Understanding international networks through relationships: A cultural perspective

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ABSTRACT

Purpose - The aim of this research is to extend the network theory by integrating relationship with cultural differences and trust.

Methodology - A thorough literature review has been conducted to propose a culturally based relationship framework. Further data has been collected through face-to-face interviews to exemplify the proposed relationship model in a Swedish-Egyptian context. **Findings -** Four types of relationships, i.e. formal, informal, direct and indirect, have been presented in combination with culture and trust. 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' in relation to trust are used to explain the formation of international relationships.

Practical implications - To business managers, this research shows how they can build successful networks in the international markets by dealing with relationships from a cultural and trust viewpoint.

Originality/value – This study makes a major contribution by extending international network theory through combining relationship, culture and trust. The IMP research has limited focus on the cultural perspective and therefore the role of culture affecting relationships remained unexplored. The present work discusses the role of culture and trust international market and explains how they affect formation and development of relationships in different cultural environments.

Keywords: relationship, network, cultural dimensions, trust, structure, intensity of contact
Paper type: Conceptual

Introduction

In the last 25 years, after the formal presentation of an IMP (International Marketing and Purchasing) model of interaction, the notion of network has gradually developed. A detail background of IMP research is discussed in Ford (2002). 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. 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. 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).

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 influence others and are also 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. Since a network is a web of relationships, relationship research essentially belongs to network research (Ojasalo, 2004). Also Anderson, *et al.* (1994) view relationships as parts of networks and call network as a "secondary function" of a relationship. Ojaslao (2004) suggests that a critical mass in terms of quantity and quality of relationships is required before one can really talk about a network; however, defining and measuring this mass is obviously very difficult.

Understanding the nature of networks requires knowledge of both (single) relationships and a web of relationships (Ritter, 1999). Starting from the interaction approach, IMP researchers have dealt with different facets of relationship, such as duration/longevity (Lapiere and Deslandes, 1997), management (Freytag and Ritter, 2005;) classification (Leek, *et al.,* 2006) and complexity (Ritter, *et al.,* 2004). But how the relationship is formed, what foundation it has and how it gets affected have not been discussed in depth by the researchers. This paper will feel this gap by addressing relationship to understand network.

Although not many, IMP researchers have started to investigate relationships and networks in an international context. Quite recently a special issue of International Marketing Review (Ford, 2004) has covered international aspect of relationship in few articles. In this issue, Welch and Wilkinson (2004) take up political embeddedness of international business networks; Zabkar and Brencic (2004) focus on values, trust and commitment; Veludo, et al. (2004) deals with partnering and relationships while Havila, et al. (2004) discuss business-relationship triads. The work of Huemer (2004) in the same issue discusses the link between trust and predictability and also investigates how trust can be activated in international relationships. These above topics deal with important aspects of international relationships and need to be focused further. Gemünden, *et al.* (1997) have published a number of articles in their edited book addressing different issues of relationships and networks in international markets. Globalization has increased over the last two decades which has lead to more complex business relationships (Leek, *et al.,* 2003). Complexity arises because people are different across the border and therefore relationship building and maintenance are likely to depend upon the cultural context (Wong, *et al.,* 2005). The diversity of the markets in which the firm operates seemed to be more important than the number of the markets (Hadley and Wilsson, 2003; Elo and Törnroos, 2005). We argue that one of the important causes for market diversity is cultural differences that make interacting parties thinking and acting differently.

Culture has been seen by many authors to shape how actors behave in cross-cultural business relationships and networks involving people from several ethnic or national cultures (Möller and Svahn, 2003; Bhagat, *et al.,* 2002; Kedja and Bhagat, 1988). Early IMP research works dealt with adaptation among the interacting parties but the concept has got limited focus in the network studies and less interest to integrate cultural issues in international networking has been evident. In the first volume of IMP Journal (2006), Ellis and his colleagues claim that culture is an essential component of relationship and network but they are surprised to notice that the issue of culture has not been taken seriously by the IMP researchers. Leek *et al.* (2006) argue that companies do not often conduct their business in a purely domestic context and therefore it is

necessary to investigate how different countries (cultures) perceive relationship. Zabkar and Brencik (2004) find that IMP research has been theoretical and focused on relationships- and network-based frameworks but mostly ignored international or cross-cultural dimensions. By applying the concept of Hofstede's (1991) 'cultural dimensions' to relationships, the current study attempts to address this important issue.

