needed to arrange the distribution and transport. Therefore agreements were made with a

fifth transport company and with three distributors. Also being close to the customers became more and more important:

"And this is very important, I underline it very much. those people in my department have extremely good relations with the clients, we are friends of the clients even. Sometimes it is not very easy to go because sometimes they call us also in other matters, not connected with our work. But it works."

The legitimizing of the new venture, i.e. gaining external approval and credibility for the venture, are often achieved through proven quality of operations, image, good business partners and reputation. In the development of customer relationships, close friendship relations and an easily applicable product were important. However, in the pressures created by the competition of another treatment system these venture-based issues proved to be insufficient. Lobbying became important. In this Kemipol should have been well equipped through the relationship with the National Fund. But the Kemipol-managers were not able to develop with the people there any relationships on which they could have been relied for support. The relationships with academics were not influential enough on the customer base, whose modernization was led by designers and consultants. New relationships with the designers were needed. Efforts to legitimize the chemical water treatment and Kemipol's business were the primary networking actions characterizing the years 1997–1998 as presented in Figure 30.

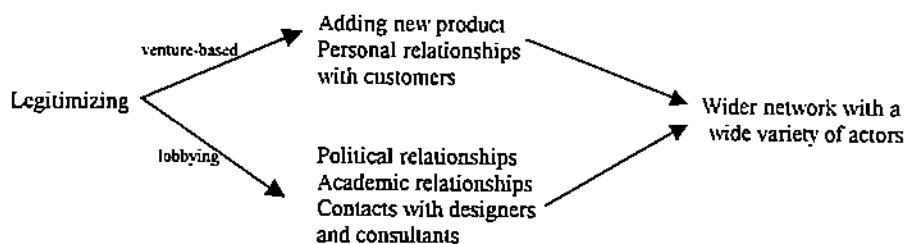


Figure 30. Legitimizing efforts and newly organized network.

1999–2000: Resourcing and internal organizing for better customer service

During the years 1999–2000 the networking actions still aimed at widening the customer base and better satisfying the customers as total chemical supplier. There existed a very strong Polish competitor in aluminium-based coagulants. Therefore the production team of Kemipol began to develop PAX-specialties to better respond to customer needs and satisfy

them better than competitors. Kemipol's managers succeeded also in negotiating an agency with an American chemical producer for a chemical that was absent from its product range. The distributor network grew with two new ones and one new transport company was hired to satisfy the needs of the smaller customers. The creation of more distributor and transport relationships meant a big change in the customer relationships because many of the relationships turned to indirect ones. In all, the relationships with bigger customers did not show any sign of turning to organizational supplier relationships but were very much of a friendship nature:

"We need to support customers with a lot of talks, dinners, personal relationships. I know about the families of many of them, problems with children... The last example is [the manager of a customer plant] who was in Spain; he was calling to me because his son was in England and he got very bad information and he couldn't manage. He had a settled date when he needed to fly back, and he was in a panic. I have a friend near London and I gave him her number so that the son could call her... Such personal connections are created. You never know who is a customer and who is a friend, and when you are a director and when you are a private person."

From 1999 on Kemipol was finally able to sell its product to the PLC, which is considered as a great success in this relationship although they still do not use PIX in the sewage plant. The supervisory council members changed to ones with whom business issues can be discussed. However, the relationships with them are still not as effective in solving the practical problems as the friendship relations to the plant managers by the production manager. The managing director achieved good relationships with the PLC based on the earlier party companionship with the general manager and friendship relations with the supervisory council members. Yet, as seen in the following quotation, many problems of the socialist organization remain:

The current top manager I know personally very well because he is of solidarity background and we cooperated [...] during the underground times. They know that I can go there practically any time. But the real work is with [...] the members of the supervisory council. Not only those two but middle managers in general I consider good engineers, intelligent people, spoiled by the communism within the company. They are devoted to the company but it is a place to work which will exist forever but a lot can be done with them I believe [...] They are very nice guys and they are my friends, but they are not personalities big enough. [...] Their first reaction is that it is not my business it is my colleague's, not my duty but the neighbour's, not my department. [...] We meet every second month, every third month, even though there are yearly plans they are changing all the time. There are dangerous situations when [the production] has no coppers at all..."

In the relationships with Kemwater Kemipol became well linked to its sister companies and Kemipol's staff has cooperation with many persons from various Kemwater units. The relationships are mostly very personal in nature and can be used when there are acute business problems as the following example shows:

"I have very close contacts with people in Germany. [...] This year they have helped me very much because from time to time our German customer forced us to use German transport companies. [...] Their prices are at least 30 per cent more expensive than our transport. They tried to raise the price this year two times. Then I called to my friend in Germany because I knew that they also use this company. Twice this year they succeeded by discussion to prevent raising the prices for Kemipol."

From the very beginning intentional actions to create possibilities of personal interaction and personal relationship building (seminar trips, meetings, dinners, seminars and fairs) have been important. They have at least the functions of making acquaintance and exchanging salient information as the following recent example illustrates:

"We didn't speak much about business, about technology a little of course. I know that I have now the door open to all of them... This year they have transformed from a totally public company to a joint-stock company with 100 per cent ownership by the municipality. Then the new regulations can be applied and not so strict tendering regulations. This I was told during the trip to Spain. So I still hope that they will be back next year."

After ten years of operation the securing of all the time better customer service through resource acquisition and internal organizing has become the most important activity of the managers. Therefore, new cooperation relationships are established to other chemical producers, distributors, designers, transport companies and equipment suppliers. All of them aim at developing Kemipol as a total problem solver to its customers in all water-treatment-related issues. These are important strategic decisions, some of which require very long and complicated negotiations like the agency for polymers. Simultaneously the Kemipol managers look for friendship relations especially to convince the customers to begin and stay with them in spite of the hard competition. Friendship relations are as well important in relationships with both main shareholders on which it is very dependent. The above examples show how Polish persons seem to prefer relying on friend-relations to organizationally defined relationships or formal negotiating practices. Again the networking actions of the managers seem to involve both organizational, formal interactions and very personal interactions as illustrated in Figure 31.

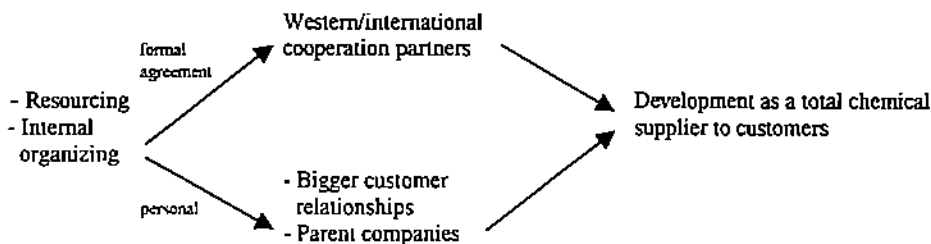


Figure 31. Resourcing and internal organizing for better customer service.

7.3.3 Changing focal net embeddedness of the joint venture

Above, the networking behaviour of the managers and the resulting organizing of the business network were described. These actions and processes influence the embeddedness of the firm. How the embeddedness of the joint venture varies along its development is analysed next. In the analysis are applied the types of embeddedness by Halinen and Törnroos (1998), which were discussed in Chapter 4. It is concentrated on the market, technological and political, i.e. the organizational embeddedness, which describes the nature of the relationships and their business functions from the viewpoint of the joint venture. The embeddedness is seen to vary in depth on the basis of mutuality, dependence and commitment characterizing the relationships. Social embeddedness is always seen to underlie business embeddedness because individuals commence all actions. Yet, also the depth of social embeddedness varies depending on whether the managers act as representatives of the organizations or get personally involved in the interaction.

The period 1989–1990 was dominated by the developments in the parent relationship and the actions of the managers of Kemira Kemi and the PLC. The establishment team of Kemwater had the focal role in the interactions. However, through the early contacts of the managers in the parent companies and their relationships, the embeddedness of the joint venture began to emerge. The governmental and authority relationships were created for the purpose of getting market information and legitimating the venture. The financing questions and legal issues, as well, resulted in the establishment of relationships. This created especially political embeddedness through relationships with the ministries, embassies and other formal institutional actors. The market embeddedness was emerging when the existence of demand was secured through direct customer and local expert contacts. The social embeddedness was of course initiated in the contacts but the personal relationships did not yet develop as strong and trusting ones. Although face-to-face meetings were common in the relationship creation, the early contacts between the managers were based on impersonal trust and organizational roles. The relationships can be called organizational contacts, which are characterized by occasional activation in situations requiring official interaction between the persons but criticality for the business, like the applications for permissions. The authorities have still power and the bureaucracy is great in both the governmental and municipal organizations. To help the relationship establishment often information on the person to be met is sought through business friends or relatives as the following example of authority relationships shows:

“We have authorized equipment, for example, for high pressure. I need some permissions [...] Then it is very good to have good relationships with the authorities. We have control sometimes, then if you

have something wrong here you need to pay some penalties. [...] My wife also knows many people in water treatment because she is working for the environment. I can tell her 'I'm going to [an authority], do you know him?' [...] And then I ask: 'You know him what kind of character is he, how should I do?' very often, very important for me."

In all, the embeddedness of the joint venture was especially of a political and market type. Yet, the depth of the embeddedness was low as the relationships did not include mutual dependence or commitment, neither did there exist personal trust between the actors.

