

SOCIAL RELATIONSHIPS IN ORGANIZING AN IJV

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This study aims at increasing our understanding of the behavioural aspects of networks in international business by analysing the organizing process of foreign business units in new markets. The business context for the analysis consists of the intercultural setting which exists in joint ventures between market economy and transition economy firms. The connectedness of the international joint ventures in their cross-cultural contexts is theoretically discussed through the concepts of embeddedness and networking. The emphasis is laid on utilisation of social relationships in the organizing of the business units. Exploratory empirical evidence is presented from two cases of Finnish-Polish joint ventures established in Poland in the 1990s.

INTRODUCTION

Every business unit needs to be in contact with its environment and actors outside it at least to obtain resources and create markets for the produced products or services. Establishment of long-term relationships often proves more feasible than the creation of new output and input channels each time when resources or markets are needed. Long-term relationships can even be seen as a typical characteristic of industrial markets (Johanson and Mattsson 1987, p. 46). Sometimes relationships to other actors, such as governments, municipal officials, or even competitors are vital to make the business successful (Törnroos and Nieminen 1999). Also, almost all individuals tend to seek for partnership and social companionship and, thus, create friendship connections and establish families. These actions make individuals and firms engage in relationships, which are the basis for various kinds of network constructs.

The present study analyses the roles of relationships and the networking behaviour of individuals in organizing international joint ventures. By concentrating on these aspects the aim is to fill some common gaps in interfirm cooperation, especially joint venture, research. In prior research the context dependence of cooperation relationships and international business units often seems to be forgotten. Although it has been strongly argued that every business actor is embedded in a network of other actors and the identity of an actor is created in interaction with its partners (e.g. Håkansson and Snehota 1989), the emphasis is on the internal developments in the focal relationship, e.g. parent relationship in the case of joint ventures. Thus, we know a great deal about the parent motives, partner selection, conflict/control and performance of joint ventures from the viewpoint of the parents (Parkhe 1993). Much less we know about the management and implementation of these business units (Spekman et al. 1998; Wathne, Roos and von Krogh 1996). Seldom has the joint venture itself

been brought into focus or the emphasis laid on the actions of the individuals when they are organizing the activities of a new venture in a new market. Yet, the person-level interaction and individualised contents of relationships have been noted as crucial for the development of any business unit and for its competitiveness in a market (e.g. Granovetter 1985; Mattsson 1989). The present study aims to answer the question: *How are the social, interpersonal relationships utilized in organizing an international joint venture and its business?*

This question is approached from the network viewpoint. In the network approach used the industrial networks of the IMP Group (e.g. Ford 1997; Håkansson 1982) are combined with the social (entrepreneurial) networks (e.g. Johannisson 1988; Larson 1992). The East European markets are selected as the context for studying the connectedness and the organizing of an international joint venture. The business context of the transitional East Europe has been noted to make great demands on relationship building and the business networks are expected to have special features in that context (Törnroos and Nieminen 1999). Especially the lack, or emerging nature, of institutions in the transition economies creates a need to reduce uncertainty and manage the ambiguities through networking (Johannisson 1995; Johanson and Johanson 1999). Also interpersonal relationships are expected to be of great significance in Eastern Europe (Salmi and Bäckman 1999; Törnroos and Nieminen 1999). Because of all this the relationship building and the roles of social relationships are likely to be especially transparent in this context.

The theoretical contribution of the study is suggested to arise from using the viewpoint of joint ventures and focusing on the actions of individuals in organizing a new business unit in a new market. First, joint ventures are usually analysed from the viewpoint of one of the parents (Osland and Cavusgil 1998). The joint venture itself is often treated as a kind of skeleton organization (cf. Lorange and Roos 1988, p. 80) without its own activities. Joint ventures do have their basis in the business relationships of the parents but they also differ from other kinds of business relationships as the focal relationship is explicitly and extensively concretised in the creation of a new venture. Like all new ventures the joint venture is also dependent on its ability to mobilize and utilize the other actors' resources, most of all the parents but also others in the market (cf. Johanson 1999, p. 228). Second, also the social embeddedness has often been given a secondary role in the interfirm cooperation (Ring and Van de Ven 1994) and joint venture research (Parkhe 1993). Neither have the social aspects been given direct business functions in network research (Araujo, Bowey and Easton 1998; Salmi and Bäckman 1999; Uzzi 1997) although their importance has been recognized. From the practical point of view there is a lack of understanding of how the external relationships can be utilized to successfully organize an international joint venture and its business.

The contents of the study are the following: Firstly, the organizing of firms is analysed through the concepts of embeddedness and networking. This means focusing on the type and functions of the external relationships and the nature of the networking behaviour. Secondly, exploratory case-data from two Finnish-Polish joint ventures is examined. The analysis covers the roles of external relationships along the development of the joint ventures and, especially, the utilization of social relationships in the organizing of the new businesses.

NETWORK CONNECTEDNESS OF FOREIGN BUSINESS UNITS

Networks have been approached from many different viewpoints in prior research (see e.g. Easton 1994). Generally researchers seem to agree on the composition of network ties as sediments of exchange processes and transactions evolving over time between multiple actors (Johannisson 1995, p. 226). Joint venture is already by definition a small network as it is a sum of contributions of at least two separate firms (see e.g. Pfeffer and Novak 1976, p. 399). In this study networks are examined from the viewpoint of the joint venture. This leads to the adoption of an egocentric viewpoint with regard to networks (Szarka 1990; Mønsted 1995) and investigating a focal net (Salmi 1995, p. 16). The network is viewed from the inside taking the perspective of one member and the viewpoints of specific persons are used as a framework for analysis (see Halinen and Törnroos 1998). In this study the establishment teams and managing directors of the joint ventures are seen to represent the focal actor.

Structurally networks have been seen to consist of patterns of actors, activities and resources (Håkansson and Johanson 1988) or of linkages between entrepreneurs, resources and opportunities (Aldrich and Zimmer 1986). All these elements can be seen to form their own networks, but they are also related to each other in the general structure of the network and are defined in relation to each other (Håkansson 1985, pp. 16–18). In this paper the primary interest is in the actor network and exchange relationships between individuals. However, resources, activities and opportunities are the primary reasons for actor networks in business markets and, thus, can't be left without attention. Activities and resources also influence the type and functions of relationships and the roles of the actors. Thus, they can be seen as the basis of the embeddedness of business actors.

