

# **Social networks of foreign subsidiary managers as “glocal” coordination**

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## **ABSTRACT**

The purpose of this paper is: (1) to review the assumptions of the interaction and industrial network approaches on industrial coordination, (2) to examine the role of subsidiary managers in industrial inter-firm relationships, and (3) to synthesize previous conceptualisations of the multinational as both an intra- and inter-organizational network, particularly within the “process school” of diversified multinationals. As a corollary of these tasks and of a study of eleven industrial Portuguese subsidiaries of Finnish multinationals, the paper suggests theoretical propositions on social networks of foreign subsidiary managers as a mechanism of coordination in industrial markets. In the final section, some managerial implications are outlined.

**Key Words:** industrial coordination, multinationals, managers, social networks, case studies

## **1. INTRODUCTION**

This Working-in-Progress paper deals with a specific context of inter-firm relationships in industrial markets: that of a foreign subsidiary of a MNC (multinational company) as the focal actor of an industrial network, which encompasses both local counterparts (Håkansson 1982; Turnbull and Valla 1986) and other units within the MNC (Ghoshal and Bartlett 1990). Furthermore, the unit of analysis in the research behind this paper is the subsidiary manager, rather than the inter-firm relationship such as in the case of the interaction approach (Ford 1997) or the network of inter-firm relationships as it is the case within the network approach (Easton 1992) to industrial markets.

The main question of the research at hand is to what extent foreign subsidiary managers are able to use their networks of contacts as a mechanism of coordination both within the MNC they represent and the local industrial market they supply. A related question is how social networks of foreign subsidiary managers emerge in such a context of intra- and inter-firm relationships.

For the purposes of this paper, *social network* is defined as “a set of connected interpersonal relationships” (Cook and Emerson 1978), whereas *coordination* is defined as “any tool for achieving integration among different units both within and outside an organization” (Martinez and Jarillo 1989). In this paper, the term *interpersonal relationships* will be used interchangeably with the term *personal contacts*, in order to extend the scope of the former concept to any type of social interaction.

Following the introduction of the topic and the questions addressed, the paper proceeds with a brief review of previous findings within the IMP (Industrial Marketing and Purchasing) tradition as well as the so-called “process school” of diversified MNCs. The following three sections are therefore concerned with coordination both in industrial markets and MNCs giving particular emphasis to the role individuals play in such a process. The philosophical and methodological aspects of the research are presented in the fifth section, followed by the discussion of preliminary research findings in the sixth. A final section contemplates potential issues for further research as well as the managerial implications of current findings.

## **2. INTERACTION AND NETWORK APPROACH TO INDUSTRIAL COORDINATION**

Within the IMP tradition it has been observed that companies often operate in industrial markets with only a limited number of counterparts (Håkansson 1982; Turnbull and Valla 1986). Industrial markets can therefore be described as networks of inter-firm relationships based on a certain division of work, which in turn determines firms’ interdependence in terms of resources and knowledge (Håkansson and Johansson 1984, 1992; Thorelli 1986).

One can distinguish between relationships and interactions, as two distinct aspects of inter-organizational behaviour. Relationships are rather general and long-term in nature, whereas interactions represent the present and dynamic aspects of relationships (Johanson and Mattsson 1987). Relationships, which form the context in which interactions take place, can be established either directly or indirectly with counterparts in industrial networks (Easton 1992). Coordination among firms in industrial networks is achieved through interaction instead of a central plan, an organizational hierarchy or a price mechanism (Johanson and Mattsson 1987). Furthermore, interactions are thought to comprise both exchange and adaptation processes (Easton 1992).

## **3. THE ROLE OF SUBSIDIARY MANAGERS IN INDUSTRIAL INTER-FIRM RELATIONSHIPS**

Although inter-firm relationships are recognized as the *sine qua non* for an industrial approach, they are thought to comprise various elements strongly interrelated such as mutual orientation, dependence, bonds and investments. Bonds, in turn, can be treated as unitary phenomena or alternatively be decomposed into several dimensions such as economic, social, technical, logistical, administrative, informational, legal and time based, which are not interdependent from each other (Easton 1992). The interaction approach has demonstrated that in industrial markets, transactions are unlikely to occur without the establishment of personal contacts, although their importance is supposed to be contingent on the levels of uncertainty and risk perceived by the interacting parties. In this respect, *social exchange* has been emphasized, which is related with

the exchange of information, product and/or services as well as money in transactions (Håkansson 1982; IMP group 1997).

