

# **A CULTURAL VIEW OF INTERNATIONAL NETWORKS**

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## **Abstract**

This paper deals with international networks from a cultural viewpoint. Two aims have been addressed: extension of the network model by focusing on trust and exemplification of the extended model in an international environment. Four types of relationships, i.e. formal, informal, direct and indirect, have been presented as constituting an international network. The presence and dominance of relationships have been suggested to have direct links with the cultural values of the host country people. Hofstede's 'cultural dimensions' are used to explain the formation of relationships within international networks.

*Keywords:* network, relationships, cultural dimensions, trust, uncertainty avoidance, collectivism

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# **A CULTURAL VIEW OF INTERNATIONAL NETWORKS**

## **Introduction**

In the last 23 years, after the formal presentation of an IMP model of interaction, the notion of network has gradually developed.<sup>1</sup> The focus has shifted from dyadic relationship to a host of direct and indirect relationships in which the focal firm is a part of its broadened environment. Over time, the focus of research has moved from individual relationships towards a wider structure (Ritter and Gemünden, 2003). Håkansson and Snehota (1990) state that an organization requires a shift in focus away from how it allocates and structures its internal resources and towards how it relates its own activities and resources to those of the other parties that constitute its context.

It is no longer enough to concentrate on internal resources. Rather, interaction, negotiation and transaction with one's environment to acquire resources have become an essential part of a firm's activities. How firms are interconnected, the foundations available to build such interconnections, and how communication between firms and their employees function – are becoming important issues to deal with. Ford (2002) argues that in order to understand what goes on inside a company's relationships, we need to understand the network of which they form part. Similarly, Gulati et al. (2000) realize that the conduct and performance of firms can be more fully understood by examining the network of relationships in which they are embedded. Chetty and Wilson (2003) point out that network represents a critical point of investigation in understanding internationalization when there

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<sup>1</sup> The work of IMP (International Marketing and Purchasing) researchers was formally presented by Håkansson (1982). The groundwork for the IMP group had been laid even earlier, though perhaps not in organized form. Some of the initial important contributions were made by Cunningham & White (1974), Johanson & Wiedersheim-Paul (1975) and Johanson & Vahlne (1977). A detailed background of IMP research is discussed in Ford (2002).

are resource constraints. It is not an exaggeration to say that both software giant Microsoft or a small shoemaker in a tiny village in southern Europe face resource constraints, but of different types.

Nearly three decades ago, Pfeffer and Salancik (1978) recognized the role of environment on the generation of firm resources. As they state, no firm is 'self-content', meaning that firms interact continuously with the external environment for survival. The network concept also highlights the aspect of interconnectedness (Mattsson, 1997), but fails to consider one interesting question: how to address and explain the constituents of different kinds of environments. Is a network only meant to function in a local environment, or is it also applicable to an international environment? The answer is obvious, as the IMP group studies 'international' marketing and purchasing. However, network theory does not clearly differentiate between local and international environment, and therefore network-related issues in other markets have not received focus. *International Marketing Review* recently published a special issue on network relationships in international contexts (No. 21, 2004), edited by David Ford, one of the founding members of the IMP group of researchers. More research works in this important field are therefore expected to come. The previous lower interest in international networks has a number of interpretations. One explanation could be that IMP researchers mainly come from Western Europe, and have therefore not dealt with the cultural variation in other countries. Another explanation might be that network theory is still in the development stage and therefore many issues are not yet covered. In fact, the social context in which firms are embedded includes a whole array of elements that can be broadly classified as structural, cognitive, institutional and cultural (Zukin and DiMaggio, 1990; Gulati et al., 2000). Through extensive study, Hofstede (1980,

2001) has shown that national cultural differences exist and are also highly significant in international business and transactions.

Two distinguished 'network professors', Jan Johanson and Lars-Gunnar Mattsson, have stressed the need for research about the organizational problem of integrating operations in international networks (ibid. 1988), but not much has been done in this direction. The IMP network model is therefore not yet equipped to suggest a suitable framework that can explain construction, development and maintenance of network in different cultural environments. Network researchers do recognize the role of environmental forces that have a general impact on networks (see for example, Anderson et al., 1994; Halinen et al., 1999), but do not explore how this actually takes place, particularly from a cultural viewpoint. One exception is the work of Hallén and Johanson (2004), who seek an understanding of the existing network and its dynamics in Russia, with regard to foreign entry into the country. More global presence and a need for various interactions have become a challenge for multinational firms in managing useful networks for better performance.

In a recent article, Leek et al. (2003) take up the issue of relationships and networks in a changing world, and comment that globalization has increased over the last two decades, which has led to more complex business relationships. The present study therefore aims to extend network theory (as advanced by IMP researchers) by introducing the concept of 'cultural differences'. Further, trust is included as an important variable in the discussion, as we argue in this paper that trust is required to develop networks in culturally distant countries. Hofstede's (1991) 'cultural dimensions' are used to identify cultural differences between nations and then to suggest what kinds of network are suitable and can be developed

in different cultural settings. One major contribution of this paper is that it offers an extended framework for networking, by combining cultural differences and trust.

Sabel (1993) defines trust as a mutual confidence that no party to an exchange will exploit another's vulnerabilities. Gill and Butler (1996) distinguish two types of trust: personal trust and impersonal trust. The former, personal trust, is developed between individuals whereas impersonal trust is put in an institution or set of institutions. However, both types of trust arise from interpersonal relationships. In our view, trust has its basis in individuals, although individuals in an organization may share an orientation toward another organization (Zaheer et al., 1998). Granovetter (1985) suggests that the key to the development of personal trust derives from the networks to which the various partners belong and the interactions stemming from those memberships.