From the year 1991 on the joint venture began to concretize as a new venture. In the beginning the relationships were mediated by the parents. The facilities and the supplies were arranged by the parents and the procedures had to a great extent been agreed on in the contract making. The differences in the values and ways of doing business became evident emphasizing the need for social relationships and depth in the embeddedness. This, however, existed only as technical dependence of the joint venture on its parents but was not supported by personal trust between the managers of the parent companies. The problems induced by the changes in the environment and the resulting parental conflicts proved how vulnerable contractual relationships without personal trust are. The problem-solving between the culturally very different parents needed intermediation of persons who were able to understand both parties and develop personal trust in both.

Along the development of the joint venture, the market embeddedness became more and more intensive, as is natural. In the creation of customer relationships, experienced persons from the Nordic countries both transferred marketing knowledge to the Polish sales engineers and facilitated convincing the customers. Active interaction and establishment of very personal relationships with customers, even a feeling of friendship, were important. Both the development of the customer relationships and the knowledge transfer emphasized the social embeddedness of the joint venture because both of them required close, person-level interaction. Thus, instead of organizational contacts, personal relationships began to dominate the focal net. They can be characterized as relationships with close interaction, development of person-level trust and being available for service as the following examples show:

"I think that not only the product but this service is very important. Our field engineers, they visit at least twice a month our clients to say good morning, to tell news from Kemipol and Kemira."

"I want to explain to them certain rules why I act like that but they are not able to understand. Then it's a problem of trust, I want the best for the company as such."

"[The Nordic manager] and me, I believe, understand each other and trust each other, [...] Once in the history it happened that here were so many problems that when talking on the phone [he] said that 'I

think that I should come there'. He was here especially for us one day, in two days' time. You remember it, even though it was only once, because then it was really needed."

"...if we haven't a solution to some problem here in Kemipol, [...] I can call our friends in Kemira in Helsingborg or Spain and so. Finally our clients are satisfied with our services."

In the network the market and technological embeddedness were strongly intertwined with the social embeddedness of the firm. The knowledge transfer between the Nordic experts and the Polish staff made the technological embeddedness mostly related to the relationship with Kemwater. This need for personal networking made the social embeddedness of the venture strong already in its emergence and operation start-up.

After four-five years of signing the agreement the joint venture began to function very independently. Kemipol's managers handled directly the relationships with customers and suppliers and also the relationships with the owners began to a great extent to resemble other relationships whose resources are activated at need. The Kemwater managers were asked for support only in special problems and actually the Kemipol managers were used as experts in the problems of newer Kemwater-units. The cooperation projects created both technological and social embeddedness between the joint venture and its Nordic parent. The managers worked closely together exchanging technological knowledge and creating personal relationships. Much of the interaction was also handled through exchange of documents and reports. These kinds of reporting relationships between some persons are very natural in a parent-subsidiary relationship. The managers considered them to exist especially between Kemipol and its majority owner Kemira Kemi:

"I meet those Finnish people in our meetings once in half a year or once a year when we have the strategy meetings for two days usually."

"The normal reporting is once a month. It is a so-called flash report every month. Starting from this year there is also [...] so-called final report that is done every quarter this year. It was done every fourth month in previous years."

In its organizational role the PLC was mostly a sleeping parent providing raw materials. Yet, in the handling of the great dependence on the raw material supplies the Kemipol managers have needed to establish and rely on personal acquaintance and friend relationships. Thus, the social embeddedness is emphasized also in this relationship. Overall, although the relationships and interactions in them seemed to become more formal and characterized by institutionalization, the social embeddedness was very strong in the parent relationships. Also the intensifying local market embeddedness in the creation of customer relationships emphasized the need for interpersonal relationships. Interestingly, although the supplier relationships are often suggested to be similar to the customer relationships the social embeddedness of Kemipol in this network seems to be very

modest. The relationships are described as organizational contacts regulated by contracts. In accordance with Törnroos and Nieminen (1999), the need to be in contact with the authorities and also with financiers diminished. The authority relationships were very much of a reporting type without any trust dimension:

“Of course we have had here some controls and the controls of the financial authorities are very nasty. Very nasty and they take a long time. The argument of those people is that you have too much money. Please, give us some. Why? Because you have too much money. We will find something, we look here so long that we will find something to make you pay the money.”

After some years of stability, in 1997–98 the Polish water-treatment market experienced many changes, which resulted in radical changes in the focal net of Kemipol. The modernization of customer plants and success of biological treatment methods made the persuasion in the form of lobbying activities more and more important. Personal relationships with authorities, academics and designers rose in importance in the attempts to influence the customer relationships and the development of the legislation. This meant intensifying the political embeddedness of the joint venture. In the political relationships a big disappointment turned out to be the relationships with the National Fund. What is interesting is that a disappointment in an organizational or personal relationship in the fulfilment of its relationship or network function may turn it into a reporting relationship. In Kemipol’s network this happened with respect to the relationship to National Fund:

“They could play an active role in promotion of our style of water treatment. They don’t want to do this. [...] They require ecological reports from me, how many cubic meters water were treated by chemicals etc. [...] The lobbying is important and therefore I’m bitter that the National Fund does not want to help me in it.”

The market embeddedness of the firm changed its nature in connection with the choice of a new marketing strategy, which meant making more marketing efforts on small and medium-sized customers to reduce the dependency on a few big ones. Simultaneously, Kemipol began to produce a new water-treatment chemical. This meant the widening of the network to include both more and a wider variety of customers. However, these relationships couldn’t be handled any more with such strong intensity but the joint venture relied more on distributors. Thus, Kemipol is not as strongly embedded in the small customer network as it is in the big customer network. The supplier relationships seemed still to be more at arm’s length than having close, personal ties. Only the supplier relationship with the small Polish transport company is described as very close. It is also an example of the importance of references in the establishment of business relationships:

“The owner of this company is [...] very friendly to us. I like to work with him very much. [...] I think that he knew Kemipol because both [the new supplier] and [an old supplier] are from the same town. [On the basis of information from our old supplier] he tried to get us for his service.”

Table 5. The most influential types of embeddedness along the development of Kemipol.

	TYPE OF EMBEDDEDNESS	DEPTH OF EMBEDDEDNESS	ACTORS
1989–1990	Political Market Social	low low low/organizational contacts	authorities customers, experts
1991	Market Technological Social	low low low/organizational contacts (but personal to mediators)	customers, suppliers main parents
1992–1993	Market Technological Social	deep deep deep/personal relationships low/one personal, other organizat.	customers Kemwater Kemwater, customers The PLC
1994–1996	Market Technological Social	deep/low deep deep/personal relationships low/organizational contacts low/reporting relationships	customers/suppliers Kemwater main parents, customers suppliers shareholders
1997–1998	Political Market Technological Social	low deep low deep deep/personal, friendship low/organizational, indirect	authorities, National Fund bigger customers smaller customers Kemwater, customers main parents, big customers authorities, National Fund, small customers, suppliers
1999–2000	Political Market Technological Social	as above as above deep deep/personal, friendship low/organizational, indirect	as above as above both main parents main parents, big customers authorities, National Fund, small customers, suppliers

The major aspects in the Kemipol's embeddedness over time are presented in Table 5. The parent relationships were still in the last time period extremely important to Kemipol. Through Kemira Kemi it was connected to the global subsidiary network of Kemwater units, which was important, e.g., for keeping in pace with the technological development and for economies of scale in supplies. Kemwater had all the time been the primary supporter in all business issues for Kemipol but the dependence became more mutual. The joint venture developed the Nordic technologies further, which made the technological exchanges reciprocal and mutually feasible. Also, the social interaction with the Nordic managers was intense and valued. The earlier interaction for the provision of marketing,

management and technical support developed as friendship ties, which could be relied on to get both social support and assistance in case of urgent business problems. Overall, Kemipol's relationship with the PLC remained at arm's length until the very last years. Yet, without the cheap raw material from the PLC Kemipol had 'no reason to be in the market' as one of the interviewees expressed it. For the PLC Kemipol was 'the only one that has been able to solve their pollution problem'. Therefore, it has been important that all the time someone has even had friendship relations inside the company. In 2000 many managers had personal or at least mutual organizational relationships.

7.4 Socially organized business networks of an international joint venture

The empirical findings of the present study are below discussed in relation to the previous research. The discussion is focused on two areas: 1) determinants of the changing relational embeddedness of Kemipol over time and 2) the actions of the joint venture managers in the development and use of personal relationships when either responding to or creating change in the business network. The findings concerning the interpersonal relationships especially in the transition markets are discussed in connection with these.

Change forces and characteristics of the relationships with various actors

The Nordic-Polish joint venture analysed in the present study provided an interesting case for the analysis of the changes in the relational embeddedness of a firm. According to the conceptual framework of the study the changes are either a result of intraorganizational enactment and development, of interactions inside its network of relationships or of some events outside the network of the interacting organizations, i.e. in the external environment (see Melin 1989; Håkansson and Snehota 1995; Halinen et al. 1999). These three sets of forces were named internal, relational and external change forces. The change forces may lead to incremental change involving change only in the nature or content of a single relationship or to radical change, meaning dissolving or building new relationships, or to both. As a result of the changes in the number, characteristics or roles of the relationships the type and degree of the relational embeddedness of the joint venture change.

In the case study, examples of all kinds of change forces could be found. The beginning of the transition process of Poland and the transition market characteristics were the initiators of the development of the focal net of the joint venture. Thus, as could be expected, the external change forces played the major role in the early network developments. Also the

relational change forces, initially taking place in the relationships of the parent companies, were related to the specific characteristics of the turbulent Polish market. On the other hand, the actions of and the interactions between the parent companies with very different cultural and economic backgrounds created parental conflicts in the emergence of the joint venture. Until the year 1993 the turbulence of the Polish markets and changes related to the transition were the basis for the major episodes of organizing in Kemipol's focal net.