Embeddedness of firms in business networks

Networks in business markets can be looked on as structures or processes. In research on the structural aspects, attention has been drawn, e.g., to the size, density and range of a network (Mønsted 1995). However, this kind of research is static in nature and can't capture the dynamic interplay between the firm and its context. The connectedness and the dynamics, i.e. processes, in networks have been seen well captured by the concept of embeddedness (Halinen and Törnroos 1998). Relationship building is a prerequisite for a firm which wants to get established in a new market (Johanson and Mattsson 1987). This way it also becomes embedded in its context. By embeddedness is meant that every firm has relations to various types of networks, and is dependent on others, on the broader contextual setting and on the past, present and future time (Halinen and Törnroos 1998, cf. Grabher 1993, p. 4). These are here seen to lead to two interrelated dimensions of embeddedness. The first dimension, relationships to networks, consists of the actors and the character of the relationships. The second dimension, dependence, depicts the contents of the exchange and to that related functions of the relationships from the viewpoint of the focal firm.

The major actor groups to which a firm is expected to establish relationships in new markets are usually considered to be the subcontractors and other suppliers in the input sector, distributors and customers in the output sector, competitors, and e.g. government agencies and trade associations in the regulatory sector (Achrol, Reve and Stern 1983). How a firm can utilise these relationships depends on their characteristics, which make some relationships more appropriate for certain purposes than others (see e.g. Mønsted 1995, pp. 197–201). For example, old relationships are more suitable for acquiring subtle information and are often used for multiple purposes whereas newer ties are commonly tied to one specific role. Some relationships are purely instrumental whereas others include strong emotional obligations and

are supported by trust. These characteristics are elements of the strength of ties, which basically divide relationships into weak and strong ones. Granovetter (1973) saw the strength of a tie in interpersonal networks as depending on the amount of time spent on it, on the emotional intensity, intimacy and the reciprocal services characterising the tie. In more recent research the frequency or intensity of contact, in terms of the amount of resource exchange and the irreplaceability of the parties, has been seen as an indicator of the strength of a tie (Johannisson 1995; Zhao and Aram 1995). Uzzi (1997) makes a distinction between market ties and embedded ties, whose features resemble the distinction between weak and strong ties. The former are arm's-length ties lacking reciprocity and repeatedness and concerning narrow economic matters. The latter are close ties characterized by trust, exchange of tacit know-how and joint problem solving with respect to critical business matters. An important aspect of the strength of ties is also that strong ties, e.g. between kin, friends and close workmates, seem to stabilize networks (Granovetter 1973). Weak ties, between those less frequently in contact, in turn, seem to stimulate change by e.g. adding new information to interaction.

The importance of membership of various networks is based on the interdependence and the variety of functions which the relationships may entail in the business (see e.g. Johanson and Mattsson 1987; Mønsted 1993; Salmi and Bäckman 1999; Szarka 1990; Turnbull 1979). Interaction with others is needed at least to obtain resources and to create markets for the produced products. From the strategic viewpoint the relationships may e.g. reduce costs, promote development of knowledge, give the parties control over certain parts of the environment, act as bridges to some third parties, or may be used to mobilize partners against competitors. The new ventures usually also lack legitimacy and capital (Starr and MacMillan 1990), for which certain relationships may provide the channel. The personal relationships between individuals have been noted as especially important for the exchange of information and special services, and for the assessment of partners, and they are the normal means of persuasion and negotiation (Salmi and Bäckman 1999; Turnbull 1979). The personal relationships may also provide crisis insurance and even ego-enhancement.

In the analyses of exchanges in the industrial networks, the technological and economic exchanges have dominated (Araujo, Bowey and Easton 1998). Yet, the contents of the relationships are not only technological and economic, but also include information exchange and social interaction at the personal level (Håkansson 1982; Johanson and Mattsson 1987). In the present study the economic, technological and legal exchanges are seen as organization-level, contractually regulated interactions. They can be seen as the basis for the market, political and technological embeddedness (Halinen and Törnroos 1998). These include the relationships to various business actors in the specific product/service markets, the political power positions, and the product and process as well as infrastructural technology systems. Through their relationships, firms are also socially embedded in their contexts (Granovetter 1985; Halinen and Törnroos 1998). Granovetter (1985) emphasises the social dimension of embeddedness as he sees all economic actions as embedded in personal relations between individuals. The social interaction is the basis and outcome of trust and commitment and often relies on personal liking or friendship. Thus, the social embeddedness of firms brings forth the person-level interaction required, e.g., to form a channel for business dealings, to transfer technological skills and to create power structures (Halinen and Törnroos 1998). This means that social interaction often underlies the organizational market, technological and political interactions. The embeddedness constitutes a specific context for a firm.

Networking to organize a firm in a new market

Organizing can be regarded as an internal process for the creation of organizational structures, staffing and implementation of the ways of communication (e.g. Ritter 1999). Here, besides building the organization, organizing is seen to include locating opportunities, accumulating resources and creating markets through the use of external relationships (cf. Gartner 1985; Johannisson 1988). In organizing a firm and its business, an actor aims to establish a workable level of uncertainty (Weick 1979) and, thus, engages in networking activity. Networking is a means of organizing. It is a process of connecting actors through bonding and commitment, and performing activities in order to get access to the resources controlled by those actors (Halinen, Salmi and Havila 1999; Törnroos and Nieminen 1999). It is also a strategic process in which the external relations are changed and actions taken to place the firm in a stronger competitive position in the market (Håkansson and Snehota 1989; Melin 1989).

With respect to networking behaviour, the interorganizational research has mostly dealt with relationships between firms whereas entrepreneurship research has focused on personal ties between individuals. These organizational and personal networks can be seen connected respectively to managerial and entrepreneurial networking. The basic distinction between them is the behaviour either as an organizational agent or 'qua persona' (Ring and Van de Ven 1994). Both kinds of networking are needed in organizational development but they are presumed to be linked to different situations and different purposes.

In managerial networking (cf. Hjorth and Johannisson 1997) an individual represents the organization and behaves according to the expectations associated with his role in the organizational setting. The major concern is the acquisition of ownership or control over the required resources and, then, the strategic implementation of them (Sahlman and Stevenson 1987). Access to the resources is intended to be long-term and commitment is evolutionary. The relationships are based on task or role hierarchies, and contract-based trust. This seems to have been the case in foreign trade under the communist system. Foreign traders were in contact mainly with the state-owned foreign trade organizations that arranged all commercial issues of foreign trade. Salmi (1995) describes the business contacts of the 1980s as bureaucratic and routinized. From the beginning of the 1990s on, the FTOs have no longer controlled trade. Foreign firms have been confronted with the need to actively seek for business partners in an environment where no reliable, detailed information of local firms can be obtained or public information on the markets exist (Salmi and Bäckman 1999). These changes could be expected to favour an entrepreneurial kind of networking.