Within the network, actors make systematic attempts to influence others in an effort to reach their objectives. Håkansson and Ford (2002) identify three network paradoxes, one of which is related to control. Some control is necessary for network development, but exercise of too much control can destroy the innovativeness of the network. Gadde et al. (2003) argue that the more an individual company achieves their ambition to control, the less effective the network becomes in the long run. We therefore argue there must be trust among the interacting parties to support the existence of a feeling of reliance and so that things can function beyond the control mechanism. Trust is built up over time in a social exchange process whereby the parties learn, step by step, to trust each other (Håkansson and Snehota, 2000). Quite surprisingly, however, no network study addresses the issue of trust in more detail. This article fills this gap by exploring the extent and role of trust on network

development in other cultural environments. Dealing with trust is not a separate aim, but is related to the extension of network theory and serves to complement this first aim.

The framework developed in this paper is exemplified in a real world situation. To do this, two culturally distant nations are first identified and it is then shown what network means to the people of these countries and how it is built. This is a second aim of this study. Network is examined from a cultural viewpoint, in an effort to properly understand the process of network development and its impact. The countries of Sweden and Egypt have been chosen for this study, considering a wide cultural difference between them on all Hofstede's cultural dimensions. More specifically, Swedish foreign investments in Egypt have been examined and explored with regard to how the Swedish management of these firms deals with the local people and how relationships are gradually developed within the host country. The study does not look at the financial side of the Swedish investments, but concentrates on the relationship and patterns of network development between the Swedish firms and the local people. While both individuals and organizations are considered, no demarcation is made since individuals are observed to interact both on their own and on their organization's behalf.

To summarize, the paper has two aims: one theoretical and the other empirical. The theoretical aim concerns extension of network theory by combining three different aspects i.e. network, trust and culture. Cultural theory is discussed because network development is seen from a cultural perspective, where trust plays a major role in predicting the types and importance of relationships in the networks in which they are embedded. The other aim deals with a practical example as to how network relationships are created and maintained in an international environment.

The paper begins with a detailed discussion on the concept of network. Next, by drawing views from the cultural literature, a cultural model of network is presented. Cultural differences between Sweden and Egypt are then discussed, followed by a discussion on data collection. A following section deals with the application of a cultural network perspective in the Swedish-Egyptian context. The last part of the paper includes conclusions, implications and suggestions for future research.

### **The concept of network**

The network is not a world of individual and isolated transactions between companies (Håkansson and Ford, 2002); it is a forum of many simple and complex interactions and relationships. These relationships may be direct or indirect, and relatively stable or dynamic. The basic point of departure for an industrial network approach is that companies operate in the context of interconnected business relationships, forming networks (Gadde et al., 2003). As Håkansson and Ford (2002) argue, each business unit, with its unique technical and human resources, is bound together with many others in a variety of different ways through its relationships. In a network, the interacting parties both influence others and are influenced by others. Through their relationships, companies can learn about the sources of vital information and gain access to resources they need to run their business activities. From this point of view, the network is an investment that offers both opportunities and threats to the members. The network can be a threat if it is difficult to bring about necessary changes due to strong relationships between the interacting parties.



In a critical review of contributions to the field, Araaujo and Easton (1996) have identified 10 different 'network schools', of which the most prominent are US researchers and the Europe-based IMP group. The basic differences between these two institutions are related to aim and methodology. The Europeans have attempted to describe and understand business realities by using a qualitative method, while the US researchers have used quantitative studies, influenced by strategic decision-making, and concentrate on prescribing and managing relationships. One main difficulty is that these streams of research do not always acknowledge each other's work and therefore some work is, at least partly, overlooked in other parts of the world (Ritter et al., 2003). The aim of this paper is to understand the complexity of relationships, and also to some extent, explores how these relationships and networks function and are managed. From this standpoint, though the main starting point has been IMP studies, both research streams are combined and focused on in extending the network concept. Turnbull et al. (1996) have criticized IMP research for not having properly matched the conceptual development with empirical study. The present study responds to this critique by offering an empirical study in line with the extended network concept.

The core model for the industrial network is composed of three variables: (a) actors, (b) activities, and (c) resources (Håkansson and Johanson, 1992). According to the model, actors perform activities and/or control resources. An activity occurs when one or several actors combine, develop, exchange or create resources by utilizing other resources. Resources are the means used by actors when they perform activities. Although the model appears simple, it indeed involves interrelationships between a network of actors, a network of activities, and a network of resources. These network elements are bound together by forces, in terms of which the total network can be analyzed (ibid.). A major emphasis of network model rests on an exchange of information, access, and accumulation and

coordination of resources between the interacting parties. The expectations, of either party, with regard to accessing various types of resources, are a common ingredient of a business relationship (Håkansson and Snehota, 2000). Apart from tangible resources in the form of products, various intangible, and often vaguely defined, resources such as technical, commercial or administrative know-how, can be of interest (ibid.). Gulati (1999), one of the most prominent emerging strategic researchers, has introduced the notion of 'firm network resources' and proposes that companies accrue such resources from the interfirm networks in which they are located. Why companies belong to networks, and why they are involved with certain partners, can largely be explained by their need of resources. But companies are not interested in all resources, only in those which can help them improve their position and performance.