From the mid-1993 on, the relational change forces began to dominate the development of Kemipol. The focal net was very dynamic and both incremental and radical changes took place. However, the changes were results of the more intentional strategic actions of the managers and not any more ruled by reactions to the unexpectedly occurring external change forces or transition-market characteristics. Therefore, the mid-1990s could be named as the period of stable growth. Also Johanson (2001:174-5) noted the change from the more externally led changes to an endogenously changing network in a case of a Russian company. Similarly to Kemipol's internal organizing to improve customer relationship handling in 1994, Tipografiya (Johanson 2001) carried out reorganizations in 1996-1998 for the same purpose. In the case of Tipografiya the changes took place later probably because it was a state-owned company to be privatized. Kemipol is a greenfield international joint venture, in which the internal organizing could much earlier focus on handling external relationships. Therefore, the environment of an industrial firm operating in transitional Eastern Europe could be suggested to have changed in the middle of the 1990s as a context characterized by dependences in a network of relationships.

However, the external change forces, especially in the form of legislation changes to fulfil western and EU requirements, have been reflected in Kemipol's development during the whole of the 1990s. Especially, the stricter environmental standards of water treatment have strengthened and widened the customer network and the governmental changes have caused changes in the relationships with the PLC. The years 1997-1998 were in Kemipol's case influenced by major industry-level changes. The modernization of the Polish water treatment sector as a whole was transferred to Kemipol through changes in its customers' primary treatment methods. Towards the end of the 1990s, competition rose as a more and more important factor in the development of Kemipol's focal net. Kemipol has with its own production of the aluminium-based coagulant more strongly entered the drinking-water-treatment sector, which an old and big Polish firm has dominated. Simultaneously many multinational companies have entered Polish markets and are challenging with biological methods both the chemical water treatment as a whole and Kemipol's position as a market leader in chemical water treatment. Kemipol has also all the time become more

and more connected with an international industrial network through its relationships with actors all over the world. Thus, the focal net of Kemipol has developed as very similar to the one of Western industrial companies.

If we look more closely at the relational embeddedness of Kemipol, some facts can be pointed out. Törnroos (1997) already emphasized that through their relationships firms are simultaneously embedded in many types of networks. On the basis of the present study the market and technological embeddedness of a firm, i.e. its economic and technological ties, are strongly intertwined with its social embeddedness, i.e. the interpersonal relationships of the managers. Moreover, the type of social embeddedness varies a lot influencing the depth of the embeddedness of the firm. This is what the researchers of the strength of ties (e.g. Uzzi 1997; Hansen 1999) have also noted.

However, the view of the social relationships given by the Kemipol managers is more complicated. On the basis of the empirical analysis the international joint venture managers seem to actually interact in the organizational focal net in four different types of individual-level relationships. They differ from each other on the basis of the degree of personal involvement and personal trust characterizing the interactions between the managers. The relationship types differ also with respect to the criticality regarding the business operations of the joint venture and possibility of use for business development. The differences between these four types of relationships are illustrated in Figure 32. Yet, the figure is a simplification and the aim is not to put the relationships to any preference order or claim that the distances with respect to the amount of personal involvement or utility are any absolute ones.

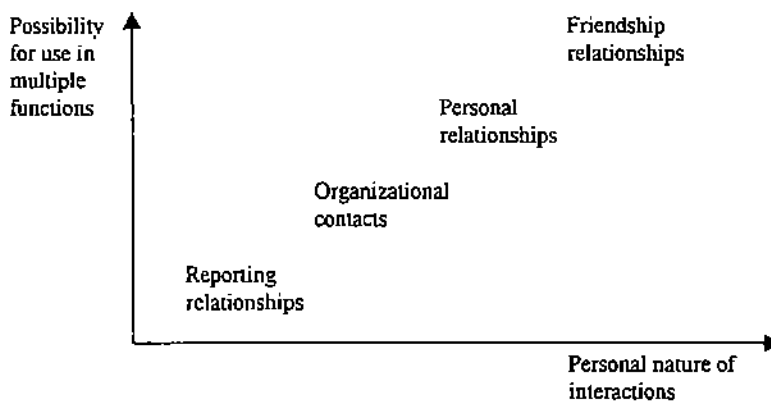


Figure 32. Four types of interpersonal relationships in the focal net of Kemipol.

In reporting relationships the interaction is very organizational and formal. The major exchanges take place in the form of documents and reports. Their importance for business making is considered quite low and the managers of the focal organization often consider the obligations in the relationship one-sided. The relationships serve primarily as a channel for transferring simple information. Some relationships are already initially and naturally of this type because especially in parent-subsidiary relationships some persons are responsible for yearly or monthly reporting. Similarly every Polish company needs to do reporting to national tax officers, the statistics office of Poland and the social security office about the financial results of the operations, the salaries and so on. However, some relationships, on which has been set great expectations, may also turn to this kind of reporting relationship later. This may result, for example, from a disappointment in the fulfilment of the network function of the relationship or inability to develop trusting personal relationships between the individuals representing the interacting organizations. An example of this was provided above in the description of the relationship between Kemipol and the National Fund.

The second type of relationship, organizational contact, is more critical for the business operations of the focal firm and face-to-face interaction is common because negotiations and assessments of the other have to take place. However, the relationship as such is very official and based on organizational roles and fulfilment of organizational tasks. The interactions in the organizational contacts often relate to attempts to solve a kind of natural business problem or are connected with a kind of typical business arrangement. In the initial phases of Kemipol's development the interaction in these relationships was related to specific situations, like permission applications, initial information search or financing arrangements. Contacts were established with the embassies, ministries and financiers. The organizational contacts also include interactions in seminars or fairs where the main aim is to create trust based on company reputation and capabilities. Also the relationships between the parent firm representatives in the supervisory council of Kemipol remained as organizational contacts in which the members of the council of each shareholder do not actually have other contacts with each other than the official meetings. In the customer and supplier relationships the organizational contacts could be described by the words of one manager "contacts are important but price in the end is very important". These relationships are handled on the basis of the hard business facts and the interactions are mainly regulated by contracts between the organizations. To whom the individual-level relationship exists is also defined by the organizational structures of the companies. For example, the logistics manager of Kemipol takes contact to trading director of a distributor to discuss the delivery of products. Competition has a big influence on these relationships.

Personal relationships consist of friendly contacts between individuals who know each other quite well and have developed a kind of common language for smooth interaction. Still the relationships are somewhat formal, like that between acquaintances. The interactions in the relationship are based on the feeling that the other is interested in discussing with you the business problems and is ready to listen and exchange experiences. To this is related that the answer looked for through the interaction comes quickly and is a result of the interaction and that way easily acceptable. The relationships are very important for the development of the focal organization and its business. Therefore, these relationships are carefully nurtured by paying attention to the contact persons. Through the relationships salient information and complex knowledge can be transferred. Although they are not as thoroughly trusted as the following friendship type of relationship, they are clearly personal in nature and include frequent, continuous interactions.

The relationships, which are the most characterized by the 'qua-persona' interactions and trust based on personal characteristics, are named as friendship relationships. They include relationships to well known persons including also relatives, families and earlier workmates. The relationships can be relied on in any problems and personal favours are reciprocally exchanged. A relationship is characterized as being of a friendly nature especially when it really can help you. As was mentioned above, in the Kemipol's focal net the Kemipol-managers and marketing people are friends of customers because they help them by all possible means. The managers in the customer organizations can use their relationships with the Kemipol managers also in solving problems in personal life not at all related to business. Some persons in the parent companies have instead become friends with Kemipol managers when they have been able to help Kemipol managers in urgent business problems. Friendship relationships may develop quite quickly in business-related interactions but may also be relationships that have been created in situations totally independent of business issues. Typical of friendship relationships is also that they accept longer periods without active interaction but then can be relied on when unexpected problems needing their activation arise.

What is important in the above classification of relationships is that one organizational relationship can include all the four types of the individual-level relationships or only one, two or three of them. This is because individuals in the organizations often interact with many individuals in the other organizations. Thus, one manager may have relationships with many managers in the counterpart organization some of which are friendship relationships, some others reporting relationships and so on. Also two managers in one organization may have different kinds of relationships with the same counterpart. Finally,

one relationship between two managers may include all the four dimensions. This is well illustrated in Kemipol's relationship with the PLC. Already in the beginning the production manager of Kemipol had friendship relationships with the middle management of the PLC on the basis of his previous employment there. Also, he had a personal relationship with the president of the company who had named him as the leader of the negotiation and establishment team. In his role as member of the board of directors he soon developed organizational and reporting relationships with the supervisory council members of the PLC. The managing director interacted quite a long time in reporting and organizational relationships with the PLC but has during the last couple of years created also personal and even friendship relationships with the firm when the top management and supervisory council members have changed. The other managers describe their relationships to the PLC either as organizational supplier-customer relationships or reporting relationships.

Halinen and Törnroos (1998) have seen the embeddedness of the firms to vary depending on the situation. This can be seen also in the development of Kemipol's embeddedness over time. Consistent with the earlier research (see e.g. cases in Törnroos and Nieminen 1999) the embeddedness of Kemipol was in the beginning primarily political in nature. The financial and legal questions resulted in the creation of relationships with governmental organizations and international financiers. Thus, the organizing dealt with matching which Ghauri and Holstius (1996) noted as important also for entry into the Baltic States. But as e.g. Bäckman (1997) claims, the relationships with authorities seem not to develop as personal and trusting ties. The relationships did not develop as more than organizational contacts and their importance diminished quite soon to a reporting kind of relationship.

