

**What network and which actors?
The relevance of organizational and spatial network boundaries –
An IB perspective**

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Work-in-progress

Keywords: network approach, MNC, IMP, international business

Abstract

This paper presents a conceptual effort to develop the “network” perspective in use within the IMP research tradition by integrating findings and perspectives from research in International Business (IB). Although some common departure points, IMP and IB network research have been growing quite apart with time, and although the richness in research within both fields, there is no unique core network perspective (exception made for the fundamentals, i.e. actors and relationships). This paper attempts to further develop the frame of reference for business network studies by integrating the spatial (multi-market factor) and organizational (multi-unit factor) dimensions of networks. In this sense much as been already done in the IB field concerning MNC corporate structure and internationalization strategies, but no single framework is putting together the different aspects that naturally a large firm today is facing (i.e. internal, external, local and international forces). In this way, accounting for the interdependence of internal and external relationships as well as local and international relationships, the resulting new conceptualization offers broader means of analysis and increased explanatory power concerning network effects and dynamics.

Introduction

This paper presents a conceptual effort to develop the “network” perspective in use within the IMP research tradition by integrating findings and different perspectives from recent International Business (IB) research.

Since the 70s, in both fields the number of studies to adopt, define and present network conceptualizations has been constantly rising. And with time the network talk became increasingly articulated and central to many sub-streams characterizing the two fields (e.g. research on internationalization process; organization, strategy in multinationals; product development; industrial dynamics; regional and country studies). However, at the same time, research adopting the network perspective within IB and IMP, although sharing the same roots and basic concepts (e.g. Ford 1979, Håkansson 1982, Johanson & Mattson 1986 & 1987, Johanson & Valhne 1990), grew apart.

The considerable range of work done following the most disparate purposes presents a wide collection of components, variations and applications of what is the “network” view (or approach). This richness and heterogeneity, even if making such a body of literature appreciated, at the same time it shows limited efforts to integrate in a fruitful way what are the diverse results and specific theoretical developments into a core perspective on networks. In particular, IMP research seems to have paid little attention to the relevance of the spatial and organization characters of networks, issue which instead has been very central to IB research in the last couple of decades.

The aim of this paper is first to review and bring together existing network perspectives related to the study of MNCs into a single framework (characterized by the spatial and organizational dimensions of the network) and than to enrich the IMP “business network approach” by discussing the implications of such framework. This work is intended to contribute to the ongoing discourse between IB and IMP scholars and it provides new means to capture a wider and deeper range of aspects key to network analysis and to reach broader explanatory power concerning network effects and dynamics (within the IMP).

In fact within the IMP tradition, based on the observation that between interacting business-actors (e.g. customers, suppliers, competitors), business-relationships, characterized by mutual trust and strong commitment, are established, developed, and maintained (e.g. Håkansson 1982, Hallen et al. 1987), a network perspective and study tools (e.g. Interaction model, ARA model) are set forward. Though several questions still remain to be directly addressed since the time when such models were set forward: Does it matter where the different actors are located? What if they are not to be found on the same market? Or what if some of the actors are part of the same organization? With the intent of theoretically frame such implications (and by considering them together) this paper departs by taking into account two key factors that are increasingly characterizing today’s business environment, i.e. the *multi-unit* factor and the *multi-market* factor. The multi-unit factor refers to the fact that firms (even SMEs) are increasingly internally structured into different units having different roles, amount of resources, degree of autonomy and specialization, etc. The multi-market factor refers to the fact that firms are increasingly engaged internationally with other firms that potentially are also themselves present in different markets.

In this paper it is argued that when using or developing a particular network perspective it is fruitful and mandatory to include and distinguish such factors as withholding explanatory power for network dynamics. In fact, as often occurring within the IMP tradition, conceptualizing a firm as one single-entity doing business with other single-entity firms and not distinguishing between what is the local and what is the international dimension of a network, is leaving out important elements from the actual representation of the network. Accounting for the connection between internal and external relationships as well as between local and international relationships, which typically are studied as two independent phenomena, would open up for further insights into the problems and cases tackled. In this sense much as been already done in the IB field concerning MNC corporate structure and internationalization strategies, but no single framework has yet put together the different aspects that naturally a large firm today is facing (i.e. internal, external, local and international forces). Such a framework will be constructed in the first part of the paper, while in the second section the framework will be used to further develop the IMP network perspective.

Networks in IB

In the IB literature, network metaphors have been typically used to describe and understand firms' internationalization, and MNCs organization, structure and strategy (see for instance Johanson and Vahlne 1990, Blankenburg 1995, Hedlund 1986, Bartlett and Ghoshal 1989 and Forsgren et al 2005). However, different scholars (and schools) define and investigate actually different kinds of networks (see for brief reviews for example Doz et al. 2001 and Forsgren et al. 2005).