We argue that trust is a vital element in networks, as most contacts and relationships are not necessarily based on formal contracts. Both strategists and (IMP) networkers acknowledge informal agreements and trust as alternative governance forms, and present as a basic piece of strategic advice: find partners with complementary strategic resources and relational capabilities (Gadde et al., 2003). The IMP literature, however, does not always address trust explicitly, but quite often treats it in the context of network relationships (see Ford, 2002; Havila et al., 2004)). The concept of trust is seen as fundamentally important for the effective development of a long-term successful business relationship (Cousins and Stanwix, 2001; Ford, 2004). Ford (1997) deals with trust when focusing on relationship development within an interaction model. Network researchers also address trust along with commitment and creation of a social bond (Håkansson and Snehota, 2000).

The strategists, on the other hand, address trust in a more straightforward manner, in treating it in a network context. Trust is seen as an alternative way to create substantial links and to rely on others without getting involved in formal relationships. In the presence of trust, the practice of opportunistic behavior becomes less common, as interacting parties are encouraged instead to attend to one another's interest. The existence of trust likely mitigates appropriation concerns, and organizations may choose not to rely on detailed contracts that are costly to write, monitor and enforce (Gulati, 1995). Further, Gulati et al. (2000) argue that strategic networks create two types of trust: knowledge-based trust, that results from mutual awareness and equity norms, and deterrence-based trust that arises from reputational concerns. The argument of reduced control to facilitate network development, by IMP researchers, and open reliance on trust, by strategic networkers, are not far from each other. Both views are rather complementary and see the gradual development of trust as an alternative to formal control and contracts, though from two different angles.

### **A cultural model of network**

In his seminal work "Culture's Consequences", Hofstede (1980) presented, based on IBM data, four basic dimensions of cultures, i.e. power distance, collectivism versus individualism, femininity versus masculinity, and uncertainty avoidance. Each dimension represents an aspect of culture that can be measured relative to other countries. The first, *power distance*, describes how different countries handle the fact that people are unequal. The focus here is on the type and preference of relationships between people who do not have the same status, for example, a boss and his or her subordinate. The second, *individualism/collectivism* describes the difference between cultures where ties are loose (each person takes care of him- or herself and his or her immediate family) and collectivist

societies where people are integrated and act in groups. In culturally individualistic countries, people are encouraged to grow up as individuals and to take all their own decisions on matters that affect them. In countries with more collectivism, each person is a member of a big family and therefore all major decisions fall within the jurisdiction of the family. *Masculinity/femininity* concerns the extent of emphasis on work goals (earnings, advancement) and assertiveness, as opposed to personal goals (friendly atmosphere, getting along the boss and others) and nurturance. Culturally masculine societies define gender roles more rigidly than culturally feminine societies. More masculine societies would happily have occupations restricted to men or to women only, whereas in feminine societies women may drive trucks or be surgeons while men may more easily be nurses or house husbands (Hoecklin, 1995). The last dimension, *uncertainty avoidance*, refers to the extent to which the members of a culture feel threatened by uncertain and unknown situations. For example, lifetime employment is more common in countries with high uncertainty avoidance, whereas high job mobility occurs more commonly in low uncertainty avoidance countries (Adler, 1986).

In a network, there is an array of relationships which bind different actors together to acquire resources through different shared activities. Industrial network theorists regard networks as aggregations of relationships (Easton, 1992). How the network functions and how it will develop over time, therefore depends on the type and structure of the relationships embedded in it. In a review of industrial networks, Easton (1992) identifies four elements of relationship: mutual orientation; the dependence actor has, or believes it has, on the other; bonds of various configurations and strengths; and the investments each actor has made in the relationship. These characteristics indicate that relationships are to be based on commitment and trust, and will have a long-term perspective (Morgan and Hunt, 1994; Blois,

1998). In this paper, relationships are seen as the cornerstones of networks and therefore as forming the foundation of the cultural model of the network. Four kinds of relationship can be identified: formal, informal, direct and indirect (Figure 1). The first two categories deal with the structure of the relationship, while the remaining two concern the intensity of contacts between the actors. These relationships are first presented and then discussed in connection with cultural dimensions.

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Insert Figure 1 about here

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*Formal relationship:* When a company enters an equity joint venture with another company, a formal relationship is established. The relationship is bound by some contract, based on the agreements reached between the partners. In this case, the contract offers a general guideline as to how resources will be shared, who will be the actors, and what activities are to be carried out in the relationship. Formal relationships are also common between employers and their employees. Multinational companies largely depend on host country people to run their foreign operations, and therefore enter into formal contracts, covering obligations and rights, with them.

*Informal relationship:* This type of relationship is not organized around formal agreements but established and used whenever necessary. Formalization or legal criteria are seldom applied here. The source and strength of this type of relationship is dependent on the social contacts between companies, and it therefore takes time to build such a relationship.

Mutual trust is the key to forming and maintaining informal relationships. Informal relationships are particularly significant when there exists spatial and cultural distance between the two parties or where the experience of the two parties is limited (Håkansson, 1982).

*Direct relationship:* A dyadic relationship, where two companies engage in interaction, is a common example of a direct relationship. Influences from other relationships might be recognized on this level, but the main focus is on the interaction between two actors over time (Ritter and Gemünden, 2003). The interaction model started with the notion of the direct relationship, but it was later found that companies also engage in other relationships within a larger network. By entering a direct relationship, a firm recognizes a major partner for dealing and exchanging views and ideas. It is not necessary for a firm to have a direct relationship with one organization or only with organizations, the interacting parties may well be companies or individuals as well.