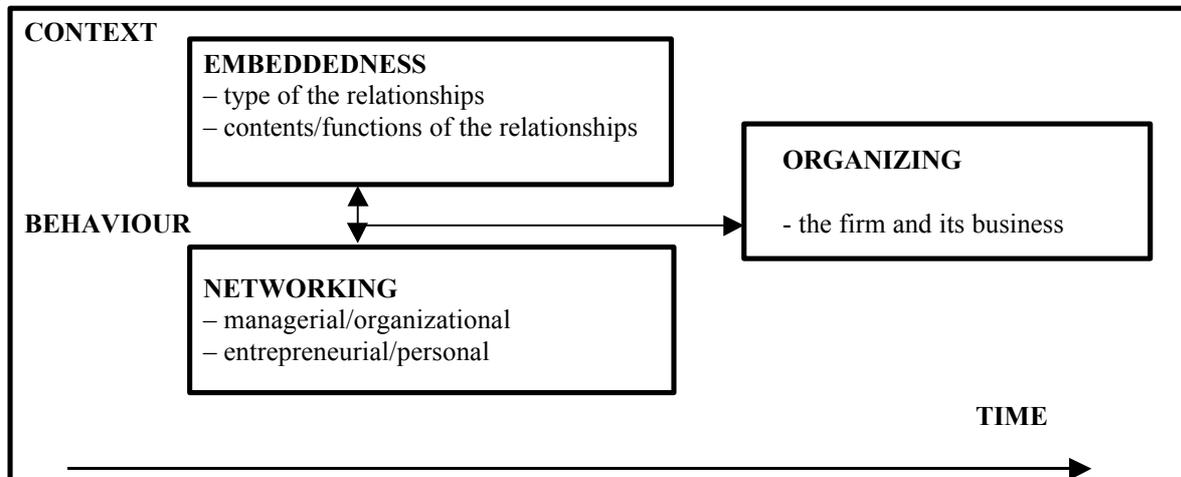
If acting entrepreneurially (cf. Hjorth and Johannisson 1997), an individual takes personal initiatives and performs acts based on personal trust, acquaintance and liking. Social control, trust and reciprocity, are the primary ways of governing the economic exchanges of an entrepreneurial individual (Larson 1992). In entrepreneurial networking the relationships are also often used to be able to act "as if" the equivocal events were not equivocal by enacting the realities through dialogue with others (Gartner, Bird and Starr 1992). Thereby individuals get support from others to organize the venture. When managerial activities concern the planning and controlling of resources, entrepreneurial actions aim at influencing others for episodic use or rent of resources (Krackhardt 1995; Sahlman and Stevenson 1987). Thus, the use of relationships is often more revolutionary and short-term when a relation is activated as a response to a current need. Social contracting, based on feelings of personal obligations, trust and gratitude, has been noted to be effective in resource acquisition at reduced costs and legitimacy cooptation for new ventures (Starr and MacMillan 1990).

Much of the change in the networks is considered to originate from the networking process (Halinen and Törnroos 1998). Relationships are created and developed in response to either internal or external change forces (Melin 1989). The change may originate from a dyadic relationship or the environment perceived as relevant by the focal actor. Halinen, Salmi and Havila (1999) have divided the changes into two categories. Incremental change involves a change in the nature and content of a single relationship. Behind it is actually stabilizing forces that are manifested in inertia. They include technical and resource interdependencies, industrial logic, high switching costs and risk-reducing strategies as well as various institutional rules for correct network behaviour. Radical change, in turn, is caused by critical incidents creating change that leads to dissolving or building new relationships.

In a large part of the network research the personal and organizational networks merge (Zhao and Aram 1995) and a distinction may be difficult to make. Yet, some relationships may be kept official by acting in organizational roles and with authority of a formal position while others are strongly based on personal ties and trust. The type of behaviour has, e.g., been seen to vary along the development of the venture. All emerging ventures should be entrepreneurial and their organizing require entrepreneurial behaviour whereas existing organizations need managerial behaviour (Gartner, Bird and Starr 1992; Hjorth and Johannisson 1997). For this study the above offers an interesting basis for analysing the behaviour of joint venture teams and managers. Do they develop organizational or personal relationships and are they relying especially on either ones in certain situations?

The central theoretical constructs of this study are embeddedness and networking as is presented in Figure 1. The type of relationships, actors and relationship characteristics, define the basic nature of the embeddedness. The embeddedness is also defined by the contents and functions of specific relationships, which create the dependencies between firms. Relationships are created through networking, whose nature varies with the degree of managerial and entrepreneurial elements in the behaviour of the individuals. Through embeddedness and networking, the firm and its business are organized and positioned in the competitive market. The position of a firm is an important part of its network identity as it is the basis for the development possibilities and constraints of the firm (Johanson and Mattsson 1987). Overall, the network position is a relative concept (Håkansson and Snehota 1989; Törnroos and Nieminen 1999, p. 8) enacted through interaction and learning. In this study the changes in the joint ventures' positions are not thoroughly studied, but the focus is on the roles of the relationships and the actions for their development along the joint venture processes.

FIGURE 1.
Central concepts of the study.



Development of relationships in East European transition markets

In Eastern Europe the overall turbulence of the environment and the structure and functioning of the markets in general have been seen to create a particularly strong need for relationship building among various actors (Johanson and Johanson 1999; Nieminen and Törnroos 1997). Törnroos and Nieminen (1999, p. 293) saw the networks as a prerequisite for doing business in Eastern Europe and as more personal in character than is typical in Western countries. The customer-supplier relationships in Russia have been claimed to rely as a whole on personal acquaintance and direct personal contacts (Bäckman 1997; Salmi and Bäckman 1999). Thus, knowing someone inside or with a relationship to the partner is crucial in business dealing.

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

Especially in the early stages of a business establishment, an extensive contact network of public administration has been noted to be important (Törnroos and Nieminen 1999). The authorities are often essential sources of information and particularly the bureaucracy of a business establishment can be eased and quickened through direct contacts with the authorities and with political actors (Ghauri and Holstius 1996). The public sector may also represent the major customer base for many joint ventures because the private sector is quite undeveloped (see e.g. Salmi 1995). The creation of this network usually requires intermediation from high authority or governmental levels or by the local entrepreneurs (Bäckman 1997; Ghauri and Holstius 1996; Salmi and Bäckman 1999). "Own people" in customs, tax bureaus and banks facilitate the handling of business bureaucracy also later on (Salmi and Bäckman 1999). Thus,

the contacts based on personal acquaintance with the joint venture's permanent staff seem most beneficial (Törnroos and Nieminen 1999).

In the transition economies, which lack basic institutions, infrastructures and shared value systems, the only stable aspects seem to be the personal relations (Salmi and Bäckman 1999). This makes business friends an important actor group in East European business life. They may be either customers and suppliers, local entrepreneurs or other businessmen and colleagues. As the major function of these relationships has been named the acquisition of market information (Bäckman 1997, p. 46). Yet, Salmi (1995, p. 161) also noted the direct use of earlier customer relationships as a reference in new business dealings and Bäckman (1997) emphasised their role as connectors to the authorities. They are likely to be very personal and trusting relationships based on friendship or close acquaintance. The markets do, as well, lack money for any investment, which is likely to bring about various cooperative financing arrangements. Ghauri and Holstius (1996) have especially emphasised the role of international and national financing when entering the Baltic States.