Another concept which is often discussed in international relationships and IMP research is "trust" (Solberg and Nes, 2002; Huemer, 2004). Gadde *et al.,* (2003) present two dimensions of trust: passive and active, which may prove instrumental in providing the driving force for change within the network. Whereas passive firms adapt to the routines established, active firms are ambitious and want to change routines (Batt and Purchase, 2004). Passive trust gives relationships a stabilizing force, while active trust develops forces in favor of variety. Havila *et al.* (2004) examine trust and commitment in business-relationship triads. Trust encourages firms to commit in doing business with each other and increases the propensity to invest in the relationships. Companies need to develop their problem resolution skills and learn to build trust in order to reduce problems with the process of their relationships (Leek et al. 2006) Although trust has been emphasized in relationships between each other, almost no IMP research has looked into trust in more detail (Huemer 2004), particularly from a cultural perspective. Given that relationships are embedded within the cultural network in which we operate, concepts such as trust are interpreted through our cultural values (Ellis et al. 2006). We therefore need to investigate whether or how trust matters in different cultures to building and managing relationships between the interacting parties. Hedda and Ritter (2005) argue that dealing with the concept like trust is important because business relationships are complex and mutual.

To sum up, culture and trust are central in understanding relationships which are the basis of networks. This paper therefore aims to extend network theory by combining three different issues i.e. relationship, trust and culture. This is a major theoretical contribution because the IMP research has not so far seriously looked on culture in international network, and further the effort to addressing relationship, trust and culture together in understanding network is quite unique.

The next section begins with a discussion on network and relationship to clarify the focus of the study. The concepts, culture and trust are then elaborately discussed. By drawing views from IMP-based network theories and cultural literature, a culture model of relationship is presented. A case on relationship in a Swedish-Egyptian context is outlined afterward to exemplify the cultural model. The last part of the paper includes conclusions, implications and suggestions for future research.

Network and relationship

The term "network" refers to a set of nodes and relationships that connect them (Fomburn, 1982; Ojasalo, 2004). Firms in a network collaborate with other firms to perform satisfactorily in achieving their goals. Ritter *et al.* (2004) recognize that firms are embedded in a network of ongoing business and nonbusiness relationships that both enable and constraint the firm's performance. Since firms cannot function in isolation (Batt and Purchase, 2004), they need to be involved in network, and from this sense, network is a resource. The strength of the firm in the network depends on how well it is linked with the parties that are vital to achieve the organizational goals. Johanson and Mattsson (1992) argue that a firm's position in the network is dependent upon the nature of the direct and indirect relationships it has with other actors in the network.

Then what is relationship? Anderson and Narus (1991) define a business relationship as a process where two firms or other types of organizations "form strong and extensive social, economic, service and technical ties over time, with intent of lowering total costs and/or increasing value, thereby achieving mutual benefit". The notion of a process suggests that

relationships may vary in their properties (Ritter *et al.,* 2004). Network researchers quite often talk about network relationships or network of relationships (Ford, 1998; Batt and Purchase, 2004) without differentiating between network and relationship. Although these concepts are very close, they do not mean the same thing. Relationships are parts of network and therefore many relationships can be found in the same network. Network cannot exist or develop unless parties are interconnected through relationships. Organizational relationships do not only exist between different individuals in the buying and the selling firms, they also exist with individuals in other entities such as the seller's suppliers, the buyer's customers, trade associations and political bodies (Cheung and Turnbull, 1998). Networks themselves are not inter-connected, it is the relationships that connect parties from different networks.

In this paper we develop network theory but the focus is not directly on the network rather on relationships that make networking possible. We argue that firms can have different kinds of relationships with different partners (Veludo *et al.,* 2004) depending on need, situation and cultural environment. How the relationship will be chosen, constructed or will function may or may not be given. Parties can be involved in direct, indirect, formal and/or informal relationships with each other. We will develop these concepts forward in relation to cultural dimensions and trust.