*Indirect relationship:* It is not always necessary for companies to have direct contacts. It is possible for them to acquire resources or vital information from others connected to their interacting partners. An indirect relationship is most simply described as the relationship between two companies which are not directly related, but which is mediated by a third firm with which they both have relationships (Easton, 1992). Gulati and Gargiulo (1999) have shown how companies benefit not only from their direct ties, but also from the ties of the actors to whom they are connected. Easton (1992) argues that firms use more indirect- than direct relationships, which also creates problems in procuring resources. Two types of indirect relationships are common: vertical relationships, i.e. firm to customer's customer, and horizontal relationships, i.e. firm to competitor through mutual customer (ibid.).

Anderson et al. (1994) have called this a secondary function that captures indirect positive and negative effects of a relationship because these relationships may be directly or indirectly connected to other relationships.

The different types of relationships do not exclude or replace each other, but can be present in the same network simultaneously. However, the use of the relationship types may vary from network to network depending on several factors, such as resources, experience, trust, competence and environment. It is argued here that, in international networks, cultural differences play a substantial role in selecting and using a certain type of relationship dominantly or less dominantly, because the influence of national culture is strong and long-lasting (Sirmon and Lane, 2004). A major argument of this paper is that the differences in cultural dimensions not only cause people to behave or act differently, but also induce people to prefer a certain type of relationship over another. One can therefore expect that the pattern of interactions between the basic elements of a relationship, i.e. actors, resources and activities, will be different if there is a large cultural difference between the interacting parties. In general, the culture of the country in which the network is to operate, will dominate the selection and use of relationships. Where two interacting parties are close on cultural dimensions, it is less difficult for them to identify and practice the appropriate relationships for network development.

If cultural differences between the partners are great, and there is an absence of understanding, particularly on the part of the foreign partner, development and maintenance of the network will certainly be a difficult task. Sirmon and Lane (2004) point out that national cultural differences between alliance partners can challenge the development of successful relationships. Trust plays a central role in informal and indirect relationships, and

these types of relationships are important in societies with high collectivism and high uncertainty avoidance (Hofstede, 2001). According to this notion, trust is an antecedent of these relationships. However, trust can also be an outcome resulting from repeated use and experience gained from these relationships (Gulati, 1995). A high power distance results in centralization and a hierarchical organization (ibid.). In formal relationships, these characteristics are central, and the role of trust is insignificant since risks are usually minimized through written agreements. Direct relationships similarly minimize the chance of misunderstanding where the need for trust is modest. To conclude, highly structured relationships, i.e. formal and direct relationships, do not need much trust, whereas less structured relationships, i.e. informal and indirect relationships, are highly dependent on trust for developing networks (Figure 1). No clear-cut role of femininity/masculinity is found in any of these relationships.

### **Cultural differences between Sweden and Egypt**

Hofstede's four cultural dimensions are now well established in business, particularly on the international level (Lee and Peterson, 2000; Steenkamp, 2001; Abdou and Kliche, 2004). The concept of two dimensions, i.e. power distance and uncertainty avoidance, was borrowed from other researchers. Mulder (1976, 1977), the Dutch social psychologist, based his power distance theory on simple social structures, while the term 'uncertainty avoidance' is borrowed from Cyert and March (1963). The other two dimensions are Hofstede's own. All the four dimensions have been discussed much in the last two decades and have also served as a point of departure for many culture-related studies in international business (see for example, Shane, 1992; Barkema and Vermeulen, 1997; Jeanquart-Barone and Peluchette, 1999; Sirmon and Lane, 2004). For each cultural dimension, Hofstede has calculated index



values ranging from 0 to 100. Countries closer to either end of the spectrum represent extreme values such as low power distance compared to high power distance. If two countries lie at two extremes of a cultural dimension index, it can be expected that there will be a major difference in values, attitudes and actions of the two countries' nationals. Some key differences between countries with extreme values are shown in Table 1. However, all dimensions do not have the same impact on relationships and in business.

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Insert Table 1 about here

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Table 2 compares the scores and rankings received by Sweden and Arab countries in Hofstede's study, with respect to index values for the four cultural dimensions. Egypt was not represented in the original study, and therefore the values for Arab countries have been used in this paper. The use of values calculated for Arab countries is valid because Hofstede treated Arab countries as a collective region and did not focus on one particular country. The IBM data was collected from 50 countries and three regions, namely, East Africa, West Africa and Arab countries. As Table 2 shows, significant differences were apparent in all cultural dimensions. The difference in ranking between Sweden and the Arab countries as high, ranging from 16 to 41 (out of 53 investigated countries and regions) in the four dimensions. This big difference fulfills the requirement of the current study well, to examine the role of culture in the development and management of networks in an international environment.