An exception is the relationship with Nefco that was both a financier and a strong shareholder of the joint venture. The active participation and capability for intermediation between the parents by Nefco's representative made the relationship strong and important. The joint-venture managers developed personal and even friendship relationships with him and the relationship had an important network function as a facilitator of smooth interaction and compromising between the principal parents. It took quite a long time before the parent relationship became characterized by any direct trust, i.e. without a mediator, and actually it seems to never have developed as more than an organizational contact. However, all the four types of interpersonal relationships were soon included in the relationships of Kemipol with both of its parents. This is quite natural as they are parent-subsidiary relationships in which some formal reporting is always necessary and some organizational coordination takes place. In addition, complex knowledge is often transferred between the companies requiring the establishment of personal relationships.

The typically frequent interaction due to various dependencies and social events in form of visits to each other, trainings, cooperation projects, etc. are likely to advance friendship.

The local network of supporting relationships developed as an extensive one very early. This illustrates the need for relationships and the complexity of organizing joint ventures in the East European transition markets (Törnroos and Nieminen 1999:293). However, the market embeddedness of Kemipol did not initially become very deep as the relationships were mostly mediated by the parent companies. They were particularly organizational contacts developed by the Kemwater-managers. Still, the customer relationships were the ones which from the beginning emphasized the importance of the depth of social embeddedness and the need for personal relationships. Thus, the buying decision of an eastern manager seems to depend on the existence of person-level trust (Salmi and Bäckman 1999). The personal relationships are more important than price and terms of delivery, which are typical of strong ties (Uzzi 1997). The development of supplier relationships made Kemipol initially more embedded in an international than in a local network because in the beginning in the Polish market there did not exist good quality suppliers. The supplier relationships were primarily contract-regulated organizational ties.

The development and use of various types of personal relationships

According to the conceptual framework of the study the structural dynamics in the focal net are to a great extent results of the behaviour of managers when they interact in the relationships and establish and end relationships, i.e. of the networking by the managers. The international joint-venture managers take action either in response to some change forces or they create change in their strategic attempts to influence the network position of their organization. Thus, they may be engaged in either reactive or proactive networking, of which the latter is characteristic of entrepreneurial behaviour. Basically the networking was in the framework divided into either managerial or entrepreneurial networking. The basic difference between them is acting as the representative of the organization in an organizational role or as a natural person engaging personally in the interaction (see Coleman 1990; Ring and Van de Ven 1994). The empirical analysis revealed greater complexity as was illustrated by the four types of interpersonal relationships above.

What makes it important to look at the existence of the various types of interpersonal relationships inside organizational relationships is that the type of personal relationships to great extent defines how the relationships can be used for business problem solving and business development. The Kemipol case suggests many ways in which the type of the

interpersonal relationships is interrelated with the economic action in the development of the joint venture. The interpersonal relationships have been, for example, suggested as the natural means of negotiation and persuasion (Turnbull 1979; Salmi and Bäckman 1999). In the Kemipol case some initial persuasion, door-opening, could be based on organizational contacts and role acting of the managers but in unexpectedly occurring problems, personal-level trust was required. The Nordic managers were also keen on proactively using third-party relationships, e.g. customer or authority relationships, in the persuasion of the parent companies to invest in the project. Both types of convincing, personal reputation and relationships with well-known partners, are typical of entrepreneurial legitimating of new ventures (e.g. Larson 1992).

With negotiating through interpersonal relationships are connected compromising actions, which were extremely important in conflict resolution in the parent relationships. However, compromising in relationships between very different parents and in turbulent environmental conditions seems to require personal trust. What seems specific to the east-west setting of Kemipol is that the personal relationships and the personal trust never really developed between the managers of the parent firms. The parental problem-solving in the organizing processes of the joint venture was to a great extent mediated by some individuals who could develop trust in both major parents. As mediator acted the representative of a financier who was seen as a kind of neutral party by both parties and had the appropriate calm personality. Another mediator was a previous employee of the Polish parent who, however, had proved capable of understanding the interests of the Nordic parent. As mediator acted also the local managing director of the joint venture, who could learn market-economy operational management but still had the capability to smoothly interact with the managers of a huge state-owned company. Compromising, reciprocity and mutual respect were issues that were all the time extremely important also for Kemipol's managers to handle its great dependency on the Polish major partner.

To facilitate the creation of market relationships, the proactive use of third party relationships was useful. This aided especially the early organizing and was later used to compete with the alternative treatment method. The managers could rent e.g. the legitimacy of the ministries, designers or consultants in their efforts to influence customers. Overall, the creation of the local market relationships needed strong personal relationships, in which is accepted their use for problems not at all related to business making. Thus, they were characterized by helping in any possible ways in any problems, which is typical of close friendship relationships. Yet, along with the growth of Kemipol and the widening of its customer network it needed to accept also indirect relationships with customers. In

servicing the smallest customers it began to rely on distributors and retailers. This is consistent with the claims (see e.g. Andersson 2001) that a firm is able to handle only a limited number of strong relationships. There is a trade-off between strength and number.

Moreover, the utility and use of certain types of relationships for certain purposes seem to vary depending on the nationality of the actors. That is consistent with the findings of previous research especially on business relationships in transitional contexts (e.g. Björkman and Kock 1995; Salmi and Bäckman 1999). Differences in the networking are seen already in the very early convincing acts of the establishment team managers in the initiation of the joint venture. The top managers in both parent companies needed to be persuaded to invest in the joint venture project. In convincing, the Nordic managers relied much on relationships with third parties and used their organizational contacts as a means. In persuasion of the Polish managers, the initial door opening could result from governmental recommendation and be based on organizational reputation. Yet, in internal disagreement and unexpectedly upcoming practical problems personal relationships and perceived trustworthiness of the persuading person were needed.

If we look at the interactions of Kemipol managers in the focal net, especially the customer relationships in the Polish market need to be characterized by personal and even friendship relationships. The seemingly formal interactions at fairs and seminars actually serve as places for making acquaintance and the informal interaction during international trips with customers is important for door-opening and transfer of salient information. Although many orders are won on the basis of formal tendering, it is important to be close to the customers and take good care of them. Visits to the contact persons are important for the maintenance of relationships. Export customers, in turn, like the very big customer Berlin Tegel, seem to remain as customers on the basis of winning or losing the official tender. The relationship is very important to Kemipol's business, but it is taken care of formally in an organizational contact.

Interestingly, the supplier relationships of Kemipol are primarily described in formal business terms as relationships between a customer and a supplier. The managers are, for example, willing to introduce price competition between the suppliers and as a whole the relationships are taken care of formally on the basis of contracts, although usually with one and the same person. It is to be noted that the suppliers are mostly new entrepreneurial ventures, East-West joint ventures and subsidiaries of international firms. Thus, they are not traditional Polish firms with their roots in the socialist system. The suppliers are also providing Kemipol with quite standard raw materials, equipment or services, which also

explains the organizational contact type of the ties. No complex information needs to be transferred in the relationships (see e.g. Hansen 1999).

Finally, the relationships to the Polish authorities are typically formal contacts in which the interaction is based on the organizational roles of the persons concerned. The authorities have still a lot of power and the bureaucracy is great in both the governmental and municipal organizations. Therefore, face-to-face interaction is important and you need to know how to handle the person you meet. To help relationship establishment, information on the person to be met may be sought through business friends or relatives.

Evident in the case analysis is the tendency of the Polish managers to rely on friendship relations in interaction with every stakeholder if possible. This holds true also for the interactions with the Nordic parent, where every manager seems to have his/her own contact persons who are more trusted than the persons named in the formal organization chart. In the relationships with the Nordic parent the joint venture managers soon began to interact with the persons who proved to be friends by helping the managers in some business problems. The personal relationships were very important for handling the great dependence of the joint venture on the raw material supplies from the Polish parent. In the many practical problems the old friendship relations of the production manager with the middle management of the huge parent company proved to be the only effective routes to problem solving. The importance of friendship relations also at the top management level seems illustrated in the capability of the joint venture to widen the cooperation with the Polish parent after the president changed to an old friend of the managing director. Thus, the joint venture managers needed and soon developed with the parents relationships characterized by all the four types of interpersonal relationships. However, with respect to these relationships there exists an interesting difference between the Nordic and the Polish parents. With Nordic managers personal and friendship relationships were created especially in the knowledge transfer between the companies. To the Polish parent, in turn, it seems that the closer relationships were better developed earlier as workmates or in some not at all business-related situations.

To sum up, the empirical analysis the main episodes of organizing in the development of Kemipol's focal net in 1989–2000 are collected in Table 6. The table summarizes the major change forces in relation to the networking actions of the managers. The outcomes of the change forces and networking actions are presented as the last item on the right. The outcomes are either radical or incremental changes, which are specified in the table with respect to the actors, whom or whose relationships the change concerns.

Table 6. The major episodes of organizing Kemipol's focal net in 1989–2000.