Personal contacts and negotiations are expected to influence the level of trust among the interacting parties as well as the intensity of their relationship (Cunningham and Turnbull 1982). The importance of trust is, however, contingent on both individual and organizational factors. In particular, on the perceptions, attitudes and behaviour of individuals (Håkansson 1982; IMP group 1997), which are in turn affected by their cultural background and language skills as well as by their functional role and hierarchical level. On the other hand, the age of the inter-organizational relationship, the business volume being transacted, the complexity of technology involved as well as the resources being invested by either organization, are all expected to influence the level of trust among interacting parties (Cunningham and Turnbull 1982).

Personal contacts can thus be regarded as a mechanism of coordination by which individuals and specially managers may influence the quality of inter-organizational exchange and the intensity of adaptations. The quality of exchange may be perceived not only in terms of information and communication restricted to the products and/or services being transacted, but also in terms of personal contacts in times of business inactivity or even crisis (Cunningham and Turnbull 1982). Adaptations are closely related with the negotiations taking place between interacting parties, which are expected to reflect their differences in terms of interests and power (Easton 1992). In this respect, control over resources and knowledge is assumed to be determinant for the coordination of activities between actors in industrial markets (Håkansson and Johanson 1984).

In his study of top managers' contact networks, Hallén (1992) distinguishes between *business*, *non-market*, and *infrastructural* relations. The first and second types of relations are directly and indirectly related with specific business transactions, respectively, whereas the third type refers to relations, which managers maintain independently from the occurrence of deals. The general intention of such infrastructural relations is to handle the firm's dependency on counterparts for either marketing purposes or long-term influence.

Recent contributions within the IMP tradition have addressed the importance of personal contacts in the context of inter-firm relationships in general (Halinen and Salmi 2001) and firm internationalisation in particular (Axelsson and Agndal 2000). Halinen and Salmi (2001) discuss the positive and negative effects of personal contacts on business relationship dynamics, namely their initiation (door opener / gatekeeper), crisis period (peace- / trouble-maker) and ending (door closer / terminator). The authors thus provide an interesting classification of the dynamic functions of personal contacts, while emphasising that the managerial implications of such a framework will be dependent on the managers' ability to "recognize the specific situations where personal contacts are most critical".

Axelsson and Agndal (2000) examine individuals' networks of contacts as driving forces and enablers of internationalisation. They claim that research on international inter-firm networking has rarely been conducted at the individual level of analysis. The authors provide an interesting classification of personal contacts in such a context, namely in terms of origin (professional, private), availability (on-going, dormant), role (critical, marginal, bridge), quality (breath, depth), and reach (e.g. geographic, industry). Axelsson and Agndal (2000) also note the possibility for

friction between individuals' and firms' networks suggesting the interest to empirically map key individuals' network of contacts, eventually with the support of IT (information technology).

Taken together these contributions (Axelsson and Agndal 2000; Halinen and Salmi 2001) seem to share a few aspects, which may be worth referring in order to position the present paper. First, they consider that personal contacts are but one of several influencing factors responsible for change in business relationships (Halinen and Salmi 2001) seldom explaining internationalisation by themselves (Axelsson and Agndal 2000). Second, they emphasize the importance to inter-firm relationships of individuals other than managers as the nexus of social networks, which are supposedly internal and external to the firm. Third, they attempt to classify, among others, the function or role of personal contacts in inter-firm relationships, which then forms the basis for managerial implications. Fourth, they question the extent to which individuals' networks of contacts may be controlled at the organizational level either by single managers' intervention or integrative mechanisms such as network-mapping teams and IT. Finally, they seem to recognize that the analytical complexity associated with the dynamic interrelation between individual- and firm-level relationships requires the specific context of the firm to be taken into account.