Researchers often discuss buyer-seller relationships because they are central in industrial marketing. But it is not necessary that only buyers and sellers can make fruitful relationships, even two buyers can very well be involved in relationship in procuring resources or develop components together. Existence of long term relationship between sellers is not also uncommon. Further relationships need not to be only dyadic, it can be triadic (Havila et al. 2004) or an actor can have a portfolio of relationships (Ritter *et al.,* 2004; Veludo *et al.,* 2004). The analysis of business networks focuses on the relationships developed between different business partners and not only the dyadic parties (Cheung and Turnbull, 1998).

Although not much, network researchers approached describing different kinds of relationships. Ritter *et al.* (2004) identify that firms are engaged in internal and external relationships and they are seldom in control of all these relationships. The external relationships take place with four different parties: customers, suppliers, competitors and complementors. The last type implies that firms develop relationships with many other kinds of firms whose output and functions increase the value of their own outputs. Leek *et al.* (2006) discuss two types of relationships: successful and problematic. They also go one step further and investigate whether managers from different countries perceive successful and problematic relationships in different ways. All of the three countries (i.e. United Kingdom, France and Finland) investigated found that trust and problem resolution to be the process variables which distinguished between successful and problematic relationships. In another study, Leek *et al.* (2003) recognize formal documented systems, personal judgment and meetings as three methods in managing relationships. All of these studies provide some idea of different kinds of relationships but do not go into the depth of how relationships can be classified based on their formation, structure and the roles they play. This study takes up this issue..

Culture

Culture makes people thinking differently from others as values, habits and norms vary among cultures. Roney (1997) describes from the works of Hall and Hall (1990) and Trompenaars (1994) that differences in culture in the way the members view the world, how information is processed, what the conception of time is, what the characteristic of innate human nature is, how individuals establish relationships, and so on. The subordinates, managers, business people are all product of their own culture and therefore get influenced by their culture in communicating, negotiating and dealing with others. Fletcher (2004) claims that culture is an important variable in creating relationship and network. Cultural factors are well known to influence communication and to shape the behavior of actors in cross cultural business relationships and networks (Batt and Purchase, 2004). The famous Hofstede's research (1980) conducted

exclusively in the subsidiaries of only one major corporation clearly shows that national cultures do no dissolve even in a strong organizational culture (Chevrier, 2003).

Hofstede (1991) presents his famous four cultural dimensions, i.e. power distance, individualism/collectivism, masculinity/femininity and uncertainty avoidance, in grasping cultural differences between countries. *Power distance* describes how different countries handle the fact that people are unequal. The focus is on the type and preference of relationship between people who do not have the same status, for example boss and subordinate. *Individualism* describes the difference between cultures where ties are loose and in collectivist societies, people are integrated and acting in groups. *Masculinity* concerns the extent of emphasis on work goals (earnings, advancement) and assertiveness, while femininity refers to personal goals (friendly atmosphere, getting along the boss and others) and nurturance. Masculine societies define gender roles more rigidly than feminine societies. The last dimension *uncertainty avoidance* shows to what extent members of a culture feel threatened by uncertain and unknown situations.

Aulakh *et al.* (1996), citied in Mehta *et al.* (2006), have found that cultural differences affect the dynamics of partnerships in different countries and that management should be aware of these differences. Cultural distance aims to capture the overall difference in national culture between the home country and affiliates overseas, and it has been used extensively in the study of the effects of national cultures on processes and outputs of multinational corporations (Johnson *et al.,* 2006). Abosag et al (2002) argue that different cultures value relationships differently and as a consequence, the establishment and maintenance of relationships will vary across cultures. A similar notion has served as the starting point of this study to conceptualize thoughts around formation, application and developing relationships from a cultural viewpoint.