CHANGE FORCES	ACTIONS	CHANGES IN THE NET															
1989–1990																	
E: Beginning of Poland's transition	IS/LE	RC: authority relationships															
E: Market opportunities and threat of competition	PR/CO	RC: ministry contact, contact between partners															
R: Scepticism in the Kemira board	PR/CO	RC: initial customer and expert contacts															
R: Internal disagreements in the PLC	CO	IC: top management trust between parents															
R: Need for risk sharing	PR	RC: financier and lawyer relationship															
E: Threat of change of the investment law	CO	IC: ownership structure change															
1991																	
R: Nefco registered	IO/RE	IC: ownership structure change															
I: The first employees hired	RE/TT	RC: direct market relationships															
R: The Polish parent doesn't trust its staff	TT	RC: initial supplier relationships															
R: Budget excess, change of PLC's management	CM	IC: parental conflict, weakening of the relationship															
E: Undeveloped markets	PR/CO/TT	RC: cooperation relationship with Czech supplier initial customer relationships															
1992–1993																	
R: Swedfund giving a loan	RE	RC: new financier relationship															
R: Intensive market creation, lack of marketing skills	PR/TT	RC: new customer and supplier relationships															
I: Production start-up	IO	IC: stronger Kemwater relationships															
E: Devaluation of the Polish zloty	RE/LE/PR	RC: new financier relationship															
I: Financial problems	RE	IC: strengthening of parent relationships															
I: Management problems	IO	IC: weaker Polish, stronger Nordic relationships															
I: Change of Kemipol's MD	IO	IC: stronger Polish relationships															
1994–1996																	
I: Equipment department established	IO	IC: strengthening of customer service															
R: Kemwater-Tallinn cooperation	TT	RC/IC: new, stronger relations to Kemwater															
R: Exports agreement with Berlin Tegel	RE	RC: new customer relationship															
R: Kemira Kemi bought the shares of Nefco	IO	RC: strong shareholder cut from the net															
R: Kemwater-cooperation in Czech Republic	TT	RC/IC: new, stronger relations to Kemwater															
I: Change in customer focus	IO	RC: great increase in customer relations															
I/R: Investment in production capacity, PAX imports	IO/RE	RC/IC: new customers, stronger parent relations															
R: Cooperation with Gdansk Water Fund	LE	RC: new cooperation relationship															
1997–1998																	
R: Modernization of several Polish treatment plants	LE	RC: new cooperation but also loss of customers															
R: Unsuccessful tendering for Berlin Tegel	-	RC: loss of the biggest export client															
E/R: Big flood/Change of management in Warsaw	CO	RC: loss of the oldest and biggest Polish client															
R: Contact from a new transport company	RE	RC: new supplier relationship															
R: Kemwater-Kaliningrad cooperation	RE	IC/RC: stronger Kemwater-relation, new client															
R: Agreement with Berlin Tegel	RE	RC: old customer relationship newly activated															
R: Installation of biological treatment in Gdansk	-	RC: loss of one of the biggest clients															
I: New strategic market focus (R)	IO	RC: new types of customers, distributors hired															
1999–2000																	
R: Change of council members of the PLC	CO	IC: stronger relationship with the PLC															
I: Implementing a new customer strategy	IO	RC: new distributor and supplier relationships															
E: Strong competition in drinking water	IO	IC: stronger customer relations with specialties															
R: New distributors and transporters	RE	IC: stronger Kemwater-relationships															
R: Kemipol begins as the agent for Cyttec's polymers	PR	IC: stronger customer relationships, new principal															
E: Poland applies strict phosphorous limits	-	RC/IC: new and stronger customer relationships															
<p>Explanations of the letter-codes:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 33%;">E = External change force</td> <td style="width: 33%;">R = Relational change force</td> <td style="width: 33%;">I = Internal change force</td> </tr> <tr> <td>IS = Information search</td> <td>CM = Compromising</td> <td>LE = Legitimising</td> </tr> <tr> <td>CO = Convincing</td> <td>RE = Resourcing</td> <td>TT = Technology transfer</td> </tr> <tr> <td>PR = Proactive relationship building</td> <td>IO = Internal organizing</td> <td></td> </tr> <tr> <td>RC = Radical change</td> <td>IC = Incremental change</td> <td></td> </tr> </table>			E = External change force	R = Relational change force	I = Internal change force	IS = Information search	CM = Compromising	LE = Legitimising	CO = Convincing	RE = Resourcing	TT = Technology transfer	PR = Proactive relationship building	IO = Internal organizing		RC = Radical change	IC = Incremental change	
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8. SUMMARY AND CONCLUSIONS

The present study has aimed at contributing to our knowledge of the dynamics and behavioural aspects of networks in international business by analysing the organizing of an international joint venture in a turbulent, transitional business context. In the following paragraphs the study is, firstly, summed up. Then, the conclusions of the study are presented and its managerial implications are discussed. Finally, some paths for further research are suggested that emerge from the present study.

8.1 Summary of the study

The present study started with the primary interest in the actions of the managers when they strive to establish a favourable business context for an international joint venture along its development in a turbulent environment. The underlying basic assumption has been that the development of any business venture is dependent on its relationships to other actors in the market and on developments in the general environment. Furthermore, the fact that all organizational actions are realized by the actions of the individuals forming the organizations was stressed. As a result, the context dependence and social embeddedness of an international joint venture have been the key issues in the present study.

This study concerns a specific way of organizing a business, an international joint venture, which has attracted a considerable amount of research interest. Therefore, in Chapter 2 the prior research on international joint ventures was analysed. The analysis was focused on finding out what kinds of approaches the prior research had used and what kinds of tools it suggests for research on the context-dependent and socially driven development of joint ventures. The previous research was noted to have most often seen the international joint ventures either as alternative operation modes used when entering into new markets or as a form of interfirm cooperation aiming at mutual learning or other cooperative advantages. These viewpoints have led to research which focuses especially on the parent company motives, parental control and conflict and the development of the parent relationship. The joint venture itself and its other relationships have received more attention only in studies on subsidiaries as profit centres and centres of excellence in multinational companies. Yet, also these studies emphasize the subsidiary network management and most often study wholly owned subsidiaries. Overall, the organizing of the joint venture in which it becomes differently connected with its cross-cultural context over time as a result of individual-level actions was noted to have received little attention. The theoretical approaches mostly used

in international joint-venture research seemed not to be appropriate ones for capturing the context dependent and socially driven development processes of the international joint ventures. The previous research was seen as too focused on the decisions of the parent companies and the developments in the parent relationship. There was seen to be a need to set the joint venture itself as the focal actor in a network of relationships whose importance varies along its development. Then, an international joint venture was seen as a new venture whose operations need to be organized through relationship building and the social embeddedness of the joint venture was noted as critical to its development. These issues are emphasized in the network approaches to business markets, which, however, have rarely been used in international joint-venture research.

The industrial network approach by the IMP Group was chosen as the basic conceptual lens of the study. This was seen to be appropriate because the study concerns relationships between industrial actors in international markets and aims at holistic understanding, which have both been the focus of the IMP-research. For studying international joint ventures a network approach was seen as especially relevant also because of the basic nature of a joint venture as a small network. There exists a triad by the definition of a joint venture as a specific type of business unit having at least two shareholders separate from each other. However, the industrial network researchers have been primarily interested in relationships between organizations paying the interpersonal interactions and actions of managers much less attention. Therefore, the IMP-approach was supported by some entrepreneurship research, which has especially focused on the actions of the entrepreneurs in the utilization of relationships in the emergence and organizing of their new ventures. Entrepreneurship research also gives an insight into the relationship building for the organizing of an infant firm, which an international joint venture initially is, although supported by the parent companies and their resources.

The basic assumptions of the industrial network approach and the major findings of the entrepreneurship research on the entrepreneurial use of networks were discussed in Chapter 3. The network approach was noted to be well fitted to the basic assumptions and research objectives of the present study. It brings to the fore the concept of embeddedness, which captures the context dependence, i.e. the dependence on relationships with various other actors, of the development of a certain organizational unit. The network approach, acknowledges as well both the striving for stability in networks and the inevitability of change, which fits the reality of joint ventures as inherently unstable business units. The stability and change in networks are to a great extent determined by the relationship building and interactions in the relationships of the individuals. Thus, they are dependent

on the networking behaviour. The dynamics are seen in the changes in the embeddedness of the firm. In addition to the dynamics in networks, the concepts of embeddedness and networking were seen as the ones which bring forth the social, interpersonal side of organizing international joint ventures. This is especially well seen in the studies of the role of networking in the entrepreneurial processes. The concepts of embeddedness and networking were chosen as the basis for the conceptual framework of the study.

Because network has become quite a fashionable term in business as well as in many other research areas, there have emerged many definitions of networks, and network research has been conducted on very many aspects of economic and social life. To be able to conduct a coherent and manageable empirical study the boundaries of the network investigated are important to define. In the present study the choice was made to concentrate on a focal net of an international joint venture instead of trying to cover the total network. This means that the net covers the organizations and relationships that the managers of the focal firm, the international joint venture, perceive to influence the business-making of the firm. The structure of the focal net was defined at the level of organizational relationships but then the type of the relationships was analysed at the level of interpersonal relationships. The other attempt to define the boundaries of the network under study meant focusing on the actor network and relationships between managers instead of looking at the resource and activity relationships in the production system. However, the activities and resources are the basis for actor networks and define the basic functions of the actor relationships. Therefore, they can not be left totally out of the study.

In Chapter 4 the concepts of embeddedness, networking and organizing were further analysed in relation to each other to form the conceptual framework of the study. The networks were seen to be confronted with internal, relational and external change forces, which lead either to incremental or radical change in the network structure and the relational embeddedness of the focal firm. The embeddedness of international joint ventures in networks of relationships and wider business environments was seen as the basis for organizing the business network. The nature of the embeddedness was seen to differ depending on the characteristics and roles of the relationships. The networking was seen as the major way in which the managers aim at changing the organizing of the business as more favourable. The networking was expected to vary with respect to the managerial and entrepreneurial aspects of the behaviour of the individuals. Networking changes the organizing of the business network and that way the organizational enactment of the environment. This means creating a different kind of context for the business-making of an individual firm. At the same time the embeddedness of the firm changes.