The present paper shares such concerns, despite the focus on managers rather than other individuals in the firm. Such a restriction may be justified with the fact that subsidiary managers' social networks, by virtue of their hierarchical position, tend to be rich in bridging weak ties (Granovetter 1982), which in turn have been considered particularly valuable for the long-term survival of the firm (Hallén 1992). On the other hand, by focusing on a specific context of inter-firm relationships, the present paper attempts to shed light on the dynamics of social networks and their interrelation with inter-firm relationships. The next section briefly reviews the description of such context by the so-called "process school" of diversified MNCs.

#### **4. MNCS AS BOTH INTRA- AND INTER-ORGANIZATIONAL NETWORKS**

The "process school" approach to the management of diversified MNCs (Doz and Prahalad 1991) assumes a closely intertwined relationship between the firm's environment, strategy and structure (Bartlett and Ghoshal 1987a,b; Hedlund and Rolander 1990) thus questioning the assumptions of the so-called strategy-structure paradigm (Chandler 1962; Franko 1976; Stopford and Wells 1972), which considers organizational change reactive to shifts in the environment and corporate strategy. For the "process school", MNC's managers are faced with a permanent trade-off between global integration and local responsiveness (Doz and Prahalad 84). Organizational evolution is thus expected to result from the quest for balance between the organizational structure, communication systems and organizational culture (Bartlett and Ghoshal 1990).

Several models of MNC have been proposed, which share elements of formal and/or informal matrix management such as the "heterarchy" (Hedlund 1986), the "multifocal" corporation (Prahalad and Doz 1987), the "transnational" corporation (Bartlett 1986; Bartlett and Ghoshal 1989), the "multicenter" firm (Forsgren 1989) and the "horizontal" organization (White and Poynter 1990). Despite their differences in terms of emphasis and approach, the five models of the MNC can be said to share a view of the MNC as becoming "less-hierarchical" (Marschan 1996).

The less-hierarchical MNC is expected to operate as a network of highly differentiated and functionally interdependent subsidiaries, resulting in a complex flow of products, people and information, beyond the constraints of formal, bureaucratic structures (Bartlett and Ghoshal 1989). Furthermore, geographically dispersed subsidiary units are granted responsibility and decision-making authority to perform strategically important functions, being coordinated and controlled particularly through informal mechanisms such as organizational culture, interlocking board of directors and personal relationships (Hedlund 1986; Hedlund and Rolander 1990; Bartlett and Ghoshal 1990). Less-hierarchical models of MNCs thus suggest that subsidiary managers play a crucial role in the MNC's coordination by taking part in different teams in the organization and by taking contact with other individuals either by their own or others' initiative (Martinez and Jarillo 1989; Ghoshal et. al. 1994). The use of lateral relations and informal communication is, however, thought to be contingent on language, cultural and organizational barriers (Marschan 1996).

## **5. METHODOLOGICAL NOTE**

In order to answer the two main questions introduced in the first section, this paper assumes that the distinction between the origin and the function of foreign subsidiary managers' social networks may be informed by realist ontology. In particular, it is assumed that searching for generative mechanisms (Tsoukas 1989), in this case of personal contacts, may contribute to our understanding of the dynamics of social networks and their interrelation with inter-firm relationships. In Easton's (2000:4) words:

Critical realism is an alternative philosophy of science that (...) seeks to explain events using explicitly causal language rather than equating causality to invariant relationships. In fact it suggests that simple invariance is rather unusual and events are often close to unique. However there is a measure of invariance in terms of different underlying processes that interact in particular contexts to cause a particular event to occur. Thus is not events that are invariant but the processes that help to cause them.

Such a philosophical stance seems appropriate for the research at hand when conceiving personal contacts as an activity, in which individuals engage while occupying certain positions in certain structures (Archer et. al. 1998). From this perspective, the discussion of personal contacts as forces of stability and change in inter-firm relationships (Axelsson and Agndal 2000; Halinen and Salmi 2001) may be extended "upstream" to the triggering or inhibiting mechanisms of personal contacts themselves, assuming that they result from the interplay between social structure and human agency (Aastrup 2000).