Trust

Trust is the mutual confidence that no party to an exchange will exploit another's vulnerabilities (Sabel, 1993; Parkhe, 1998). Arrow (1974) claimed: trust is perhaps the most efficient mechanism for governing economic transactions. As different parties, often with different cultures, get involved in alliances, trust has been an important research area in alliance literature (Gulati, 1995; Abodor, 2005; Madhok, 2006). Based on Sako (1992), Boersma *et al.* (2003) take up three dimensions of trust: contractual-based, competence-based and goodwill-based. The contractual- or promissory-based trust arises from the explicit written or oral agreements that a party will stick to the contracts or initial understanding. The second dimension is based on the expectation that a party will perform its role competently. The goodwill-based dimension implies that a party will behave honorably even where no explicit promises or performance guarantees have been made. Cullen *et al.* (2000) in a study of alliances distinguish two types of trust, one is based on rational or less emotional aspect while the other involves emotional, nonrational aspect of trust. Contractual based-trust, which is based on concrete agreements and facts, deals with rational and calculative behavior of the interacting parties. The goodwill-based dimension is associated with emotional aspect of trust that arises from past experience and reputation. The competence-based trust is in between the two other dimensions, partly rational and partly nonrational. A party is known for its competence and is also relied on the expectation that it would perform competently. From this sense, contracts must be strong enough so that parties in a relationship do not need to concentrate on the emotional part of trust. Putting it differently, goodwill-based trust will dominate when agreements are not detail to cover various aspects of a relationship. One can expect that the role of contracts will be significant at the initial stage of a relationship and the trust will be more important as the relationship grows.

Parkhe (1998) presents three elements of trust: uncertainty, vulnerability and control. The greater the uncertainty surrounding future events and a partner's responses to those future events, the greater the trust required. In presence of vulnerability, trust is greatly required due to

increase of potential loss in an alliance. The lower the control exercised by one partner over the other(s), the greater the trust required from that partner. Boersma *et al.* (2003), Cullen *et al.* (2000) and Parkhe (1998), although have different views on trust, are in agreement that there must be trust if interactions are to function. In reality it is not possible to put everything in contracts and therefore uncertainty, vulnerability and less control in the relationship will be quite common. To deal with this problem, emotion and nonratioal aspect of trust will be more relied. In this paper we use a broader definition of trust which can start from simple contacts and end up with long term relationships. Partners in the relationship can be at the earlier phase or at the maturity phase of trust building, but all are in involved in trust. We view that trust is important throughout the relationship but much effort has to be made initially to ensure the foundation of the trust.

Who will trust, individual or organization, has been a complicated area. Zaheer *et al.* (1998) have thoroughly examined this issue and maintained that there is a reciprocal relationship between trust at the individual and organizational levels of analysis and neither alone is sufficient for understanding relational exchange performance. In their view, trust has its basis in individuals, although individuals in an organization may share an orientation toward another organization. In the same vein, Gill and Butler (1996) discuss two dimensions of trust, namely personal trust, which is based upon the perceived reliability of the individuals to fulfill expectations and procedural or impersonal trust, which is based upon the perceived reliability of formalized systems (organization). We also see individuals as the main sources of trust which may be attached to the organizations they represent. In both the cases, where firms interact or individual clients interact with firms, the role of people taking part in the relationships is the central. Adobor (2005) puts this more straight forward: It is important to remember that trust, even between firms, is in reality a relationship between people. Due to involvement of people over national boundary, trust, relationship and role of trust in relationship can be perceived differently in different cultures. Cullen *et al.* (2000) for example, have examined commitment and trust in alliances and found that U.S. partners rely more on credibility trust, the more rational and less emotional aspect of trust while Japanese, in contrast, favor emotional, nonrational aspect of trust. In the next section, we present a cultural framework of relationship by combining the concepts of trust and culture.

A cultural model of relationship

Here we present a framework describing different kinds of relationships between interacting parties in connection with the host country culture. In an article, Newman and Nollen (1996) emphasize the need of fit between management and national culture. They argue that differences in national cultures call for differences in management practices. In the line of these authors we also argue that local culture plays a significant role in forming business relationships and therefore a model based on theories of culture and network has been applied in this paper. For cultural theory, we rely on Hofstede while network theory, which we also aim to extend here, concerns IMP research. Further to understand and deal with relationships in different cultural contexts, building and maintaining trust has been emphasized. In addition to cultural and network theories, we also include trust theories developed in studying collaborative relations in our framework (such as Madhok, 1995, 2006; Gulati, 1995; Zaheer and Zaheer, 2005).