This framework was then used to answer the main research question of the study: *How is the business of an international joint venture organized through networking behaviour, when its embeddedness is changing over time?* The question was divided into three more specific research questions:

- a) How and why does the embeddedness of an international joint venture in its network context change in the course of time?
- b) Through what kinds of action is the focal net of the international joint venture organized?
- c) In what kinds of situations and how do the interpersonal relationships of the managers influence the organizing of the business network of an international joint venture in the East European transition markets?

In Chapter 5 the research design of the empirical analysis was described. The choice of a single case study as the basic research strategy was argued for on the basis of the nature of the phenomenon under study, the theoretical approach chosen and the research objectives. The case study was seen to be appropriate for research on complex, dynamic processes in their real-life contexts. Case-research has also been seen as well fitting to the network approach in business relationships. The case study is also a research strategy which can be used to provide understanding and an explanation of the mechanisms that create the particular events observed in the empirical domain and that way provide understanding of a processlike phenomenon. The strength of case research is its ability to provide holistic explanation, take into account the influence of time and context and the outcomes of phenomena that are processual in nature. The selection of the case and the methods of data collection and analysis were also presented. Then, the threats to the validity and reliability of the findings and the procedures to ensure the quality of the study were discussed.

Especially the last research question brings up the interest of the present study in looking at the network dynamics in a specific empirical setting, which is discussed in Chapter 6. The empirical study has concerned a Nordic-Polish joint venture that was established in Poland in 1990, just after the transition process of Poland to market economy had begun. As the development of the joint venture and its focal net was expected to be to a great extent influenced by the dramatic environmental changes the basic elements of the transition were discussed. The East-West joint ventures and the networks in the transition markets have also been seen to differ from the joint ventures and networks in established market economies. Actually the expected differences, the more frequent changes in the networks, the more frequent relationship building and the more personal nature of the networking, were the reasons for choosing especially this empirical context for the study.

In Chapter 7 was presented the empirical analysis of the organizing processes of the focal net of one international joint venture along its ten-year lifetime in the Polish transition markets. The case-analysis is a central part of the study. The present study did not aim at testing any well-formulated hypotheses but its aim was to more inductively let the empirical data show what it is a question of in the reality. The reality to be uncovered was that of Kemipol, a Nordic-Polish joint venture between Kemira Kemi/Kemira Kemwater and Zakłady Chemiczne POLICE. The case description covers the dynamics in the focal net of Kemipol along its development from the year 1989 to the year 2000. The detailed description of the changes in the focal net and the analysis of the underlying mechanisms can be found in Chapter 7. The major findings of the case study were discussed in relation to the previous research in section 7.4 in order to generalize to a broader theory. In the following sections the conclusions of the study are drawn and its implications are presented with regard to both theory, practice and further research.

8.2 Conclusions of the study

The conclusions of the present study focus on the two areas that were brought up in the problem setting of the study as the areas for theoretical contribution: 1) the focal role of the joint venture itself in the analysis of its context dependent development and 2) the role of the social relationships and managerial actions in the network dynamics in the organizing of an international joint venture.

The present study contributes to the discussion of development processes of international joint ventures by applying the network approach in the analysis of the frequent organizing of an international joint venture in turbulent markets. Previous research has tended to look at the joint ventures from the viewpoint of the parents and has concentrated on the analysis of the parental relationship at the organizational level. The ability of this approach to create understanding of the context-dependent and social nature of the organizing was questioned. The present study chose the viewpoint of the international joint venture itself and put it in its context through the concepts of focal net and change forces and used the interpersonal relationship level of analysis parallel to the organizational focal net.

This way the present study showed the embeddedness of an international joint venture in its context to have an important bearing on its development over time. An international joint venture and its business are not organized through the parent relationship only but other relationships have crucial roles and may be more important than the parent

relationship at certain points of time. In the early organizing the parents and their contributions are naturally emphasized because they establish the joint venture. However, already in the beginning the managers responsible for the IJV-project establish relationships for the joint venture and initiate its embeddedness in a wider network of relationships. Gradually, as the joint venture matures, the customer, supplier and other stakeholder relationships grow in importance and often have stronger influence on the organizing than the parent relationships. Therefore, it is here argued that the organizing of an international joint venture takes place to a great extent in a much wider network than the parent-dominated triad.

The characteristics of the transition markets further intensified the embeddedness of the joint venture in both the local and the international relationship networks. The turbulence of the markets created a lot of unexpected change forces to which some response was needed. The responses created changes in both the number and the nature of the relationships. The known riskiness of the business and the underdevelopment of many of the market mechanisms also made proactive relationship building for market creation and risk reduction important for early organizing. This meant that the joint venture very soon became embedded in quite a wide network of both local and international relationships. The relationships were the result of active utilization by the participating individuals of all kinds of means that are available to facilitate business development. It can be seen to illustrate the need for relationships and the complexity of doing business in the transition markets that lack both money and experience of the practices and structures needed in the market economy. In the former socialist East-European markets, the social embeddedness of an international joint venture seems also to need to be stronger than in Western markets. The most useful social relationships are very personal in nature. They are needed in recruitment, training and rewarding (especially by showing appreciation) of Polish managers and employees. They are also crucial for securing customer loyalty in Poland.

With respect to the dynamics and behavioural aspects of networks the present study contributes to our understanding of the role of the social relationships and the actions of the managers as the determinants of the organizing of the business network. The study provides examples of how the interpersonal relationships of managers are intertwined with the business problem solving and utilization of relationships for business development. The relationships were seen possibly characterised by four different layers of interpersonal relationships whose existence influences the types and roles of the relationships for the focal firm. This enriches the earlier dyadic divisions of relationships basically into strong and weak ties (see e.g. Zhao and Aram 1995; Uzzi 1997) based on the Granovetter's

classical ideas of interpersonal relationships. Besides, the present study emphasizes that a single organizational relationship can include all these four types of interpersonal relationship or only a few of them. Which ones of the interpersonal layers the relationship has influences the ability of the managers to use it for business development and business problem solving. As was shown in the empirical analysis the reporting relationships can be used almost only for transfer of simple information. Organizational contacts can be used for specific, quite routine business arrangements, like applications for permissions or financing as well as routinized decision-making in the supervisory council and other quite simple organizational issues between parents and a subsidiary. Personal and friendship relationships are needed for the solving of acute and unexpected problems. This means a need for personal trust also in the supervisory council in conflict situations.

The development and utilization of reporting relationships and organizational contacts can be seen to be characteristic of managerial networking whereas personal and friendship relationships characterize entrepreneurial networking. Thus, a manager may behave both managerially and entrepreneurially when interacting in a single business relationship depending on the business issue in question. On the basis of the findings of the present study, the turbulence of the external environment is likely to keep the venture management dominated by the need for entrepreneurial behaviour for quite a long time although older ventures have been said to become dominated by managerial behaviour.

The need for both kinds of behaviour is strengthened in the case of an international joint venture in the transition markets. On one hand, the utilization of personal contacts and friendship for any problem solving is a cultural characteristic of the East European countries to which people have got used under the socialist system. This makes close personal relationships crucial for the achievement of the needed resources for operation from the old Polish firms and for positioning the joint venture advantageously in the local market with previously centrally managed customers. Establishment of personal relationships is also needed for transferring complex technological and marketing know-how and solving of other organizational problems in the joint venture. On the other hand, the managers of international joint ventures based on the nature of an international joint venture as a multi-cultural and international unit from its initiation, need to be prepared to act also in international relationships, which may be much more regulated by contracts and price as the forces guiding the behaviour.

Like recent research on international joint ventures also the present study emphasizes the need for interpersonal trust in business relationships. Trust makes it possible to develop

and to maintain long-term relationships with mutual benefits and commitment. However, the present study also points to the possibilities of using individual mediators from other organizations as trust creators for some crucial relationship. For example, in an east-west joint venture the representatives of very different kinds of parents are often not able to really trust each other. The basic reason for the lack of trust is usually the incapability to understand the ways of doing business of the other party. The insecure economic, political and legal environments as well as the language and other communication problems are likely to strengthen this. In these situations a person representing some third party may be able to develop trust on the part of the major partners and then mediate and smoothen the interactions between them. These kinds of mediators seem to be especially important in situations requiring compromising or necessitating change in the outcome expectations or initial division of responsibilities.

An international joint venture proved to be an interesting case to be studied also because in the western business relationships social contacts are most often seen as a consequence of good functional contacts. In the Eastern business good social contacts are seen to be the origin rather than the result of evolving business relationships. This is what has been seen as characteristic of entrepreneurial networks as well, whereas mature firms should require managerial behaviour. As a new venture having its basis in relationships between well-established western and eastern partners an East-West joint venture combines these considerations. Overall, the organizing of the joint venture in transition markets seems to emphasize an entrepreneurial kind of behaviour. Personal initiatives and proactiveness in relationship-building and use of personal reputation and parties with established positions in influencing others are typical of favourable actions.

8.3 Managerial implications of the study

Overall, the present study has illustrated the strong intertwinedness of business and social relationships. The analysis reveals the overall social nature of the organizing of an international joint venture. In general, the smooth operation of an international joint venture over time is to a great extent dependent on the capability of the managers to create and utilize their interpersonal relationships with various other actors for business-relationship development and acute business-problem solving.