The works that within IB present a network perspective are actually presenting network conceptualizations which differ substantially from one another. Beside what is actually proposed to be linked (e.g. units, firms, people, resources) and what is linking them together into a network (being that for example a business relationship, a cooperative link, or a hierarchical one), there are key differences in what is considered to be the network of reference, i.e. which are the specific boundaries of the network.

In this sense, leaving aside the actual network texture in terms of the relationships nature, it is possible to distinguish three research areas which focus and introduce three diverse network's perspectives (and set of boundaries). First, there are scholars dealing exclusively with the corporate subsidiary network, located within the MNC boundaries (i.e. corporate network). For instance Bartlett and Ghoshal (1989) talk about Transnational corporate networks and emphasize the interdependence, cooperation and diversification within the network to reach competitive advantage; Hedlund (1986) with his Heterarchy depict how the new breed of MNCs resemble from an organizational point of view the network form (the firms as a "brain" metaphor); and Ghoshal and Nohria (1997) focus also on the internal organization and conceptualize large multinational firms as a Differentiated Network of subsidiaries.

Second there are researcher that focuses instead on the external network and distinguish also between what is the local and the international dimensions (i.e. local and international external network). Important examples are Johanson and Mattsson (1986) and Johanson and Vahlne (1990) works on the process of internationalization of firms, which is described as occurring thanks to long lasting business relationships with external (international in the home market and/or local in a new market) counterparts (e.g. customers and suppliers). Additionally for what concerns research conducted on multinationals, a seminal work focusing on external relationships of corporate units is presented in Ghoshal and Bartlett (1990) where the multinational corporation is presented as an "Interorganizational Network".

At last there are studies that distinguish from both a theoretical and empirical point of view what is the internal from the external network (i.e. corporate and external network). Here the focus is set on the problems and opportunities that corporate units face by participating and linking external sets of actors to internal ones. For instance the recent work by Doz et al. (2001) presents a Metanational model of the MNC where the organization is formed by interlinked specialized unit networks spanning boundaries and integrating worldwide knowledge seeking for innovation and competitive advantage. Even more explicit is the thought expressed by Forsgren and colleagues (2005) with their Embedded MNC where is made very clear the existence of two different but interlinked (through the units) networks, a corporate one and an external one (composed by the sum of the single units local networks). The latter is maybe the most articulated network perspective concerning MNCs where subsidiaries are described as having the critical role of acting within (and bridging) external and corporate networks.

Summing up, existing studies within IB which employ a network perspective do tackle specific network's aspects as well as specific types of networks. But, if we aim to understand networks in a broader sense (e.g. accounting for indirect effect and dynamics at network level) than it is necessary to put aside the single-studies frames and strive to create a common framework of reference out of the different contributions. An attempt in this sense is done here below.

A New Network Framework

By bringing together the different IB network perspective found and briefly described in the above section it is possible to build a new and more ample framework (Figure 1) of reference based on the spatial (local-international) and organizational (internal-external) dimensions of the network. This framework will be used in the second part of this paper to develop the IMP network approach.

Figure 1. A local-international/external-internal conceptualization of business network

NETWORK	Corporate	External
Local	Relationships among units within the same organization located in the same market	Relationships with local external actors (i.e. local customers and suppliers)
International	Relationships among units within the same organization but located in different markets	Relationships with international external actors (e.g. international customers and suppliers; and located in another market)

The framework (a two-by-two matrix) is built on the distinction between the local and international nature of relationships between network actors and on the distinction between the corporate and external nature of the actors linked within the network.

The upper-left quadrant indicates a situation where actors are only corporate, i.e. within the legal and organizational boundaries of the multi-unit firm. Moreover the actors are all located within the same market, thus local in character. This is a typical situation of specialization and division of labor within the same (large) firm. An example is the network of a firm Y unit (A) located within a certain country. Raw material and/or components are supplied to unit (A) by a firm Y other unit (B) also located within the same country; and at the same time unit (A) (receives orders and it) sells to the local firm Y sales office (unit C).

The quadrant on the top right position represents a situation in which the actors are all located within the same local market and they established relationship between them, i.e. buying and selling relationships between different firms. This is probably the most typical and referred to model of interorganizational network, though it has to be underlined the local nature of the relationships forming such a network. Examples can be found easily in many industries (e.g. car, high-tech industries) and it is typical for multidomestic firms.