Relationships are the core elements of networks (Håkansson and Ford; 2002) and therefore they build the foundation of the network model. Based on the cultural viewpoint and trust, we can identify four kinds of relationships: formal, informal, direct and indirect (Table 1). The first two categories deal with the structure of the relationship while the remaining categories concern the intensity of contacts the actors have between them. Relationships are maintained by certain arrangements or mechanisms (Naudé and Turnbull, 1998) and these arrangements or mechanisms can vary in structure. Intensity is described in terms of the amount of contacts, including the frequency of meetings, the range of staff and the level of management involved (Cunningham and Homse,1988). Structure refers to the form of relationship while intensity

describes the degree – how often and intensively the contacts take place. We argue that practice and preference to certain relationships are not independent or isolated issues (Håkansson and Ford, 2002) but are largely influenced by the national culture and values of the parties involved.

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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 clear guideline as how resources will be shared, who will be the actors and what activities are to be carried out in the relationship. A formal relationship is usually well structured and developed around predetermined actions and therefore offers little scope for flexibility and dynamism. Culture of a country can play a significant role in vesting importance on the type of relationship. A formal relationship is powerful when trust is undeveloped or by other reasons maintains a low level. Noorderhaven (1992), as noted by Blomqvist (1997), refers to "legalistic" cultures like the United States, where trust relations have traditionally been of less importance. Formal relationship is especially important in the beginning of interaction as the partners are not fully known to each other and therefore expectations are not yet completely built. Gounaris (2005) finds in their study that calculative commitment decreases as the level of trust between the two parties increases.

Informal relationship: This type of relationship is not organized around formal agreements but taken up and used whenever necessary. Formalization or legal criteria are seldom applied here. In many cases no agreements are written, in stead, firms cooperate under mutual understanding and trust (Blomqvist, 1997). The source and strength of this type of relationship is based on social contacts between firms' employees and therefore it takes time to build such relationship. Mutual trust is the key to form and maintain informal relationship. This relationship is 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). Personal and social relationships are highly valued in collectivistic societies (Hofstede, 2001) and therefore informal relationships will be preferred to formal relationships in such cultures. Contacts are expected to be intensive in these societies.

Direct relationship: Dyadic relationship where two firms 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). Easton (1992) argues that a focal dyadic relationship receives influence from both dyadic partners who are in a "direct" relationship. It is important to remember that trust, even between firms, is in reality a relationship between people (Adobor, 2005). The interaction model started with the notion of a direct relationship, frequently know as buyer-seller relationship, but afterward it was found that firms are also engaged in other relationships within a greater network. By entering a direct relationship, a firm recognizes a major partner for dealing and exchanging views and ideas. Direct relationship encourages frequent and also intensive contacts. Direct relationship can be preferred in strong uncertainty avoidance based culture due to fear of ambiguous situations and unfamiliar risks (Hofstede, 1991). As chance for confusion and misunderstanding is less, direct relationship can be helpful in building trust between the interacting parties.

Indirect relationship: It is not necessary that firms always have direct contacts, it is also possible that firms get resources or vital information from others connected to their interacting partners. An indirect relationship is most simply described as the relationship between two firms which are not directly related but mediated by a third firm with which they both have

relationships (Easton, 1992). For example, firms can be indirectly connected with their customers' customers or their suppliers' suppliers to accumulate resources and running day-to-day operations. As the relationship is embedded in a business network, it also receives influence from the triadic partner and other parties who have "indirect" relationships with the dyadic partners (Metis and Turnbull, 1998). Gulati and Gargiulo (1999) have shown how firms benefit not just from their direct ties, but from the ties of the actors to whom they are connected.

These relationships do not necessarily exclude or replace one another but can function together in the same network. However, the use of the relationship types may vary from one business to another depending on several factors, such as culture, experience, trust and interdependence. It is argued that in international network, cultural difference will 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 difference in cultural dimensions not only cause people to behave or act differently but also induce people to prefer a certain type of relationship over the other. One can therefore expect that the patterns of interactions between the basic elements of a relationship, i.e. actors, resources and activities, will vary if there is a large cultural difference between the interacting parties. We argue at this point that the culture of a country in which the network is to operate, will dominate the selection and use of relationships. But this cultural influence may be less effective if the multinational firm has a strong culture and a world-wide reputation.