METHODOLOGY

The empirical research strategy applied in this study follows the case-study method, which is commonly used to study complex phenomena in their real-life contexts (Yin 1989). The present study aims at deeply understanding and better interpreting the subject phenomenon in a specific setting through an embedded multiple case study (Yin, 1989, p. 46). In the empirical part are analysed the development and utilization of relationships in two Finnish-Polish joint ventures established in Poland after the beginning of the Polish transition to market economy. Two quite different kinds of firms were chosen for investigation in order to extend the theory by comparing concrete cases and existing theory (cf. Eisenhardt 1989). Yet, a shortcoming in the following analysis is that the data has not been collected especially for uncovering the role of social relationships. Instead, the data has been collected for a wider investigation into the internal and external influences that have affected the development processes of the joint ventures. Therefore, only exploratory evidence can be gained from the following analysis.

The data collection aimed at getting as close to personal experience as possible through interviewing the people who have been actively involved in the joint venture processes. Thus, interviews with Finnish/Nordic and Polish managers formed the main source of information. Yet, they were supported by secondary data, such as feasibility studies and company documents as well as published articles dealing with the cases. The multiple sources of data are used in case studies to increase validity and reliability (Yin, 1989).

The collection of primary data was realized through unstructured interviews focused on some specific themes. Altogether eight managerial level persons were interviewed in June–December 1997. Three interviewees in each case represented the Finnish partner. Besides, the Polish managing directors of the joint ventures were interviewed. To be able to conduct face-to-face interviews with them a one-week field trip was made to Poland in October 1997. The crucial importance of these interviews is that they brought to the study Polish viewpoints and insights created in a Polish cultural setting. A major deficiency in the present study is that none of the Polish partners' representatives was interviewed (Osland and Cavusgil 1998). The interviews took between one hour and one hour and a half and were tape-recorded. The interviewees were asked to tell the story of the development of the joint venture operation in

order to find out the chronological order of the events and the incidents they considered as critical for the development. Telling about the processes in the form of a narrative was also thought to help the interviewees to remember their experiences and actions since the data was to a large extent retrospective. The feasibility studies of the joint ventures provided an important point of reference when the developments were traced in time. The raw data, transcribed from the tapes, were written as more fluent descriptions, which were sent to the interviewees to be corrected and supplemented with details if needed. Finally, the key informants were met in September–October 1998. During quite informal conversations, the latest developments in the joint ventures and the early reports of the cases were discussed.

The analysis was conducted with the help of the QSR NUDist qualitative analysis program to make the analysis faster, more systematic and better reported. The program is especially appropriate for identifying, coding and categorizing the primary patterns in the data, which is the aim of the content analysis (Patton 1990, p. 381). The original interview data was coded to form categories, most of which were chosen based on the initial framework of the study. The aim was to reveal the essence of the theoretically based concepts or constructs in the specific context under study from the viewpoint of the interviewees. Some categories were also allowed to rise from the data to let it reveal its specificities. The analysis began with within-case analysis. Then, the contents and patterns found in one case were compared with those in the other case. Lastly, the main findings were compared against the existing literature.

ANALYSIS OF THE ORGANIZING OF TWO IJVs IN POLAND

In the following section the two cases are analysed by focusing on the main interaction episodes (Håkansson and Johanson 1988), which created changes in the focal nets of the joint ventures along their development (cf. Halinen, Salmi and Havila 1999). The company names have been changed to ensure confidentiality. The joint venture producing water treatment chemicals is called Chemjoint. The joint venture manufacturing district heating pipes is named Rohrjoint. The main episodes in the joint venture processes are presented in Tables 1 and 2.

Background and overview of the joint venture processes

At the end of the 1980s, a Finnish water chemical producer, Watchem, was looking for new markets. At that time there was no chemical sewage water treatment in Poland, but there was a big titanium dioxide producer creating a vast amount of the basic raw material, copperas, for water treatment chemicals. The opportunities based on the undeveloped water treatment, the emerging environmental awareness and the cheap raw material were recognised.

TABLE 1.

The main interaction episodes in the organizing of Chemjoint.

<i>CHANGE FORCE</i>	<i>ACTION</i>	<i>OUTCOME</i>
1989-1990 <ul style="list-style-type: none"> • Beginning of Poland's transition • Threat of competition created by a Polish chemical producer • Scepticism in the Finnish board • Need for risk sharing • Internal disagreements in the Polish parent 	<ul style="list-style-type: none"> • Embassy, ministry visits • Suggestion for cooperation with competitor • Visits to possible customers • Contacts with Nefco • Top management support 	<ul style="list-style-type: none"> • Doors opened • Negotiations for establishment of Chemjoint-JV • Commitment of main customers • Nefco participating in the JV • Signing of very many agreements
1991-1993 <ul style="list-style-type: none"> • Budget excess in plant construction • Undeveloped markets • Devaluation of the zloty • Financial problems • Management problems 	<ul style="list-style-type: none"> • Hard bargaining btw parents • Export assistance to a Czech chemical producer • National Fund suggested as a shareholder • Training of two locals for key positions 	<ul style="list-style-type: none"> • Distrust and bad feelings • Personal contact networks with customers created • Financial situation balanced • Intermediators of intercultural communication
1994-97 <ul style="list-style-type: none"> • Dissatisfaction with the terms of agreement by Polish parent • Nefco selling its shares 	<ul style="list-style-type: none"> • Compromising by Finnish parent • Watchem buys the shares 	<ul style="list-style-type: none"> • Stability and trust • Majority ownership to Watchem

At once Watchem was threatened by price competition in its Nordic home market since the Polish titanium dioxide producer Polska Chemiczne (PLC) planned to export copperas to the Nordic market. Watchem suggested to the PLC processing copperas in cooperation in a joint venture. Copperas made the PLC an inducer of a big environmental problem; the joint venture was a means of getting rid of the waste. The joint venture agreement was signed in December 1990. The ownership of Chemjoint was divided so that 40 per cent was owned by both Watchem (via its Swedish unit) and Polska Chemiczne and 20 per cent by the Nordic Environment Finance Corporation (Nefco). The joint venture aims to utilize the opportunities in the emerging markets for water treatment chemicals and contribute to the solving of the water pollution problems in Poland.

TABLE 2.
The main interaction episodes in the organizing of Rohrjoint.