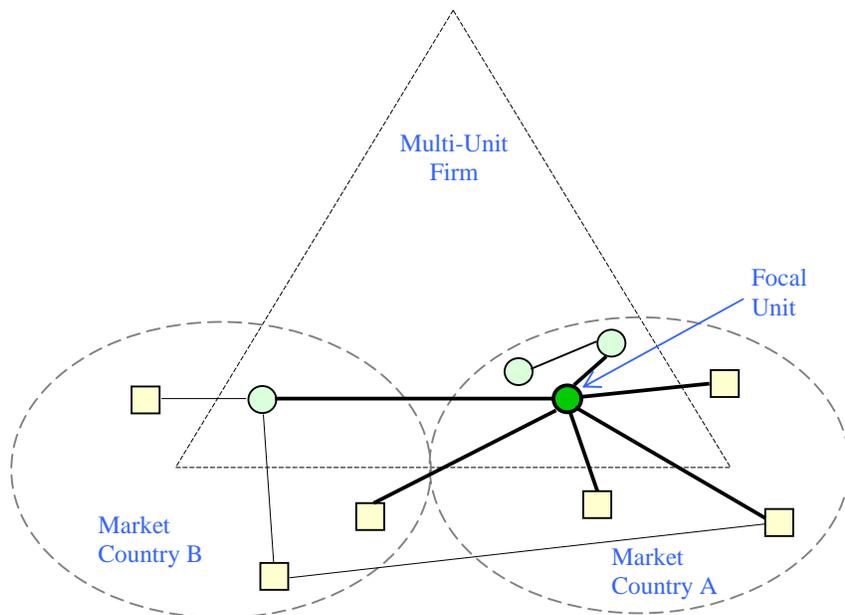
The lower-left quadrant shows instead the case of an internal network of an integrated multinational. Here units relate with each others and they form a more or less interdependent corporate network. The boundaries of this particular configuration are clearly the firm boundaries, but the location of the units is within different markets, therefore the international nature of the relationships established.

At last, the lower-right quadrant depicts the circumstances for a network composed by relationships with external counterparts who are international by nature. In this situation there are two kinds of external international relationships possible. One is the relationship that a unit operating in country A has with a counterpart in country B (i.e. direct international relationship). The other possible relationship is the one established by the unit locally with a counterpart that is international by nature (i.e. indirect international relationship). Additionally, in the latter case the local counterpart that presents an international character might even be part of an international organization that has more than one relationship with the focal organization in more than one country at the same time; in other words there are indirect international relationships that stretch via the same external counterpart in many different countries and involving different units from the same organization.

However, the critical point is that each of the quadrants is describing a specific network formation but each of the four formations is not mutually exclusive. On the contrary there could easily be a situation where more than one dimension is relevant for studying a specific network or problem, and where interdependencies (between quadrant formations) are key for the understanding of network effects. In fact, cross-quadrants' effects are the important aspect in this framework and extremely relevant for conducting network analysis. Here is where the framework expresses its value at its best, by providing a tool for capturing the effects of corporate-external/local-international interdependences at once.

The situation where all four relevant dimension of the network are present is schematized in the figure below, where a focal unit of a large organization is connected at the same time through business relationships internally with other sister units, both locally and in other countries, and with external counterparts (typically customers and suppliers) which are situated in the same market as the unit and only there (i.e. local counterparts), which are located in the same market and also in others (i.e. local unit of international counterparts), and at last which are located in a totally different market (i.e. international counterparts).

Figure 2. Representation of the full spatial and organizational complex of a unit network configuration.



In the following section we turn the attention to the network perspective according to the IMP tradition. The framework above described in Figure 1 will be used to discuss some of the key issues characterizing the network approach.

Networks in IMP

The IMP and networks go certainly way back, and in more than 30 years of research, network studies, metaphors and tools have certainly dominated IMP writings. The starting point of the IMP approach is that firms do not act in isolation but together with other in a network. Thus business relationships with customers and suppliers are key resources for both competition and growth. From a business perspective it is argued that a focal firm is engaging in buying and selling activities with other firms (i.e. customers and suppliers), and the net of relations that it is formed in this way between organizations forms the “observed network” (e.g. Håkansson and Snehota 1995, Ford, 1997).

The resulting conceptualization of network is rather circumscribed to components observed in the network (i.e. resources, actors, activities) and very much open to the researcher assessment for what concerns the boundaries. At a micro-level the network gains a lot of details concerning who the specific actors are and the specific relationships bonding them together (in dyads first and in networks than). At a macro-level network borders and network effects became sort of vague and increasingly difficult to define.