Relationship development in Egypt – An example

Cultural differences between Sweden and Egypt
For each cultural dimension, Hofstede (1980) 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. However, all dimensions do not have the same impact on relationships and in business. 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. As Table 2 shows, significant differences were apparent in all cultural dimensions. The difference in ranking between Sweden and the Arab countries is high, ranging from 16 to 41 (out of 53 investigated countries and regions) in the four dimensions.

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Data collection
For data collection, a qualitative method has been applied to capture the breadth and depth of relationships. In a recent article on methods, Halinen and Törnroos (2004) discuss, among other things, the issue of 'complexity' in studying business relationships. The matter is further complicated here, since the relationship is studied from a cultural viewpoint. Although the focus of the study was Swedish firms operating in Egypt, even local companies and organizations were included in the study to understand the local culture and their impact on business activities. Five Swedish firms, namely ABB, Gamma Knife, Astra Zeneca, Ericsson and Delaval, were selected for interviews. A total of 16 interviews, which took 23 hours in total, were conducted with both foreign and local staff of the Swedish companies. A seminar with doctoral students at the Suez-Canal University was 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, and Swedish companies operating in Egypt participated. The data was collected in Egypt in two periods, 2004 and 2005. By using citations, the data has been analyzed to reflect the model developed in this paper.

The Egyptian case

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 signal from the CEO of ABB was essential to arrange meetings with other managers. This is a clear example of a high power distance observed throughout the organization. The CEO of Gamma Knife described an incident where they met the Egyptian health minister in connection with their 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 Frenchman behaved in a somewhat arrogant manner and was also sitting rather lavishly, which the health minister did not like. In their next meeting, the Frenchman 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.

The practice of strong collectivism was manifested in all the firms and also in interviews with other local people. Ericsson handled this cultural characteristic by making the organization more family-oriented, and placing an Egyptian in the top management to look after the interests of the local personnel. The employees often turned to this native manager for dialogue and raising issues with the management. 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 noticed that people became friends while interacting in business. It was not always necessary that agreements were strictly followed, things could be changed on mutual understanding and problems could be solved by discussion and relationship building. Delaval's manager put in the following way:

> "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 a supportive attitude, friendliness and respect. 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 related to business. People liked to make new friends even when doing business. As the CEO of Gamma Knife commented:

> "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 which delayed as some document was missing. The cost of the foreign expert who would install the machine was more than 2000 US dollars a day. At this point, the informal discussion became important to convince the authority that the matter was genuine and had to be dealt promptly. The CEO explained the importance of the project to the Egyptian customs officers and what the country might suffer in case of delay. The authority understood and felt like they were a part of the situation. After few hours of negotiation, the necessary trust was established and things could be settled. The emotion was at this point vital at the cost of formal requirement. The CEO put:

> "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 genuineness and 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 they never did it as the Gamma Knife was yet to be profitable. An informal relationship between the organizations was at the 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 appointments with other companies could be settled quickly with the direct support of the Swedish Embassy. The Egyptian-born business attaché called each interviewee personally and the direct contact was the solution.

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. 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 practiced over the years.

Conclusions and implications

This paper proposes an extension of the network model by focusing relationship from a cultural perspective. In extending the model, trust has been an important issue in discussing relationships embedded in networks. Earlier theories have been criticized for not sufficiently including 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 adopt a particular type of relationship according to its cultural preferences.

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 was not enough that status and positions were maintained, further different communicating channels and traditions had to be carefully handled. Formal relationships played a major role until informal relationships came 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. Once the contract becomes dominant and partners start legalistically examining the small point the joint-venture is doomed (Gill and Butler, 1996). Influence relating to the cultural dimension of femininity/masculinity was not observed in this study.