<i>CHANGE FORCE</i>	<i>ACTION</i>	<i>OUTCOME</i>
1989-1990 <ul style="list-style-type: none"> • Beginning of Poland's transition • Allowance from Finnish Ministry • Loan from the World Bank • Feasibility study needed • Need for partners • Application for ecoconversion 	<ul style="list-style-type: none"> • Plans for local pipe production • Visits to Western pipe producers • Nopef contacted • Nefco and HW contacted • Contacts with ministries, etc. 	<ul style="list-style-type: none"> • Finpipe and the WEC selected as partners in Rohrjoint- JV establishment • Nopef partly financing • Consultant firm investing • Ecoconversion given • Multiple JV-agreements signed
1991-1993 <ul style="list-style-type: none"> • Application for export guarantees • Need for Polish counter guarantee • Local supplies needed • Devaluation of the zloty • Financial problems • Technical and management problems 	<ul style="list-style-type: none"> • Finnish Export authorities met • Polish intermediators used • Contacts with possible suppliers • Finnish partner refusing to invest • Polish partner investing alone • Vice-president from Finland • New local MD assigned 	<ul style="list-style-type: none"> • Finnish export guarantee given • Polish Bank guarantee given • Supplier network emerging • Continuous conflict and distrust • Technical problems solved • Trust in JV-management
1994-97 <ul style="list-style-type: none"> • Polish partner trying to fire MD • Finns keen to buy majority 	<ul style="list-style-type: none"> • Personal support to MD by Finns • Discussions on ownership change 	<ul style="list-style-type: none"> • Operations of JV stabilizing • No changes yet

The Rohrjoint establishment was initiated by a Finnish consultant firm that in 1989 discussed with Polish experts and noted the need to produce district-heating pipes locally in Poland. The technology for preinsulated pipes was not well known in Poland. As a result the Warsaw Energy Company (WEC), started the search for a Western partner. Simultaneously, a Finnish pipe manufacturer, Finpipe, was searching for new growth markets. An offer of transferring technology to the WEC was made due to the opportunities created by the wide, old-dated district heating networks. The agreement to establish the Rohrjoint-joint venture was signed by the WEC, Finpipe and the consultant firm in September 1990. It stated the ownership structure - 66 per cent owned by the WEC, 32 by Finpipe and 2 per cent by the consultant firm. The joint venture aims to plan, manufacture and install modern district heating pipe systems in Poland for local and export markets. It also intensifies the production of district heating and reduces sulphur dioxide, nitrogen oxide and carbon dioxide emissions.

Roles of Relationships and Networking Behaviour of the Individuals

In the following section the above presented interaction episodes, which influenced the development of the joint ventures, are briefly discussed. The analysis covers the embeddedness of the joint ventures in their contexts through the focal nets. The nature of networking is analysed with special regard to influence of social relationships on problem solving. The changes in the focal nets are illustrated in Figures 2, 3 and 4 and discussed in the three phases of initial development, early organizing and late organizing.

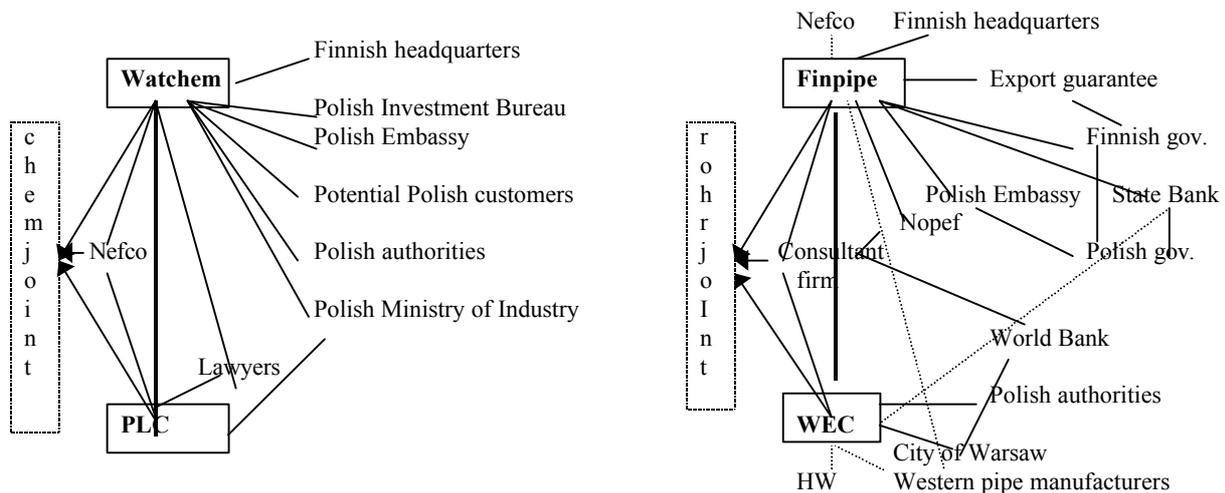
Initial developments in 1989-1990. As a starting point for the two joint ventures can be seen the opening of the Polish markets after the collapse of the Soviet Union and its socialist regime. On the Western side the market opportunities were noted, but entry was seen as

extremely risky. The Polish partners, in turn, were inexperienced in Western business dealing and lacked money for big investments. These parent company interests induced the early interactions in the emergence of the joint ventures. Governmental, authoritative and financial relationships were emphasized in the search for risk reduction and financing (see Figure 2).

In the Chemjoint case, visits to the Polish embassy, the investment bureau and the Ministry of Industry were used by the Nordic team to create contacts with the market and to ‘open the doors’ to chosen Polish partners. Nefco also agreed to finance with an equity investment and a loan. In the Rohrjoint case, even before the plan for a joint venture establishment, the Finnish Ministry of Trade and Industry granted an allowance for Finnish-Polish cooperation, and the World Bank gave a loan for the modernisation of Polish pipelines. Then the plans for local production of district heating pipes were implemented in cooperation between a Finnish consultant firm and Polish specialists. The WEC and Finpipe were selected as partners. In the search for further financing, Rohrjoint was confronted by drawbacks when

FIGURE 2.

Focal nets of Chemjoint and Rohrjoint in the initial development of 1989-90.



Nefco and Polish HW withdrew. Also the inexperience of the Polish bankers in arranging project guarantees slowed down the project. Application for ecoconversion resulted in relationships with the governments in both countries. A kind of governmental status (via Polish Ministry or ecoconversion) proved important to the legitimacy of the emerging ventures and to the trust creation between the parents. For Chemjoint the agreement with the selected Polish partner was critical because it brought to the venture the crucial raw material:

“By doing this (visit to Polish Ministry of Industry) we got the Ministry to send a letter in which was said that they recommend them (the PLC) to team up with Watchem... the partnership with regard to cheap raw material is very important in our business.”