Especially in the transition markets the personal relationships and creation of interpersonal trust are often decisive of a favourable development of the business. The turbulent context

is likely to suddenly open up new possibilities which can be utilized, and new problems which can be solved, if the right kinds of relationships are developed. Relationship building in the transition market, however, is not easy and straightforward because the whole functioning of the markets with respect to business relationships is changing radically. This means that in some situations and with some actors there need to be established relationships ruled by the socialist principles. Especially in the case of big former state-owned parties the finding of the decision makers and making personal acquaintance with them are crucial for successful business relationships. For locating the decision makers and getting known by them, the managers who are able to utilize previous business contacts in the market or personal acquaintances, even friends, inside the partner organization for getting information, are in a favourable position. The slower route to proficiency in business-making is to gradually learn the specific tactics of doing business with former state-owned companies and how to locate the decision makers.

Simultaneously, new kinds of actors with whom different types of relationships have to be established exist in the market, and all the time increase in number. They may be either new entrepreneurial ventures or international firms, both of which are likely to function more on terms similar to the firms in market economies. Therefore, the managers in charge of the international joint ventures in transition markets need to be prepared to act and capable of acting in different kinds of relationships with different organizations and even with different persons within one organization. This calls for great sensitivity in interaction with other people.

The feeling of understanding and trusting each other at the personal level seems very important for Polish managers' willingness to cooperate. This was in the case illustrated in situations requiring compromising in the business matters when the various mediators rose in value. The role of a mediator is often the one required from the managing director of the joint venture. It sets hard requirements for the personality and interaction capabilities of the person in question. She or he needs to be able to look at the situation from the viewpoint of both parties, stay calm in crisis and find ways to convince the parties of the mutual benefits of the suggested solution.

In addition to the above network characteristics, typical of a business network in this kind of market there is strong dynamism due to the change forces arising both from the external environment and the relational context. A new venture, usually having demanding growth targets, is also likely to be constantly confronted with the need for internal structural changes. Thus, the managers acting in the transition markets especially need flexibility and

constant alertness to changes in the relationship network and the external environment. Flexibility and alertness are likely to make the managers able to both take successful reactive actions as a response to some unexpected changes and proactively use relationships to avoid some problems. Proactiveness and innovative use of third party relationships seem characteristic of acts leading to favourable development.

The present study also emphasizes the fact that a relationship is more than just one tie. Previous research has often pointed out the multi-dimensionality of relationships on the basis of the various exchanges taking place in them. But the relationships have also multiple dimensions on the basis of the type of personal relationships characterizing the organizational ties. This study illustrated the existence of four different interpersonal dimensions in organizational relationships. The existence of the various dimensions in the relationships is important because it seems to influence how and in what kind of situations the relationships can be utilized and what kind of roles they have. This also alerts the managers in a new way to the influences of the person changes in organizations. The utility of a relationship may change a lot when a new person is able to establish a relationship containing fewer, more or different dimensions than there were previously.

Finally, the present study provides in the case-study examples of how to reconfigure the joint venture structures and take adaptive action via the use of relationships in organizing an international joint venture over time. It illustrates how various kinds of relationships can be utilized and what kinds of actions are feasible in managing the development of the venture.

8.4 Suggestions for further research

For further research the present study has especially drawn attention to the fact that the interpersonal level of analysis is worth using in business network research. The present study has indicated how concentration on individual-level actions and interactions can enrich our understanding of the development and utility of relationships in various business processes. Instead of seeing business relationships as one-dimensional ties between two organizations they could more often be analysed as multi-dimensional ties depending on the type of the interaction and the personal commitment of the individuals of the interacting companies.

Previous research on business networks has usually studied either the organizational or personal relationships. Researchers of business networks have also often seen it as problematic to separate the firm and individual levels of analysis. The present study supports the viewpoint that it is actually impossible and not really necessary to make this distinction. The individuals are the ones realizing the interactions in organizational relationships. This makes the business processes inevitably intertwined with the personal relationships between the representatives of the companies. Then even the personal chemistries between the interacting persons may play a big role in the success of the business deals. More useful than trying to make this artificial distinction is likely to be a consideration of the various dimensions the personal level creates in organizational relationships. Four dimensions were suggested in the present study but they need further development on the basis of other theoretical concepts, methodological choices and empirical cases.

The dimensionalization of the relationships is in the present study at an exploratory level. Thus, a lot more can be done in analysing how managers perceive their relationships. In the present study the perceptions of the business relationships have been induced from the stories of the managers of the overall development of the joint venture and their ways of acting in the operational management of it. No specific procedures were used to cover all the possible perceptions and no questions were directly posed on perceived differences between the various relationships the managers have. However, the dimensions of social relationships presented in the present study were seen to clearly rise from the data based on the ways the managers described their interaction in different relationships. They indicate that at the individual level as a social relationship a single organizational relationship may appear as very dissimilar to different individuals, and the differences influence in which roles and how the managers use the relationship. This makes it important to network researchers to collect data from different managers in the analysis of a single relationship.

The present study leaves also it open how intentionally the managers are able to develop and use different interpersonal relationships for different business purposes. Many claim that social networks cannot be planned or managed. Yet, there exist multiple means known and used in business life through which managers try to influence the nature of the business relationships, making them more personal. They include lunches, visits, various social events, board memberships and many other situations in which it is attempted to make the organizational relationships more personal. These procedures and their outcomes are worth further analysis.

The present study has analysed only one case. Therefore, the statistical generalizability of the results of the study is requires to be proved in further research. However, when compared with previous research this study confirms the importance of social relationships in a transitional context. Therefore, the findings cannot be thought to illustrate a rare exception. Still, comparisons with other cases in East European contexts as well as other cultural contexts would increase the validity of the analytic generalizations made in the study. Other cases looking at the organizing processes of networks through individual-level actions would also enrich the view presented in the present study. They would also enlighten the view of the characteristics and roles of personal relationships in business relationships. Then we would know more about the social embeddedness of the business in general. Is it a culture-based issue present in only specific cultural contexts or is it a universal issue? Is the social embeddedness really of a different character and does it play a more important role in some contexts or is it just that in some cultures the managers are more comfortable talking of relationships as personal rather than as organizational?

ACKNOWLEDGEMENTS

When I look back on this research process, I notice that it was actually quite recently that I made the decision to really aim for a doctoral dissertation. This self-organizing nature of the process makes me grateful to many persons who have made me go on despite problems and have supported me at times of hesitation.

I owe to my supervisor Professor Jorma Larimo continuous support and especially the mental freedom to look for my own way in my research process and the provision of the basic financial and other possibilities of that search. I'm extremely grateful to Jorma also for engaging professor Asta Salmi in my research process. Her discussion in the examination of my licentiate thesis provided the basis for the new direction of this research. I also had the privilege of getting Asta as my supervisor for the last two years of my research process. The discussions with her deepened my understanding of and sharpened my arguments about business networks and social relationships. I'm also grateful to Asta for her support in the final stages of the research process, which my changed life situation somewhat complicated.

Professor Lars-Gunnar Mattsson and Professor Jan-Åke Törnroos made a great contribution to the final manuscript of the thesis. Their comments as pre-examiners of the thesis helped me to significantly improve its theoretical consistency, logical presentation and readability. In addition to these final remarks, I'm grateful to both of them for the many important comments and tips in connection with workshops and conferences in which I participated during the research process. The interest and aid of the experienced professors is of major importance for a successful Ph.D. project. I was fortunate to encounter many of them during my research process. All of them are worth a thankful word but I especially want to thank Professor Bengt Johannisson and Professor Jose Maria Veciana for a great spring semester 1998 as their European Doctoral Programme student. In sunny Barcelona and the cosy atmosphere of rainy Växjö I learned the basics of Ph.D. research.

For a case study that concerns an international business unit abroad two groups of cooperation partners are crucial. First, I want to warmly thank Managing Director Dorota Jasina and Assistant Vice-President Hannu Luhtala for their valuable time and continuing interest in my research. I'm also grateful to the whole management team of Kemipol and the establishment team in Kemwater for their openness in sharing with me their experiences. The exceptional readiness of these managers to cooperate in my research

endeavours and their hospitality during the field trips made the empirical research both valuable research-wise and personally enjoyable. The other important cooperation partners have been the foundations and other institutions granting scholarships for my research. My sincere thanks go to the Finnish Graduate School of International Business, Liikesivistysrahasto (Maija ja Lauri Nüniojan rahasto), Alfred Kordelinin säätiö, Paulon säätiö, IVO säätiö, Marcus Wallenbergin liiketaloudellinen tutkimussäätiö, Gustaf Svanljungin lahjoitusrahaston säätiö and Vaasan yliopistoseura.

The people at the Department of Marketing at the University of Vaasa created an atmosphere in which doing research was a pleasure. It was great to have fellow workers with whom I could discuss both "serious" research issues and totally other aspects of life. My warmest thanks for that belong to Minnie Shroff, Terhi Kortesmäki, Karita Luokkanen, Anu Söderlund, Päivi Borisov, Merja Ruuska, Minna Jaskari, Jarmo Nieminen, Rizwan Tahir, Teuvo Kantanen, Harri Luomala, Philip Lewis, Martti Muroma and Professors Martti and Pirjo Laaksonen. I warmly thank also Rolf Lindholm who improved my use of the English language.

My greatest thanks belong to my husband Vesa. Without his encouragement, confidence in my capabilities and his enthusiasm for scientific research, I couldn't have completed this thesis. It was a cooperation project, like our greatest achievement, Silja, who gave me energy and strength to finish this process by showing what is most important in life. My interest in managing in different cultures with people with different backgrounds and in cooperative ventures must have something to do with my childhood. I was confronted with the delights and sorrows connected with them especially during the three five-week summer trips to Central Europe with my family at the ages between nine and fifteen. My father used to make me and my twin-sister Teija errand girls and interpreters in various situations. Supported by mom's tender encouragement we went together to win the multi-cultural challenges father was posing to us. They were wonderful experiences, just as this research process has been. To my parents Leena and Jukka I'm also indebted for the numerous times we have been together, which have been crucial for charging my batteries for research work.