As expected, trust was found to play a central role in all types of relationships except in the formal relationship. Trust development was necessary in the relationships because collectivism and uncertainty avoidance were high in Egypt. Further, building informal and indirect relationships required that more trust was sought and ensured. The study shows that Egyptians rely heavily on these types of relationships in their normal daily life and business dealings. The investigated Swedish firms also understand the importance of this reality and therefore concentrate on these issues to deal with business networks. This research work reveals that in international business 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. Relationships are cultural: interacting with people is embedded in cultural assumptions concerning human nature (Ellis *et al.,* 2006). Figure 1 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. If a formal relationship dominates, the role of trust decreases. Collectivism and high 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.

Insert Figure 1 about here

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 proper relationships and networks 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 (Hoftede, 1991). In such a case, a formal relationship will be fruitful for collaboration, and both countries will be uncomfortable if informality is stressed. However, this issue has not been examined in this paper.

There are some important implications for international managers. First, network development is emphasized as a part of long-term investment in other markets. It is not however enough to be aware of networks, managers must understand that the network is composed of different relationships and all relationships do not entrust the same importance to different issues or treat the issues in the same way. A second implication is therefore associated with the ability to consider different relationships based on cultural differences between the collaborating countries. Actors involved in international marketing regularly face situations involving

different cultures, new technologies, geographically distributed teams and changing values (Huemer, 2004). 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 concerns how to address local requirements and make a genuine contribution by successfully mixing both countries' major values and ways of solving problems. 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 relationship development in networks. 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 countries in Scandinavia and Southern Europe. Another direction for future research can be a longitudinal study that provides an in-depth view on the formation and development of networks over time. This approach is likely to reveal valuable insights and mechanisms on how to handle relationships and 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 relationship, such as informal or indirect relationship, 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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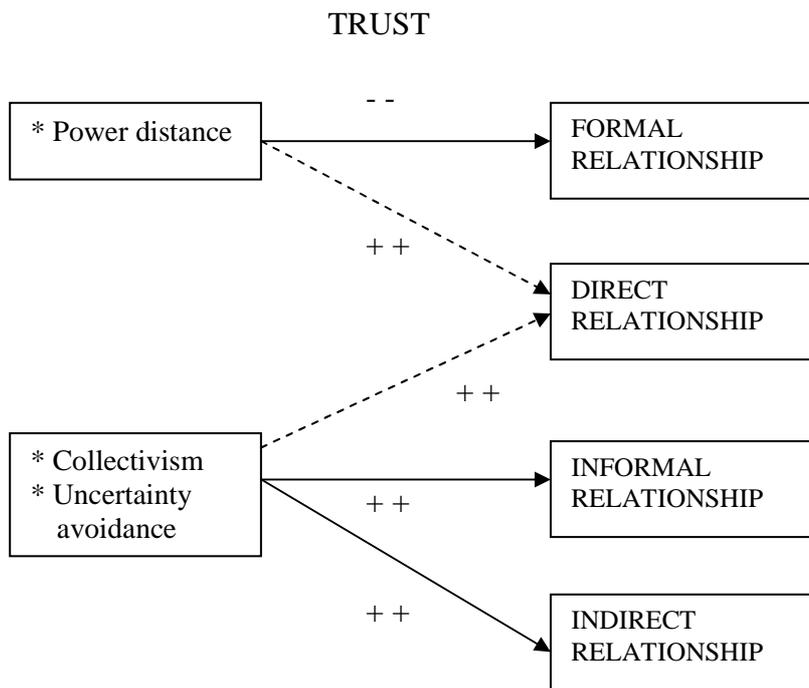
Table 1   Types of relationships in a network

Type of relationship	Structure	Intensity of contact
Formal	High	Low/medium
Informal	Low	High
Direct	High	High
Indirect	Low	Low/medium

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

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

Source: Compiled from Hofstede (1991)

TRUST

* Power distance	— —	FORMAL RELATIONSHIP
	+ +	DIRECT RELATIONSHIP
* Collectivism * Uncertainty avoidance	+ +	INFORMAL RELATIONSHIP
	+ +	INDIRECT RELATIONSHIP

Explanations:

*	= Cultural dimension
- -	= Negative impact
+ +	= Positive impact
→	= Strong relationship
- - - ►	= Weak relationship

Figure 1   Role of culture and trust on business relationships