The search for partners and financing was a bureaucratic and complex process which included filling in applications, official meetings and the utilization of ambassadors, ministers and other high status people. Although face-to-face meetings were commonly arranged, these early contacts with governments, authorities and financiers seem to have been organizational and contractual and based on a personal trust as illustrated by the following comment:

“We (the parent firm) are big enough (in the business) to give sufficient reliability for the banks to be eager to finance our projects”

The early contacts between the parents were based on the reputation of the firms, and the perceived complementarity of the resources. Yet, there also needed to emerge some trust at the interpersonal level through social, informal interaction before the partner was accepted (cf. ‘interactional test’ in Salmi, forthcoming; Ring and Van de Ven 1994). However, the partners were unable to really understand each other, which resulted in huge number of contracts and a need for various intermediators among the establishment team members. The need for initial personal trust and intermediation was continuously pointed up by the interviewees:

“In the beginning it was very much a question of getting to know the people... Only after this a feeling had been created... that they thought that with those Finns cooperation will be possible.”

“...the Polish lawyer understood both their (the Polish negotiators’) thinking and our (Finnish negotiators’) philosophy and acted as a kind of bridge builder... The consultant firm was also a kind of neutral party; they had other business both with Finpipe and the WEC.”

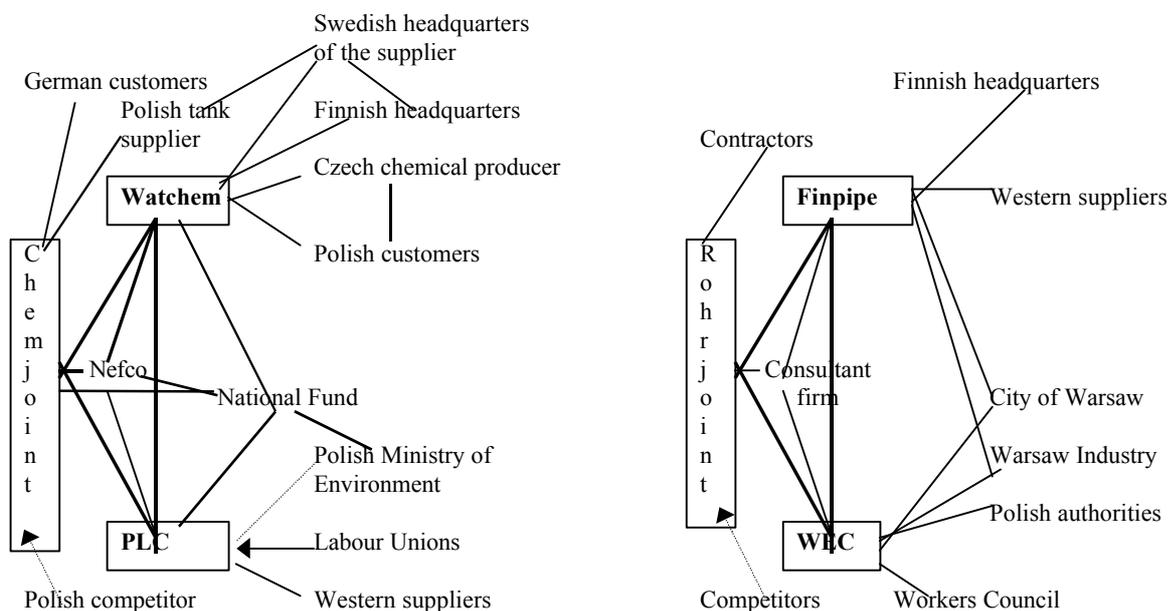
Interestingly, the relationships with the lawyers proved to be about the only trusted ones in the long and frustrating negotiations. In the Chemjoint case there also existed internal disagreements about the feasibility of the joint venture in both parent companies. In the PLC the top management had the power and interest to work for agreement whereas the selling of the idea of Chemjoint to the board of Watchem required direct contacts with and commitment from some big customers. This way the Finnish owners and, thus, the closest stakeholders were got to commit the needed resources to the venture:

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

Early organizing in 1991-1993. After the signing of the agreements, the joint ventures concretized as new ventures through construction of the facilities and production start-ups. In the beginning the relationships were still mediated by the parents, but towards the end of the period the joint ventures began to have direct relationships in the market (see Figure 3).

FIGURE 3.

The focal nets of Chemjoint and Rohrjoint in the early organizing of 1991-1993.



The hard bargaining had badly harmed the atmosphere of the parent relationships. Unfortunately, the plant construction budget of Chemjoint, planned by the Polish parent proved to be far too optimistic. Watchem refused to get involved in the responsibilities of the Polish parent, which they interpreted as letting them down. In the Rohrjoint case the Poles concentrated on following up the technical supplies of the Finns and every normal adaptation need was seen as a failure. The solving of the technical problems was hindered by the incapability of the managing directors of the joint ventures to create trusting relationships to the parents. The Polish managing director of Rohrjoint was not able to understand the market economy and unlearn the practices of the socialist system. The managing director of Chemjoint, in turn, tried to manage the company in the Western way. Yet, neither the socialist nor market economy principles were valid.

Problems also arose due to the changes in the Polish representatives, which resulted in lack of commitment as well as in the loss of personal trust between the parents. However, person-level trust and intermediation was sought especially by the Finns. The Watchem team used the technical manager of Chemjoint, who was a former employee of the PLC, as a bridge builder by communicating with the Polish parent almost entirely through him. Finpipe sent a Finnish technical expert as a vice managing director of Rohrjoint to solve the technical problems and take care of the organizing of the production. Personal relationships were also created between the staff of the joint ventures and the Finnish parents in training. Technical assistance was important for effective production in both cases. In Chemjoint, marketing training and assistance were, however, the most intensive and long-term.

The Polish market was prepared for Chemjoint through importing a similar kind of product from the Czech Republic until the Chemjoint plant was ready for production. This happened by using an older relationship to a Czech chemical producer. With this firm was made an informal agreement that the people from Watchem would help the firm in its export marketing. This way Watchem's marketers could personally meet the future local customers of Chemjoint, and could make them acquainted with and ready for the use of the modern water treatment chemicals. Watchem's team also secured the supply of critical equipment to the customers by making an agreement with a Polish subsidiary of their Swedish cooperation partner about immediate supplies of storage tanks for chemicals.

The year 1992 ended up with financial crises in both joint ventures when the Polish zloty was devaluated and the foreign loans of the joint ventures created enormous losses. In both cases the solution was to invest more in the share capital. Yet, Finpipe was not ready to invest more as it didn't trust the management of Rohrjoint; the WEC invested alone. In Chemjoint, the solution was, besides capital investments by all owners, a widening of the parent network. The earlier official contact with a governmental environmental fund, National Fund, was changed as a direct ownership relationship when 15 per cent of the shares were sold to it. This way the joint venture also got a more prominent local image and governmental status, which created trust among the customers and aided the creation of a market.