The typical research strategy associated with critical realism appears to be the case study, which in turn has been considered particularly suitable for research conducted within the IMP tradition (Easton 2000). The research behind this paper adopts a multiple case approach in order to improve the capacity for theory development by allowing both replication and extension among individual case studies (Eisenhardt 1991). The cases are individual foreign subsidiary managers as focal actors of social networks within and across the industrial MNC's legal boundaries. It is

therefore assumed that individuals may themselves be considered instrumental case studies (Stake 1994, 1995) providing insights, which facilitate the development of current theory.

The selection of the cases has been primarily based on the research questions being posed as well as on the similarity of their context in order to raise the level of external validity. In particular, the selected managers may be said to share a similar job description (Mintzberg 1973, 1990), increasing marketing orientation (Gates 1994), an entrepreneurial role (Bartlett and Ghoshal 1997), and the reporting to division headquarters while in charge of typically a SME (small and medium enterprise). The research is thus based on eleven Portuguese subsidiaries of Finnish MNCs operating in diverse industries, including six sales units, four sales and manufacturing units, and one service unit. The sample of cases includes four HCNs (host country nationals), three PCNs (parent country nationals), and four TCNs (third country nationals).

The data collection process has been primarily based on qualitative interviews and personal correspondence with the subsidiary managers. Personal interviews have been conducted and tape-recorded in 2001 on the basis of a standardized set of open-ended questions (Patton 1990), having lasted from two to three hours. In addition, secondary data has been collected, such as firm's reports and documents in order to provide supplementary sources of evidence (Yin 1994). Data analysis is currently under process both within and across case studies (Eisenhardt 1989). The coding system has been derived from both an priori theoretical framework and the data collected. In this respect, the aid of computer software for qualitative data analysis - NUD\*IST N5 as well as Decision Explorer – has been ensured.

## **6. THEORETICAL PROPOSITIONS ON SOCIAL NETWORKS OF FOREIGN SUBSIDIARY MANAGERS AS A MECHANISM OF COORDINATION**

Within the IMP tradition, personal contacts are thought to be stimulated, among others, by the following factors: technical complexity, industry norms, business volume, allocated resources, age of relationship, language and cultural barriers, hierarchical authority, and individual commitment (Cunningham and Turnbull 1982; Håkansson 1982). Within the “process school” of MNCs, personal contacts are assumed to take place through integrative mechanisms such as lateral relations and informal communication (Martinez and Jarillo 1989), although organizational change as well as language and cultural barriers are expected to inhibit them (Marschan 1996; Marschan et. al 1996).

The subsidiary managers, who were interviewed for the purposes of this research, have confirmed the influence of those factors to their social network. It was possible to note, however, that their impact to the establishment and maintenance of social networks tends to be symmetrical, in the sense that the same factor may constitute both a barrier and an opportunity for social interaction. Other factors thought to supplement the ones identified in previous research are presented in the following table:

**Table 1. Additional factors influencing social networks of foreign subsidiary managers**

INDIVIDUAL	ORGANIZATION	INDUSTRY	MARKET	COUNTRY
<ul style="list-style-type: none"> <li>- Background</li> <li>- Assignments</li> <li>- Behaviour</li> </ul>	<ul style="list-style-type: none"> <li>- Formal coordination</li> <li>- Size</li> <li>- Change</li> </ul>	<ul style="list-style-type: none"> <li>- Internationalisation</li> <li>- Employee mobility</li> </ul>	<ul style="list-style-type: none"> <li>- Dynamics</li> <li>- Concentration</li> <li>- Idiosyncrasy</li> </ul>	<ul style="list-style-type: none"> <li>- Institutions</li> <li>- Business culture</li> <li>- Educational level</li> <li>- Geographic distance</li> </ul>

Some of these factors can in turn be sub-divided into other variables, which for a matter of space will not be discussed in further detail in the present paper. However, a short list of relevant sub-variables, which may not be self-evident from the table, is provided below:

**Individual:** *background* includes personality, nationality, career and job tenure; *assignments* include job description as well as extra assignments; and *behaviour* includes initiative, availability and competence.

**Organizational:** *formal coordination* includes organizational structure, centralization and formalization; whereas *change* includes start-up and restructuring as well as employee turnover.