I dedicate this thesis to my family.

April, 2002

Tuija Mainela

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**APPENDIX 1. MAIN CONTACTS TO AND INTERVIEWS WITH MANAGERS IN
KEMIRA AND KEMIPOL**

PRELIMINARY DISCUSSION WITH THE KEY INFORMANT

29th April 1997 General Manager, Kemira Chemicals Oy Kemwater

PERSONAL INTERVIEWS AT THE 1st STAGE OF THE RESEARCH PROJECT

4th July 1997 General Manager, Kemira Chemicals Oy Kemwater

23rd October 1997 Managing Director, Kemipol Ltd

10th December 1997 Vice-Managing Director, Kemira Kemi Ab, Sverige

10th December 1997 Managing Director, Kemira Chemicals AS, Norge

FEEDBACK DISCUSSION WITH THE KEY INFORMANT

10th September 1998 General Manager Kemira Chemicals Oy Kemwater

PERSONAL INTERVIEWS AT THE 2nd STAGE OF THE RESEARCH PROJECT

18th September 2000 Logistic and Equipment Manager, Kemipol Ltd

18th September 2000 Production Director, Kemipol Ltd

19th September 2000 Managing Director, Kemipol Ltd

20th September 2000 Marketing Manager, Kemipol Ltd

20th September 2000 Finance Director, Kemipol Ltd

20th September 2000 General Production Manager, Zakłady Chemiczne
"POLICE" SA

13th December 2000 Assistant Vice-President, Kemira Chemicals Oy Kemwater
(previously held the position of general manager in Kemwater)

WRITTEN FEEDBACK FROM THE KEY INFORMANT ON FINDINGS

19th November 2001 Managing Director, Kemipol Ltd

APPENDIX 2. OUTLINE OF THE INTERVIEW THEMES AND QUESTIONS

The following is a generic list of interview themes and questions used in interviews in 1997. Additional questions were made in the course of the interview. All questions were not asked from everybody and to some were posed more additional questions. Thus, the questions were to great extent tailored for each interview.

The main aim of this interview is to get first hand-information about the technology transfer and joint venture project in Poland. The experiences of the Nordic manager who have been actively involved in the project from the very beginning of the process are seen of primary importance for the study. The interview is hoped to be informal and open and therefore this question outline consists only of indicative, broad interest areas, which are hoped to be discussed during the interview.

0. BACKGROUND OF THE INTERVIEWEE

- Earlier assignments
- Role in the Kemipol establishment and in organization and operations of Kemipol

I ESTABLISHMENT AND DEVELOPMENT PROCESS OF KEMIPOL

1. PRERELATIONSHIP

- Motives for joint venture establishment
- Cooperation initiation; partner selection
- Most significant incidents and actions leading to negotiations

2. NEGOTIATIONS

- Participants in the negotiations (also various interest groups)
- Negotiation atmosphere
- Specific problems, hard points and their solutions
- Contents of the agreement and terms of the cooperation

3. TECHNOLOGY TRANSFER AND OPERATION START-UP

- Contributions of partners in plant construction and implementation of technology
- Main difficulties in operation start-up
- Interaction between JV and owners (e.g. training, assistance, adaptations)

4. OPERATION AND LONG-TERM DEVELOPMENT

- Partner's roles in the operation of the JV and responsibilities towards it
- Relationships between JV and the owners; type of interaction i.e. communication, contacts and exchanges at the moment

II BACKGROUND FACTORS AND MAIN ELEMENTS IN THE OPERATION

1. CHARACTERISTICS OF TECHNOLOGY

- Main features of the technology; need for adaptation in the JV project
- Marketing of this kind of technological products
- Significance of the environmental soundness of the technology

2. EASTERN EUROPE AS A TARGET FOR FOREIGN INVESTMENTS

- Impact of the transition process of Poland on JV establishment and operation
- Competition in this industry in Poland
- Investment climate (economic, political and legal circumstances)

3. COOPERATION AND COMMUNICATION

- Creators of difficulties in cooperation of owners/owners and JV
- Problems in communication (e.g. due to cultural differences, different personalities)
- Communication styles and business relationships in Poland

4. EXTERNAL INTEREST GROUPS/ THIRD PARTIES

- External interest groups and third parties, which have had influence on operations (e.g. governments, authorities, financiers, owners, suppliers, customers etc.)
- The most significant ones for development of JV's operations
- Type of influence on the operations; promotion/ problem creation

APPENDIX 3. QUESTIONNAIRE ON KEMIPOL Sp. z o.o. August 2000

1. Name _____
 2. Occupation/position _____
 3. Education _____
 4. Previous employment _____
 5. When have you begun in Kemipol (month/year)? _____
 6. What positions, and when, have you held in Kemipol?

 7. What are your areas of responsibility in Kemipol?

 8. What are your major reporting relationships with respect the operations of Kemipol?

 9. With who do you most closely work in Kemipol (name/position)?

10. Which external relationships do you consider crucial for the successful conduct of your work?
- | | |
|--|--|
| <input type="checkbox"/> to customers | <input type="checkbox"/> to Polish businessmen/ colleagues |
| <input type="checkbox"/> to authorities | <input type="checkbox"/> to distributors |
| <input type="checkbox"/> to suppliers | <input type="checkbox"/> to financiers |
| <input type="checkbox"/> to Kemwater-people (headquarters) | <input type="checkbox"/> to government officers |
| <input type="checkbox"/> to Police Chemical Works -people | <input type="checkbox"/> to your family/friends |
| <input type="checkbox"/> to other Kemwater units | <input type="checkbox"/> to consultants or other experts |
| <input type="checkbox"/> to academics | <input type="checkbox"/> to others, who
_____ |

Would it be possible to interview you during my stay in Poland on 17th -21st September?

- Yes, on Monday 18th at ____ o'clock on Tuesday 19th at ____ o'clock
 on Wednesday 20th at ____ o'clock on Thursday 21st at ____ o'clock

THANK YOU VERY MUCH FOR YOUR KIND ANSWERS

Please, send the completed form to me either by fax +358-6-3248251 or by email tuija.mainela@uwasa.fi

APPENDIX 4. QUESTION OUTLINE FOR INTERVIEWS IN 2000

The following is a generic list of interview themes and questions used in interviews of the management team of Kemipol in a field trip in September 2000. Additional questions were made in the course of the interviews. All questions were not asked from everybody and to some were posed more additional questions. Thus, the questions were to great extent tailored for each interview. The basis for the tailoring was the one-page questionnaire on which the interviewees had answered earlier.

I BACKGROUND OF THE INTERVIEWEE AND ROLE IN KEMIPOL

II INTERNAL RELATIONSHIPS IN KEMIPOL

(As a basis of the discussion was used an organization chart that was drawn by the researcher on the basis of the questionnaire answers.)

How many persons there are in various departments? What kinds of persons?

What kinds of are your relationships? Is it easy for you to cooperate with them?

Do you think that all the other people come well along with each other or are there also often disagreements?

Have there been any person changes during the time you have worked for Kemipol?

How have the changes influenced Kemipol? Your work?

III EXTERNAL RELATIONSHIPS OF KEMIPOL

How would you describe your personal relationships/contacts with the actors you have named as crucial for the successful conduct of your work?

- | | |
|--|--|
| <input type="checkbox"/> to customers | <input type="checkbox"/> to Polish businessmen/ colleagues |
| <input type="checkbox"/> to authorities | <input type="checkbox"/> to distributors |
| <input type="checkbox"/> to suppliers | <input type="checkbox"/> to financiers |
| <input type="checkbox"/> to Kemwater-people (headquarters) | <input type="checkbox"/> to government officers |
| <input type="checkbox"/> to Police Chemical Works -people | <input type="checkbox"/> to your family/friends |
| <input type="checkbox"/> to other Kemwater units | <input type="checkbox"/> to consultants or other experts |
| <input type="checkbox"/> to academics | <input type="checkbox"/> to others |

IV DEVELOPMENT PROCESS OF KEMIPOL

In my earlier interviews with Kemipol/Kemwater-people, I identified following turnings points in the development of Kemipol. Were you involved in them?

If yes, could you, please, tell me your experiences of them and their handling?

- a) With whom did you discuss and were in contact (by phone, mail, etc.)?
- b) Why (for what reasons) were you in contact with them? For what reasons did you meet?
- c) What kind of was your interaction?

- Negotiations in 1989–1990 and joint venture agreement December 1990
- Budget excess in plant construction 1991
- Initial market development through a Czech firm 1991–92
- Production start-up in April 1992
- Financial crisis due to reevaluation of zloty 1992
- National Fund taken as a shareholder 1992
- Management problems with Swedish MD 1991–92
- Change of managing director of Kemipol 1993
- Nefco selling its shares to Kemwater 1995
- Active lobbying 1996–97
- Beginning of PAX-production 1998

The above list ends in year 1998, could you, please, continue it until year 2000.

Would you like to add some incident that has been especially important from your viewpoint? To your job?

V CURRENT DEVELOPMENTS AND INTERACTION IN THE FOCAL NET

Consider a typical week of yours including every aspect that has influence on Kemipol. Could you describe your week?

- a. Who do you meet or with whom are you in contact (by phone, mail, etc.)?
- b. In what kind of situations do you meet or contact them?
- c. Why are you in contact with them? For what reasons do you meet them?
- d. What kind of is your interaction?