The achievement of real support and commitment from the parents required the change of managing directors. Then, the trusting relationships were developed into joint venture management. The choices were largely based on personal trust because 'We had seen that he is reasonable' and 'she had shown very good skillfulness'. For Rohrjoint, the Polish majority owner was also its major customer. It was a huge state-owned firm in which the decision-

makers were difficult to locate. This made the personal relationships inside this huge enterprise crucial to receiving resources for the organizing of the firm as well as for getting orders and that way create a customer base for the joint venture. Therefore, the chosen man had a wide network inside both the WEC and Polish political life, and personal relationships to municipal decision-makers, representing the main customers. The managing director question was also an example of the possible negative influence of personal relationships. The first managing director was ‘an old friend of the general manager who was this way rewarded’. With the suggested new managing director, in turn, the general manager of the WEC had personal conflict and thus long resisted his appointment. What made the change happen, was contacts to more powerful actors in the market as well as with the Workers Council inside the WEC:

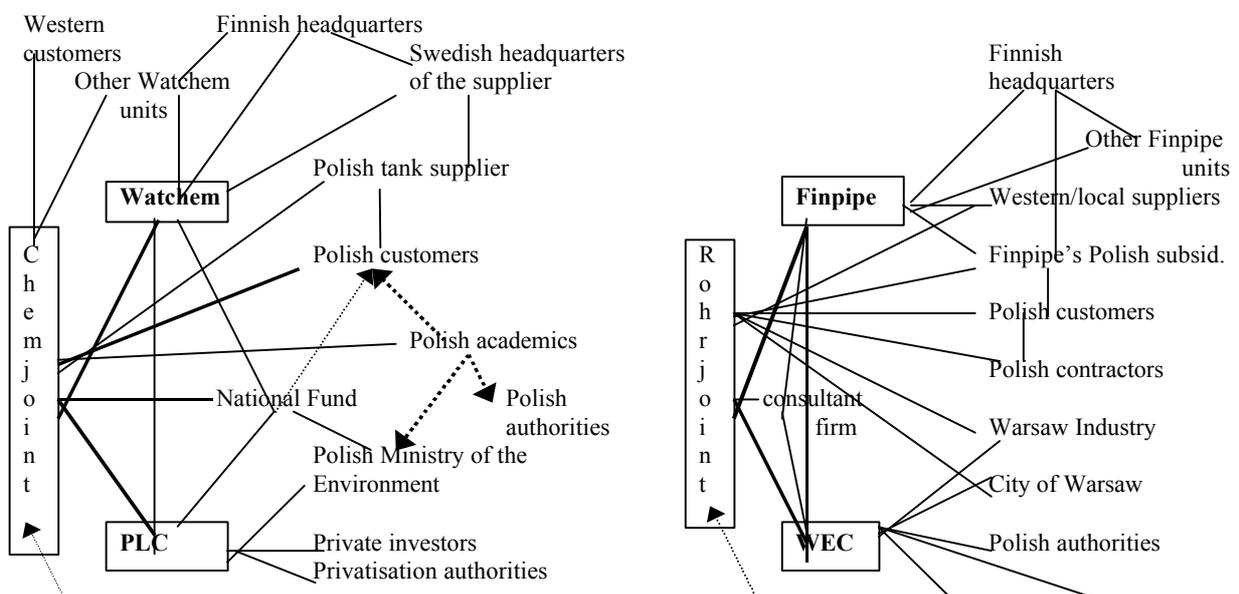
“I would say that if we had fought with business facts only, we would have lost... It was very important to have other support and personal contacts.”

The persons in charge of Chemjoint were also changed. The two persons who are seen to have really organized the venture have been able to learn from the knowledge and experience of the Watchem people and have developed as specialists and trusted managers. They can also well manage the relationships with the Polish parent and market as one of them is a previous employee of the PLC and the other an efficient leader. These changes removed also the ‘misfits in personal chemistries’ that had harmed the internal work relationships.

Late organizing in 1994-1997. From about the year 1994 on, the managing directors and the other personnel of the joint ventures have taken responsibility for all the operations of the joint ventures. They directly handle the relationships with customers and suppliers, and also the relationships with the owners resemble to a great extent other relationships whose resources are activated at need. However, the parent relationships are still extremely important to the joint ventures. Through the Finnish parents they are connected with the global subsidiary network, which is important, e.g., for keeping pace with the technological development and for economies of scale in supplies. Through the Polish parents they are strongly connected with the Polish governmental and authority networks, which still create legitimacy and customer acceptance in the Polish market (see Figure 4).

FIGURE 4.

The focal nets of Chemjoint and Rohrjoint in the late organizing of 1994-1997.



Yet, the distrust between the parents still harmed both the ventures. The PLC felt imbalance in the benefits of the parents, especially, when the exports of copperas by Watchem decreased. The PLC started to export copperas by itself, which created the threat of competitors' attacks on the Chemjoint's market. To get the PLC support Chemjoint, Watchem had to define clear targets for both copperas consumption and exports. In Rohrjoint the suspicion of the WEC's general manager towards the new managing director resulted in efforts to fire him. The general manager felt he was competing with the managing director and was able to govern the WEC's board members. To stop his attacks the Finnish parent's representatives have personally supported him and also used their contacts with the market.

From 1995 on, both joint ventures have been profitable. Watchem bought the shares of the risk investor Nefco, which made it the majority owner of the joint venture. Finpipe would also have been interested in buying the majority of Rohrjoint, but the privatisation of the WEC has made the power holders so insecure that the negotiations have had to be postponed. The changes in the Polish economic system, pushed e.g. by privatization authorities and trade unions, have made the Polish partners more and more concerned with internal power struggles and rearrangements. This has decreased their roles in the networks of the joint ventures and made them less interested in them. Between the Finnish parents and the staff of the joint ventures, in turn, have developed very personal, trusting relationships, which have increased the role of them in the networks of the joint ventures.

The importance of good relationships with the parents was emphasized by both managing directors of the joint ventures because of the great dependence on them. For Rohrjoint the Finnish owner is the producer of technology and the Polish owner the main customer. Watchem has all the time been the primary supporter in all business issues for Chemjoint, and without cheap raw material from the PLC it had 'no reason to be in the market' as one of the interviewees expressed it. However, the dependence has become much more mutual. Both of the joint ventures have been able to develop the Finnish technologies, which has made them important technology development units to the parents. For the PLC Chemjoint 'is the only one which has been able to solve their pollution problem', and Rohrjoint actually plans and implements most of the pipe construction projects of the WEC.

An interesting feature in the two networks is the addition of the informal relationships to influence especially the customer base and the development of the legal framework of the business. These are represented by the contacts of the Chemjoint's managing director with the Polish academics who are used to influencing the construction of water works and the Polish authorities. The National Fund was, besides providing financing, intended to serve in the same role but in practice its contribution has been a disappointment. In Rohrjoint, its managing director is actively participating in the city politics and has personal relationships with municipal decision-makers, who represent the customers of the joint venture. His behaviour is described by the comment "he uses the window if he is not let in through the door".