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Insert Table 2 about here

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The major strength of Hofstede's study is its solid statistical base that enables comparison between the countries in the four cultural dimensions. The main critique against this work is its age, and many researchers have questioned the validity of the results in our rapidly changing world. In his recent book, Hofstede (2001) takes up this issue and compares the IBM-based findings with other more recent studies. Some of these research works were direct replications of the Hofstede study, while, through some adjustment of the data, others could be compared in part. Two important studies on power distance were conducted by Hoppe (1990) and Helmreich and Merritt, (1998). The data from these studies could be used to compute best estimates for the scores on the IBM scale through regression of the IBM scores on these survey scores. Arab countries were not represented as a region in either of the studies, but Morocco (more comparable to Egypt) and Turkey were included in the studies of Helmreich and Merritt (1998) and Hoppe (1990), respectively. Helmreich and Merritt concentrated only on power distance, while Hoppe calculated index values for all dimensions. Hoppe's scores for power distance are fairly consistent with the scores of Hofstede, with the odd outlier (the most extreme case being Austria, with +32 on the power distance index as per Hoppe's score). For 19 countries, the Helmreich and Merritt scores are within 15 points of the IBM scores (the most extreme case being Malaysia with -36 points). In general, the results of Hoppe's and Hofstede's studies match up well on three dimensions, with the dimension of masculinity being the exception. Although the IBM data is old and shows some differences from other studies, it offers a good basis for orientation and conducting comparative studies on business-related issues. Another critique is that

differences between the countries are gradually decreasing, which implies also a decrease in cultural differences between the countries. Hofstede (2001) accepts this argument to some extent as he also sees that the scores of the countries are falling for the cultural dimensions. He argues, however, that this would not change the mutual ranking between countries.

## **Data collection**

Application of a qualitative approach has been a necessity in order to capture the breadth and depth of network relationships. In a recent article on methods, Halinen and Törnroos (2004) discuss, among other things, the issue of 'complexity' in studying business networks. The matter is further complicated here, since the network is considered, from the foreign partner's viewpoint, to be in a culturally distant country. To study delicate issues such as this, there is no other alternative method than through investigation that addresses and analyzes "why" rather "what" questions (Yin, 1994). The research data has been collected as part of a bigger project in Egypt through direct interviews. Most of the interviews were conducted in English, but in a couple of cases interpreter support was used. Duration of the interviews varied from one to two hours depending on the requirements of the respective study. The interviews were open-ended but conducted with the aid of a number of interview guidelines established beforehand. The guidelines were necessary to achieve an effective use of time and help keep the discussions within the research area.

Although the focus of the study was Swedish firms operating in Egypt, even local companies and organizations were included in the data collection. Interviewing other people and organizations was not an option but a necessity to understand the local culture and its impact on business activities. Interviewing only key people can be subject to the common

problems of bias. A reasonable approach to avoiding bias is, according to Yin (1994), to corroborate information from focal interviews with information from other sources. Other interviews helped to support the main findings and even to add depth to our understanding of the situation.

Selection of the organizations and their representatives for interviews was carefully planned so that a total picture of the situation could be captured. Five Swedish firms were first selected for interviews. These firms are also unique. ABB was one of the companies, a company jointly owned and managed by a Swiss partner with its head office in Switzerland. ABB has a dominating role in Egypt in its business area and is managed purely by local staff. The second company, Gamma Knife, operates in the medical industry, and two of its four owners are Egyptian Swedes. The other two owners are the Egyptian government and a Swedish organization. Swedish medical technology and a Swedish management style are used in Gamma Knife. The third is Ericsson, which operates as a wholly-owned company in the world-wide telecommunication industry. AstraZeneca, the fourth company, works in the pharmaceutical industry, with its administrative headquarters located the UK and R&D headquarters in Sweden. Delaval is the fifth company, a Swedish company that conducts business in 100 markets and delivers half of all milking equipment worldwide. A total of 16 interviews, that took 23 hours in total, were conducted with both foreign and local staff of the Swedish companies. A detailed breakdown of the data collection is given in Table 3.

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Insert Table 3 about here

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Representatives from four local organizations were also interviewed to gain an idea of the local business culture and practice. At the Swedish Embassy, the first secretary and commercial attaché, the latter a local national, were interviewed. Due to his Egyptian background, the commercial attaché has good ties with local Swedish business enterprises and serves as a useful link between the embassy and the local business community. A seminar with doctoral students at the Suez-Canal University was also held, mainly to discuss cultural issues and to gain further awareness of the Egyptian culture. In February 2005, the research group arranged a seminar in Cairo, in which local business managers, and representatives from the ministries of industry and finance, the Swedish Embassy, and Swedish companies operating in Egypt participated. The seminar brought together people from different business and cultural backgrounds, with the intention of having an open discussion about doing business in Egypt, particularly from a Swedish perspective.

At least two interviewers were present during all of the interviews. Although the interviews were tape-recorded, participation by two interviewers helped to complement the discussion and to cross check the data. In most cases, one person was interviewed at a time, but in a couple of cases more than one respondent participated in the same interview. The data was collected in Egypt in two periods, in 2004 and 2005. One of the Swedish companies was interviewed in both occasions.

### **Network development in Egypt – An Example**

The Swedish firms interviewed have experienced the need to develop different kinds of relationships to operate in the Egyptian market. Throughout their business dealings, hierarchy has had to be respected in order to establish, develop, and keep relationships

functioning. When the researchers met with ABB officials, they were always reminded that they should go through the Swedish Embassy and their business attaché. The contact with the embassy did not yield any business-related facts, but was necessary for legitimacy. A green light from the CEO of ABB was essential to arrange meetings with other managers. This is a clear example of a power distance observed throughout the organization. The CEO of Gamma Knife described an incident where they met the Egyptian health minister in connection with this project. The meeting was attended by a French national who was the representative for the equipment supplier, a few Swedes from the same company, and the Swedish ambassador to Egypt. The French man behaved in a somewhat arrogant manner and was also sitting rather lavishly, which the health minister did not like. In their next meeting, the French man did not participate as the minister refused to see him again. The local culture prescribes how one will sit, show respect and behave. "Can I trust this person to build a long-term relationship?" – becomes an important question. In developing relationships in Egypt, people need to be extended proper respect and status, and formal etiquette must be followed. Formality is also stressed by government authorities, which Gamma Knife experienced while importing medical equipment to their clinic. They have stumbled on small details and have therefore had less time to deal with important issues.