However, IMP studies are not typically (nor explicitly) studying corporate network organization, which is key to study large firms (or even just units part of large multi-units firms), and neither they do take into account the implications of the local-international character of relationships. This is clearly a shortcoming as if we consider these dimensions when conducting network analysis additional aspects emerge and enhance the explanatory power of the approach. To show the relevance of such dimensions some examples are here made by taking into consideration some classical IMP arguments.

For instance, from an IMP network perspective one of the key aspects is that organizations (and markets) have blurred boundaries (which can be set more or less arbitrarily). However, (not by setting back boundaries but) by acknowledging that some of the actors within a business network may be actually from the same organization it makes a substantial difference in for example the possibilities available to a single units to manage their position within the large network by relaying more or less on either types of relationships. Thus, when comes to large (multi-unit) firms it can be said that units business relationships may extend both outside and within organizational boundaries as it has been well argued by Forsgren and colleagues (2005). In this way different network effects can be identified (otherwise hidden) from the analysis and network effects are essential when talking about power, competition and strategy (although IMP is talking in these terms just recently). Additionally, we should not forget that there are substantial differences (in effects) not only because actors are located within the same organization or not, but also because relationships may be local or international by nature.

Network position and portfolio of relationships are other aspects of the network view and often mentioned in connection with power and strategy issue. By distinguishing between external and internal it renders easier the analysis and explanation of such phenomena. Often power for a unit might come from external sources (e.g. market success, innovation) and it might be used within the organization (for e.g. resource distribution, autonomy). The opposite is however also true.

Network complexity is also brought up as a critical aspect and IMP studies frequently purposively rely on qualitative techniques to capture it. What is often recognized to explain the complexity (and interconnectedness) of network dynamics is the indirect effects of relationships between actors embedded in the same network. Than, if you proceed by accounting not only for the fact that one relationships might have one or more indirect effects on other relationships (actors connected to the dyad) but that also the actors and relationships are of different nature, than it will appear even clearer how complex are network effects.

Another classic point with networks and relationships is the learning (and problem-solving) issue and the fact that actors learn by interacting and through relationships. However what you can learn from an actor is not the same as what you can learn from another. Thus, accounting for instance that what you can learn from an international customer is certainly not possible from a local one is important. That is also true for the difference between external and internal relationships, as for instance it has been pointed out how external more than internal relationships have the potential to lead to breakthroughs (e.g. Frost 2001).

Summing up, the thoughts and framework presented here helps to further understand network dynamics by introducing two important dimensions, the spatial and organizational dimensions of business networks. Specifically, by distinguishing between corporate vs. external network relationships and local vs. international network relationships the analysis would add to traditional IMP framework the possibility to account for important effects: (a) corporate relationships influence on external relationships, (b) external relationships influence on internal relationships, (c) local relationship influence on international relationships, (d) international relationships influence on local relationships. These four sets of interdependence becomes even more if we take into account the cross effects between them such as for example the international corporate relationships influence of local external relationships or by even introducing the effects of more than one set of relationships at a time as for instance external local and international relationships effects on internal local relationships.

A further elaboration of the theoretical implication of the framework (Figure 1) for the IMP research has to be therefore based on rendering explicit the potential interconnectedness of actors (and network effects) existing between what is within and outside to an organization as well as what is locally and internationally located. For example, the number and depth of relationships that a unit has within its own corporation will certainly limit the possibility to engage in external relationships and vice versa, in line with previous arguments and findings (e.g. Andersson et al 2002, Holm and Pedersen 2000). Additionally the relevant question here becomes about the actual spatial nature of the relationships. There is a great difference in committing to local actors versus international ones (and even more complicated if there is a actual mix of both kinds). That is true also for subsidiaries and their location. International corporate relations can lead to more difficulty in managing the relationship (e.g. cultural problems, distance). All this has also an impact on control and decision-making issues. Another situation is the external-local versus external-international. Thus the double role of subsidiary (Forsgren 2005) is actually double-double. Not only as a bridge between internal and external actors, but also (indirectly) between local and international ones.

Conclusion

In this paper two key network dimensions discussed in IB research (i.e. internal/external and local/international) are brought together in a single framework. Such a framework emphasizes the relevance and interconnectedness of the organizational and spatial dimensions of business networks (internal relationships influence external ones and vice versa – local relationships influence international ones and vice versa). Implications stemming from such a theoretical work have been set on IMP ground to enrich the network view in use and to shed light on fundamental business implications that firms increasingly face in today's business world, i.e. act and react on forces coming from within and outside the organization and not only locally but also internationally.

This paper is a first attempt to develop the network view in use by explicitly integrating organizational and spatial dimensions and more research aiming at cross-fertilization (both-ways) between IB and IMP is warranted. Moreover, as this is a theoretical contribution, empirical studies should be a natural consequence.

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