CONCLUSIONS

The previous research has most often seen the international joint ventures either as an alternative operation mode used when entering into new markets or as the profit centres of

multinational companies. These viewpoints have made the research focus e.g. on the parent company's motives or control or on the development of the parent relationship. The actual organizing of the new venture and its business through which it becomes connected to the cross-cultural context has received little attention. This paper has been motivated by the assumption that the success of an international joint venture is to a great extent dependent on its capability to create and utilize social relationships for business purposes.

The connectedness and relationship development of foreign business units in their cross-cultural contexts has in the present paper been studied through the concepts of embeddedness and networking. The nature of the embeddedness of new ventures has been seen to differ depending on the characteristics and functions of the relationships. The networking, in turn, is expected to vary with respect to the managerial and entrepreneurial aspects of the behaviour of the individuals. These concepts have been discussed on the basis of the analysis of relevant network research and exploratory case-data from two Finnish-Polish joint ventures.

In the cases where the networks of supporting relationships developed extensively very early, this illustrates the need for relationships and the complexity of organizing joint ventures in transition markets (cf. Törnroos and Nieminen 1999, p. 293). The case-analysis reveals, also, the interdependence between the organizational, more formal business interactions and the personal relationships and social interactions. The type of the embeddedness of the joint ventures seems to differ along their development. In the initial phases the major interaction takes place between the parent companies, which begin the interaction based on technological and economic complementarities. Yet, there needs to emerge at least some personal trust to allow formal commitment to the relationship. In the beginning, especially the financing questions and legal issues made new actors enter the focal nets of the joint ventures. Thus, the organizing of joint ventures clearly deals with matching which Ghauri and Holstius (1996) noted as important also for entry into the Baltic States. Face-to-face meetings and earlier acquaintance facilitated interaction with the Polish authorities, governmental bodies and financiers. But as e.g. Bäckman (1997) claims, the relationships with authorities or financiers seem not to develop as personal and trusting ties. Yet, the governmental and authority relationships can provide capital, political support and information, and facilitate the market creation by legitimating the new venture in the eyes of possible customers. These relationships create especially political embeddedness. The relationships to the market were also initiated through securing the existence of some demand for the produced products.

Along the development of the joint ventures, the market embeddedness becomes more and more intensive, as is natural. The support of and very active interaction with customers were critical to the successful organizing of the joint ventures. The customer relationships were heavily developed especially in the Chemjoint case as the market for the water chemicals was almost non-existent at the time of the joint venture establishment. Rohrjoint, in turn, remained more connected with the authority network due to the majority position of the government-owned Polish parent and its heavy dependence on the construction projects by the city of Warsaw. In the creation of customer relationships, having charismatic experienced persons from Western countries has facilitated convincing the customers. However, in both cases the need to combine Western knowledge with Polish business habits was emphasised. Thus, the buying decision seems always to depend on the capability to create person-level trust (see also Salmi and Bäckman 1999). The personal relationships are more important than price and terms of delivery, which is typical of strong ties (Uzzi 1997). The customer relationships are also important to nurture because the markets seem best developed through references from

satisfied customers, as also Salmi (1995) noted. This way, customers can also be seen to provide social support and legitimacy for the new ventures.

After some four-five years from signing the agreement the joint ventures function very independently, using the parent relationships very similarly to other stakeholder relationships. However, the social interaction, especially with the Finnish parents, is still intense and highly valued. The earlier interaction for the provision of marketing, management and technical support has developed as friendship ties, which can be relied on to get both social support and assistance in case of urgent business problems. Overall, the Western parents well connect the joint ventures to their wider networks deepening also their technological embeddedness. With respect to the Polish parents, the access of the current managing director to the internal person network of the WEC has been crucial for the success of Rohrjoint. Chemjoint's relationships with the Polish parents have remained at arm's length. The existence of a 'sleeping parent' in strategic alliances is not, however, uncommon (Lorange and Roos 1988, p. 80).

The local market relationships are nowadays totally taken care of by the joint ventures. To facilitate the creation of a customer base, the social relationships to other actors in the market are heavily utilized. They serve both as information providers and lobbying groups. With respect to suppliers, the cases in this study contrast with prior research. In the cases studied, the supplier relationships, besides the parents, seem to be more at arm's length than close, personal ties and as a whole the supplier networks seem not to be large. In accordance with Törnroos and Nieminen (1999), the need to be in contact with the authorities and also with financiers has diminished. As an exception can, however, be pointed out the owner relationship of Chemjoint with the National Fund, which is both an authority and a financier.

With respect to the networking behaviour of individuals, the creation of the kind of background relationships is primarily realized through managerial networking. These include relationships with financiers, governmental agencies and Western suppliers. The relationships are formalized through contracts and the interaction is based on parent company reputation, written documents and bureaucratic procedures. The relationships with the parents also have especially managerial features because they are characterized by the formal agreements, reporting relationships and contract-based commitment of resources to the joint ventures.

However, these relationships can be utilized in market creation, legitimacy cooptation and pursuing of opportunities if the individuals are able to behave entrepreneurially. This means being able to act 'as if' the venture had a solid basis for its business, although being in the very infant stage or 'as if' it was well established in the market although having only a handful of customers. These individuals also accept being able to only rent e.g. the legitimacy of the ministries or embassies in their efforts to influence customers or financiers. The creation of actual market relationships in the Polish market seems to be facilitated especially by entrepreneurial networking with informal, personal relationships, which accept episodic use and payment in the form of reciprocal services in the future.

Overall, the above analysis suggests ways in which social, inter-personal relationships are interrelated with the economic action in the development of an international joint venture. It provides insight to various interaction episodes where social relationships may be utilized to achieve capital, legitimacy, social support or any other 'resources' needed in organizing a new venture in new markets. One of the most interesting features of the analysis is the seeming

need for different kind of behaviour in different situations to be able to effectively use the relationships for problem solving.

To practitioners this study points up that the organizing of joint ventures seems to require some special kinds of individuals. These individuals need to be personally trusted by all the parents, they need to take personal initiatives and risks, and create and creatively use personal networks. Through entrepreneurial networking they are able to proactively manage possible problems as well as react to sudden external events. These actions stabilize the contexts of the joint ventures and make the equivocal reality manageable. On the other hand, they need to be able to handle the business bureaucracy of the joint venture operation in foreign markets and persuade financiers and the authorities to support the venture.

In the interaction/network approach the actors in interfirm relationships are seen to include both the firms and the individuals inside them. The same idea has been put forward in interfirm cooperation studies although they have in practice tended to concentrate on the firm-level considerations. On the basis of the findings of this study, future research should look more at the social, personal side of the relationships. It can be done only by changing from firm-level analysis to individual-level analysis. Then the relationships will be looked upon more as they are: initiated, developed and maintained through individual actions.

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