**Market:** *dynamics* includes competitiveness and growth; whereas *idiosyncrasy* includes customer applications and regulations.

**Country:** *institutions* include decision-making transparency; whereas *business culture* includes power distance.

The analysis of interview data as suggested, so far, the possibility to identify multiple patterns of interrelated factors with an influence on managers' social networks. However, such endeavour raises two concerns. First, to what extent the possible combination of factors influencing foreign subsidiary managers' social networks is virtually unlimited? And second, to what extent the identification of patterns of such combinations allows relevant theoretical development? One possible answer has already been suggested in the methodological section of this paper, when assuming that from a realist ontological perspective, the processes by which social networks come to exist may not necessarily generate observable patterns of events. For that reason, and given the preliminary status of the research, four propositions are presented below, which attempt to describe the dynamics of social networks as the outcome of the interplay between foreign subsidiary managers' agency and the specific social structure in which they are supposedly embedded. The propositions are illustrated with typical expressions from interviewed managers and then briefly described in terms of underlying assumptions.

**P1.** Social networks result from both the authority and the requirements assigned to managers. ("I have to take contacts to do my job")

From a realist perspective, individual assignments, in particular the job description of foreign subsidiary managers may be interpreted as their *position* in a certain social structure, which in turn includes individual counterparts within the MNC they represent, the firm they manage and the local market they supply. It follows that...

**P2.** Social networks are self-reinforcing due to managers' limited information to fulfil the requirements of their job. ("If I don't know, I will ask")

The lack of information to make decisions stimulates foreign subsidiary managers to take contact with individual counterparts in order to reduce perceived uncertainty. On the other hand...

**P3.** Social networks tend to expand due to the organizational quest for survival and growth. ("If we would stop contacting customers, we would close our doors")

Particularly in the case of sales-oriented units, the very existence of the organization is dependent on local business. In addition, foreign subsidiary managers tend to be requested from hierarchical superiors to implement their share of MNC's growth strategies. However...

**P4.** Social networks tend to follow a life-cycle type of expansion reflecting the firm's own positioning in the local network. ("In the first years I was taking more contacts than nowadays")

The expansion of foreign subsidiary managers' social network tends to be contingent on their own learning curve, which in turn can be associated with their firm's orientation and positioning in the local industrial network (Axelsson and Johansson 1992).

The four theoretical propositions thus attempt to describe the interrelation between the individual and the firm levels of interaction, which is at the heart of industrial coordination as perceived within the IMP tradition (Johansson and Mattsson, 1987). In fact, propositions P1 and P2 represent exchange and adaptation at the individual level, respectively. On the other hand, propositions P3 and P4 represent the same aspects of industrial interaction – exchange and adaptation - at the firm level, respectively.

Although the propositions discussed above were focused on the generation of social networks in realist terms, i.e. as a result of the interplay between social structure and human agency (Archer et. al 1998), the research at hand may as well have a word to say on the usefulness of personal contacts. Within the IMP tradition, personal contacts have been associated with task-related roles such as information-exchange, assessment, negotiation, and adaptation (Turnbull 1979; Cunningham and Turnbull 1982; Halinen and Salmi 2001). By further specifying the adaptation role into decision-making and resource allocation, the research being conducted may also contribute to our understanding of the function of foreign subsidiary managers' social networks in industrial coordination. For that purpose, the main activities associated with each of those roles of personal contacts is briefly described below:

**Information-exchange:** *functional advice* (legal, marketing and technical); *training* (technical and managerial); *benchmarking* (other MNC's units as well as some counterparts in the local market); *transactions* (follow-up of deliveries and installations).

**Assessment:** *reporting* (financial as well as unusual transactions); *organizational* (own MNC as well as customers and suppliers); *industrial* (internationally and in the local market).



**Negotiation:** *transactions* (within the MNC as well as with main customers and suppliers); *empowering* (own staff vis-à-vis local market counterparts).

**Decision-making:** *approval* (investments); *planning* (strategies and action plans); *human resources* (recruitment and remuneration); *problem-solving* (impasse between own staff and local market counterparts).

**Resource-allocation:** *leverage* (with other MNC's units for unusual transactions or customer requirements); *coaching* (own staff as well as customers).