The practice of strong collectivism was manifested in all the firms and also in interviews with other local people. Ericsson maintained this cultural characteristic in two ways: by developing strong values by making the organization more family-oriented, and by having an Egyptian in the top management to specifically see to the interests of the local personnel. Ericsson does have a HR manager but the employees frequently rely on this other manager for dialogue and raising issues with management. The internal network must work before dealing with customers and external contacts. ABB accounts and sales managers

stressed the need for creating informal relationships with suppliers and buyers. Although things were set out clearly in the contracts, they relied heavily on trust, friendship and networking in their business dealings. The contracts served more or less as guidelines. The AstraZeneca manager interviewed had a similar view. He observed that people became friends while interacting in business. It was not necessary for agreements to be strictly followed, things could be changed and problems solved by discussion and relationship building. Delaval's manager found a major difference between Sweden and Egypt concerning the importance of a business contract. He observed:

"Contract is contract and business is business. In Sweden, a contract has to be followed after all the parties have agreed to respect and carry it out. In Egypt, it's just an understanding and nothing absolute. You can always get round the contract. Something more is needed to get the work done."

ABB had to do a lot outside the contracts to satisfy its customers. It was very important to treat the customers with friendliness, respect and an attitude supportive to their needs wherever necessary. Informal contacts facilitated relationship development and increased sales. These informal contacts, which were mainly based on trust, made up 30% of the work. As the ABB managers pointed out, it was not all about pure business. They spoke also about things that were not directly related to business. People loved to make new friends even when doing business. As the CEO of Gamma Knife put it:

"Here in Egypt, people do not go to the hospital, they go to the doctor. They love to develop relationships on which they can rely."

Gamma Knife's CEO also gave two examples of informal relationships that helped them to solve some important problems. One was related to customs clearance of a piece of equipment that contained some radioactive material. The shipment could not be cleared because some document was missing. If the expert hired to install the machine, at a cost of 15,000 SEK per day, could not install it before leaving Egypt, it would be at least three months before he would have time to return and install it. The CEO of the company explained the situation and the importance of the project to the Egyptian customs officer. The officer understood and felt like he was a part of the situation. The customs officer's perception was that if he were to hinder the process, the foreign installer would go home and Egypt would lose out. After two hours of negotiation, the necessary trust was established and things could be settled. The CEO comments:

"In Egypt, employees can make it hard or easy depending on how sincere you are and how well you handle the informal part of the relationship. It's a question of trust."

The second example concerned Gamma Knife's relationship with Nasser Institute, one of the biggest medical centers in Cairo. The Gamma Knife clinic is located in Nasser Institute premises. According to the formal contract, the latter would draw some benefit from Gamma Knife, but never did. A genuine informal relationship was in place.

Indirect relationships must function to get business done in Egypt. The relationship orientation of the local people requires that one have a broader network of connections, either direct or indirect, with vital people in society. In one case, the researchers needed an appointment with the CEO of ABB within a short period. In order to enable this, the local contact person, who was also a distinguished professor, had to look for a person closer to the



CEO to make this happen. Once this contact person was engaged in the matter, the appointment was arranged immediately. And not only was the meeting arranged, but through the direct initiative of the CEO the researchers were allowed to interview any employee of the company as desired. Again, trust was the basis for getting things done. Even other appointments could be settled quickly with the direct support of the Swedish Embassy. The Egyptian-born business attaché called each interviewee personally. Things needed to go through the proper channel, otherwise a seemingly simple task could take days or even weeks.

The strong sense of uncertainty avoidance was found to cause local people to be wary about new things. When the Gamma Knife Center was to be set up, many people told the CEO not to do it as it would be a great mistake. But the image of the foreign project gradually changed the environment. The center became a symbol for cleanliness and known as a service-oriented firm. Initially, it can be difficult, but once an organization gets established, things become easy. All of the Swedish firms' personnel interviewed observed that Egyptians were hard-working and performed their jobs well. However, major uncertainty prevailed in the question of taking initiatives and making decisions, even though they had been given clear authority to do so. AstraZeneca's manager found that local people were more interested in developing long-term relationships to create trust and reduce uncertainty. Delaval, Ericsson and AstraZeneca in particular engaged local employees to deal with customers and authorities to make use of informal relationships and building trust. The western identity of the Swedish firms was also very helpful in this regard. The long presence of Ericsson in the Egyptian market gave it both reputation and confidence. In the local culture, loyalty is highly valued, which Ericsson showed over the years. To pursue loyalty, Ericsson encouraged local people to take senior positions in the company. For several years,

the company has a management team made up of 50% foreigners and 50% locals. The Swedish firms used direct contacts with customers and suppliers as they considered them good opportunities for making new contacts and broadening networks.