It is thus suggested that for the specific context under analysis – foreign subsidiary management in industrial markets – the role of personal contacts may be further specified in order to describe inter-firm coordination both within the MNC and the local industrial network. The task-related context of a manager's social network seems therefore essential to our understanding of both the process by which they emerge and the content, which makes them purposeful.

## 7. CONCLUSION

This Working-in-Progress paper attempts to synthesize the preliminary findings of a Ph.D. research, which examines the social networks of foreign subsidiary managers as a mechanism of coordination both within the MNC they represent and the local industrial market they supply. Given the preliminary status of the data analysis, the answer to the two main questions presented is only suggestive. However, both the answers and the questions are expected to stimulate the discussion on individuals' networks of contacts and their interrelation with inter-firm relationships (Halinen and Salmi 2001; Axelsson and Agndal 2000).

The first question was concerned with the usefulness of social networks as a mechanism of coordination. In this respect, the roles of personal contacts within the IMP tradition have been considered the natural point of departure in an attempt to shed light into the issue. Given the high contextual level of both the hierarchical position of individuals concerned – unit managers – and their setting – foreign subsidiaries of industrial MNCs – it was possible to specify the main activities associated with five basic roles of personal contacts: information-exchange, assessment, negotiation, decision-making, and resource allocation.

The second question was concerned with the establishment and maintenance of social networks themselves, although in the same context. For that purpose, a realist ontological perspective was discussed in order to justify theoretical propositions, which attempt to relate social networks of foreign subsidiary managers with the social structure in which they are supposedly embedded. In particular, it was suggested that a general process of social interaction, which is dynamic yet increasingly stable due to individuals' learning curve and firms' orientation and positioning in the local market, may in turn be associated individual and firm level processes of exchange and adaptation. Such findings seem coincident with Håkansson's (1986) discussion of individual and situational sub-processes of internationalisation.

The four propositions presented thus constitute an attempt to model the dynamic interrelationship between social networks and inter-firm relationships in the particular setting under analysis.

However, it would be interesting to evaluate the validity of such propositions not only in this particular setting, but also on other inter-firm relationship contexts. On the other hand, the present discussion does not explicitly address a common distinction between task- and non-task related personal contacts as it emphasizes the task-related ones. Further research could therefore assess the possibilities to integrate our understanding of both managers' *infrastructural* relations (Hallén 1992) and more task-related social networks.

The managerial implications of this paper are understandably limited given the preliminary nature of the findings. However, it may be suggested that managers' awareness of not only the function of their personal contacts in inter-firm relationships, but also of their interdependency with a wide range of individual counterparts, would probably enhance their performance. Otherwise, managers may unintentionally circumscribe their social networks to a community of individual counterparts less empowering than it could possibly be. In Hallén's (1992:84) words:

The cloistered features of social structures of this kind not only insulate the actors from new information but may also generate inflexibility and a sense of infallibility.

In addition to managers' own awareness of their social network potential, a question remains concerning the extent to which one may exert control over someone else's social network. Not only in terms of implementation (Axelsson and Agndal 2000) but also of motivation to do so. Rather than control, the present paper discusses coordination. And even if the distinction may only be a semantic one, *coordination* has been defined as referring to both "tools" and "integration". Managers and their social network may be regarded as "tools" only to the extent they voluntarily perform in their firm's interests. One such a way might be by consciously negotiating their own assignments with hierarchical superiors as stated in the first proposition on social network dynamics. Although formal commitment does not, in itself, prevent e.g. opportunistic behaviour, it may well be the first step towards managers' awareness of the role their social network may play in inter-firm coordination.

But if coordination refers as well to "integration", managerial awareness will probably need to be supplemented with some kind of control in order to ensure that multiple social network dynamics do not diverge against the firm's interests. An extra, more informal than assignment, sort of control would then be required. In this respect, one may argue that controlling unilaterally someone else's social network may simply be counterproductive. If communication is by nature bilateral, the answer might lie, instead, in the very first role of personal contacts – information exchange. In other words, control will be exerted by regarding individuals whether subordinates, hierarchical superiors or external counterparts, as focal actors with whom one communicates.

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