## **Conclusions and implications**

This paper deals with two issues: it proposes an extension of the network model from a cultural viewpoint and offers an example of network development in Egypt from the Swedish perspective. In extending the network model, trust has been the focus in discussing relationships embedded in networks. Earlier theories have been criticized for failing to include a cultural aspect in international networks. It is argued here that cultural background largely dictates how an individual will act, behave, communicate and do business with other people. It also implies that a particular nation will prefer a particular type of relationship over other types when there are cultural differences between the nations.

Cultural differences have been examined in Swedish organizations operating in Egypt from the view of cultural dimensions. The role of collectivism and uncertainty avoidance were a distinct feature in the relationships. Power distance was also present but did not have a strong influence. It was essential, but it was enough that status and positions were maintained, while other things had to be done through careful handling of the other channels and traditions. Formal relationships play a major role until informal relationships come into play. If an informal relationship does not grow as required, the formal relationship cannot confer adequate support to keep the business process developing and expanding in the long run. Influence relating to the cultural dimension of femininity/masculinity was not observed in this study.

As expected, trust is found to play a central role in all types of relationships except the formal relationship. Trust development was necessary in the relationships because collectivism and uncertainty avoidance were high in the host country. Further, informal and indirect relationships require that more trust is sought and ensured. The study clearly shows that Egyptians rely more heavily on these types of relationships in their normal daily life and business dealings. The Swedish firms investigated also understand the importance of this reality and therefore concentrate on these issues in dealing with business networks. If a formal relationship dominates, the role of trust decreases. This research work reveals that cultural differences and the process of relationship development are not isolated from each other. Rather, a clear understanding of differences is a must to reap benefit from networks in other countries. Figure 2 shows how the cultural dimensions are related to different types of relationships and the role that trust plays in the Egyptian network. Power distance encourages formal relationships where trust development is less important. In other words, too much formal relationship negatively affects the sense of trust. Collectivism and uncertainty encourage people to collaborate closely, and therefore trust becomes a vital issue in these cases. The more uncertain and collectivist people are, the higher their need for trust. For trust to develop, it is necessary that interacting parties frequently utilize informal and indirect relationships to build their networks.

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Insert Figure 2 about here

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This study suggests that the cultural dimensions are important tools by which we can identify what types of relationships are important in a certain country so that a proper network of relationships can be established and further developed. Although this work deals with culturally distant countries, it also has implications for countries with cultural proximity. For example, Finland and Germany have similar cultures with high individualism, low power distance and medium uncertainty avoidance. In such a case, a formal network will be fruitful for collaboration, and both countries will be comfortable with the situation.

This study has some important implications for international managers. First, network development is emphasized as a part of long-term investment in other markets. But it is not enough to be aware of networks, managers must understand that the network is an aggregation of different relationships and that all relationships do not have the same importance universally. A second implication is therefore associated with the capacity to consider different relationships based on cultural differences between the collaborating countries. This also means that there is no readymade solution for how to approach the network issue. Rather, each country must be considered [in the context of](#) its cultural background, values and beliefs. The manager's assignment is not limited to recognizing cultural differences and the need for networks, but also includes the important task of drawing benefit from these differences so that the right forms of relationships are identified and developed. Cox (1991), for example, argues that top management teams who design strategies require different perspectives to reflect the complexity of operating in an international arena, emphasizing national differences, while providing the forum for

integrating those perspectives. A third implication is therefore that local requirements can be properly met and a genuine contribution made by mixing both countries' major values and ways of solving problems. An international manager needs to be able to find the best of both cultures. Barkema et al. (1996) also recognize the prominence of cultural distance, requiring (foreign) firms to engage in 'double acculturation'.

The current research work has shown that cultural background influences network development. It is not yet clear, however, how relationships are linked together and what role cultural differences play in different cultural environments. A broad theoretical conceptualization may be helpful to explain interconnectedness among these complicated issues. Further, based on the conceptualization, a survey can be conducted to test a number of hypotheses. This survey can be done on a sample of foreign firms operating in culturally distant countries from a certain country's perspective, or from a group of culturally closer countries such as the countries of Scandinavia and Southern Europe. Another direction for future research can be a longitudinal study that provides an in-depth look at the formation and development of networks over time. This approach is likely to reveal valuable insights and mechanisms on how to handle networks in other cultural environments. As Yan and Gray (2001) point out, a longitudinal view can help "to tease out temporal effects of the relationships." It is also worth concentrating on a certain type of relationships, such as informal or indirect relationships, and to explore what value they contribute to a firm's internationalization and growth, along with what preparation a global firm needs to ensure development of such networks.

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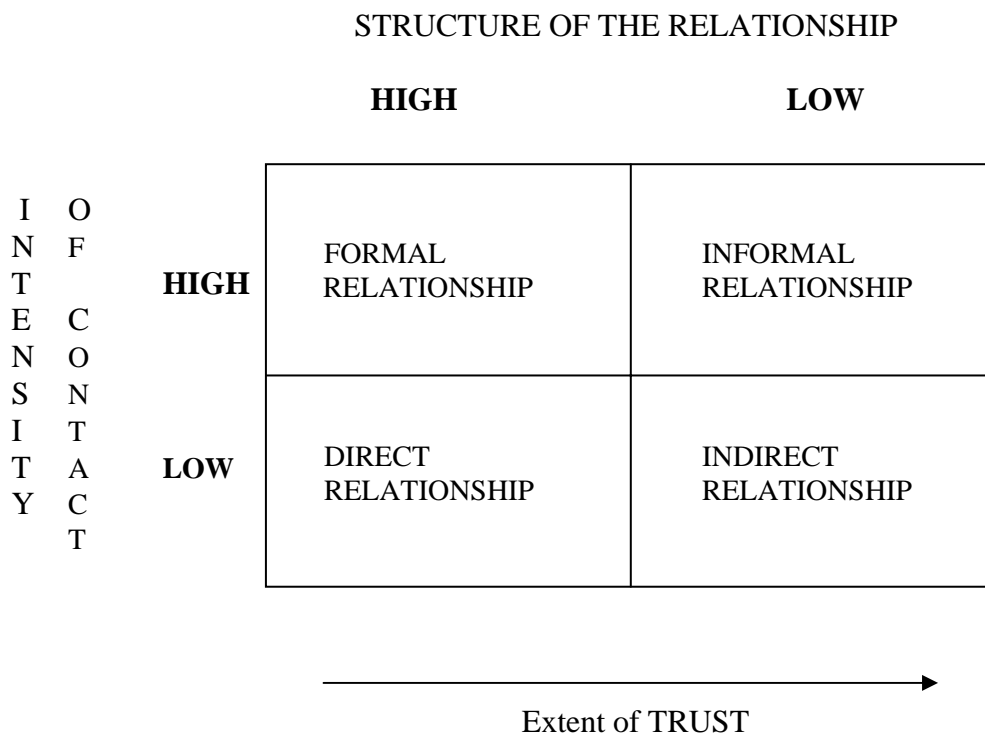


Figure 1 Types of relationships in network from a cultural dimension perspective

Table 1 Major characteristics of cultural dimensions

Power distance	Individualism	Masculinity	Uncertainty avoidance
Centralization VS Decentralization	Employer-employee relationship as a contract VS a family link	Sympathy for strong VS weak	Uncertainty threat VS uncertainty normal part of life
Clear instructions VS consultation with Subordinates	Preference of task VS relationship	Different roles VS similar roles for men and women	Time as money VS a framework for orientation
Autocratic VS democratic boss	Identity based in the individual VS in the social network	Stress on competition, & performance VS solidarity & quality of work life	Fear of ambiguous situations VS comfort in such situations

Source: Compiled from Hofstede (1991)

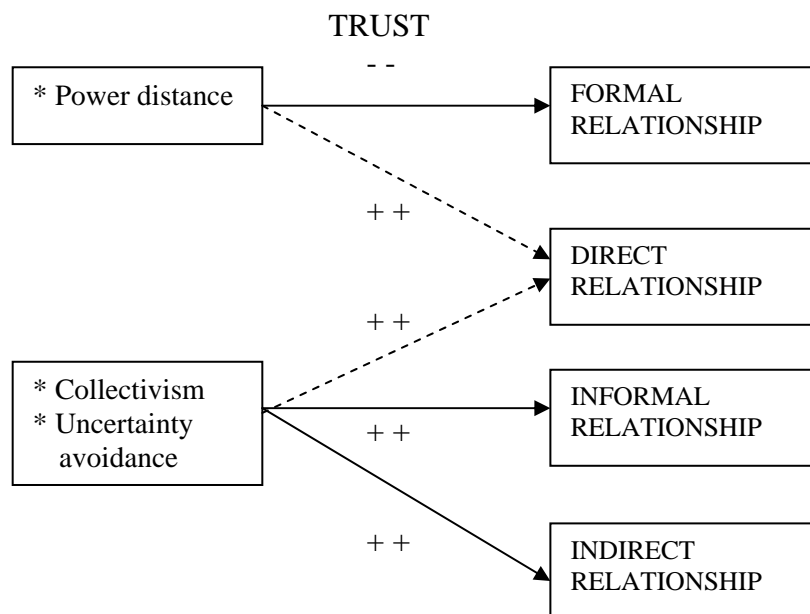
Table 2 Cultural dimension values compared between Sweden and Arab countries (Egypt)

Cultural dimension	Sweden		Arab countries		Rank difference
	Score	Rank	Score	Rank	
<b>1. Power distance</b>	31	47/48	80	7	40/41
<b>2. Individualism</b>	71	10/11	38	26/27	16
<b>3. Masculinity</b>	5	53	53	23	30
<b>4. Uncertainty</b>	29	49/50	68	27	22/23

Source: Compiled from Hofstede (1991)

Table 3 Information about data collection

Name of organization	Functional area	Total time of interviews	Number of interviewees
<b>Swedish companies</b>			
<i>ABB</i>	Transmitter, Electrical	8 hours	6
<i>Gamma Knife</i>	Medical surgery	9 hours	7
<i>Ericsson</i>	Telecommunications	2 hours	1
<i>Oriflame</i>	Skincare and cosmetic products	2 hours	1
<i>Astra Zeneca</i>	Pharmaceutical products	2 hours	1
<b>Other organizations</b>			
Management Development Center for business(MDCI)	Training & consultant within public sector	6 hours	3
Allied Training	Private business consultant	3 hours	3
Sweco local representative	Consultant	3 hours	1
Swedish Embassy	Swedish business interest	3 hours	2
Suez-Canal university	Faculty of business	6 hours	2
<b>TOTAL</b>		<b>44 hours</b>	<b>27</b>



**Explanations:**

- - = Negative impact
- + + = Positive impact
- = Strong relationship
- .....→ = Weak relationship

Figure 2 An array of relationships in a business network