

EDITED BY
PETER THILENIUS,
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EXTENDING THE BUSINESS NETWORK APPROACH

New Territories,
New Technologies,
New Terms



Extending the Business Network Approach

Peter Thilenius • Cecilia Pahlberg • Virpi Havila
Editors

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ISBN 978-1-137-53763-8 ISBN 978-1-137-53765-2 (eBook)
DOI 10.1057/978-1-137-53765-2

Library of Congress Control Number: 2016936376

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The registered company is Macmillan Publishers Ltd. London

To Amjad with much appreciation

Acknowledgements

We would like to express our heartfelt thanks to all participants in the *Symposium on Extending the Business Network Approach*, which took place in June 2013 in Uppsala. The symposium gathered 55 researchers who over the years have been engaged in the development of the business network approach. During the symposium, we discussed the different directions research on business networks has been extended in. These discussions inspired us to initiate a process that now has developed into this book. It has been a pleasure to work with you all, and we are pleased to present several of you as authors of different chapters in this book.

We are also very grateful to Jan Wallander and Tom Hedelius Foundation and the Tore Browaldh Foundation for the financial support, without which the symposium and this book could not have been realised. Finally, we would like to thank Leanne Johnstone and David Ribé for helping us with the language editing.

Uppsala, Sweden
March 2016

Peter Thilenius
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Contents

Part I Introduction	1
1 Approaching and Extending Business Networks— An Agenda for New Research Challenges	3
Peter Thilenius, Cecilia Pahlberg, and Virpi Havila	
2 The Emergence of the Business Network Approach	21
Lars Engwall, Cecilia Pahlberg, and Olle Persson	
Part II New Territories	39
3 From Anonymity to Identity: Network Transformation in Economies and Industries in Transition from Plan to Market	41
Martin Johanson and Jan Johanson	
4 Extending the Role of Consumers: From Marketing Targets to Participants in Business Networks	67
Jimmie G. Røndell and David Sörhammar	

5	The Role of NGOs in Business Networks: Partnership in Innovation	83
	Emilene Leite and Mohammad Latifi	
6	Why Expatriates' Private Relations Matter	99
	Martin Johanson and Heléne Lundberg	
7	The Internationalisation of Swedish Banks and Their Business Networks: Push Versus Pull Strategies	121
	Pervez Ghauri, Annoch Isa Hadjikhani, and Andreas Pajuvirta	
Part III	New Technologies	139
8	Digitalisation and Service Innovation: The Intermediating Role of Platforms	141
	Per Andersson and Lars-Gunnar Mattsson	
9	Innovation Through Interaction for Bathroom Suppliers	159
	Helén Anderson, Mike Danilovic, Diana Chernetska, and Steinthor Oskarsson	
10	Integration of Information Technology in Business Relationships: Implications for the Extended Network	177
	Cecilia Lindh and Peter Ekman	
11	Information System Providers in Business-Relationship Triads	193
	Cecilia Erixon and Peter Thilenius	
12	A Search and Deliberation Framework for Understanding Consumers' Foreign Online Purchasing	211
	Aswo Safari and Mohammad Yamin	

13 Found in Translation? On the Transfer of Technological Knowledge from Science to Industry	227
Anna Bengtson and Susanne Åberg	
Part IV New Terms	247
14 Strategising in Coopetitive Networks	249
Johanna Dahl, Sören Kock, and Eva-Lena Lundgren-Henriksson	
15 From Business Remains to Reactivated Relationships	269
Mikael Gidhagen and Virpi Havila	
16 Learning by Lobbying: The Role of Networking in Banks' Interpretation and Implementation of Accounting Standards	283
Anna-Karin Stockenstrand and Fredrik Nilsson	
17 Legitimacy in the Business Network Context	301
Sabine Gebert-Persson and Enikő Káptalan-Nagy	
18 Business Netquakes: Analysing Relatedness of Events in Dynamic Business Networks	315
Peter Thilenius, Virpi Havila, Peter Dahlin, and Christina Öberg	
19 Exploring Ethics in Business Networks: Propositions for Future Research	333
Aino Halinen and Päivi Jokela	

xii	Contents	
Part V	New Times	357
20	<i>'Tic-Toc-Tic-Toc'</i>: Thoughts on the Tempo of Business Network Extension	359
	Amjad Hadjikhani and Peter Thilenius	
	Erratum to: Digitalisation and Service Innovation: The Intermediating Role of Platforms	E1
	Index	377

List of Figures

1.1	A business network	7
2.1	Development for ‘business network’ papers until fall 2015	22
2.2	Co-citations among authors based on cited first author and cited year	32
3.1	Movement towards a new network logic	49
5.1	An extended network view	87
5.2	The network view of business and non-business actors	91
6.1	The networking process of expatriate managers	102
6.2	A revised model of private-relation development	114
7.1	Local push and foreign market pull in banks’ internationalisation process (Adapted from Etemad 2004: 6)	125
9.1	Before (phase 1) and after (phase 2) use of the Room 328 platform, and after (phase 3) intervention by researchers	171
10.1	Elements leading to IT integration within a business relationship	180
11.1	Four firm (<i>F</i>)–Customer (<i>C</i>)–IS-provider (<i>ISP</i>) views: a) separated, b) connected, c) strength and d) continuity	197
13.1	Knowledge transmission channels and effects (Adapted from Håkansson 1989: 145)	230
13.2	‘Unproblematic transfer’ of technological knowledge	231
13.3	Potential interaction between actors in technological knowledge translation	234
14.1	Coopetitive strategising in a network from the perspective of a focal organisation	258

xiv **List of Figures**

15.1	A conceptual framework for the connection between relationship termination and relationship reactivation	272
15.2	The multidimensionality of business remains in the relationship aftermath stage	279
16.1	Principal relationships in the ‘accounting network’	297

List of Tables

2.1	Business network papers published before 1995	23
2.2	Works cited more than 70 times in the 533 publications	23
2.3	Papers cited more than 200 times	30
2.4	Authors with weighted citations above 200	31
3.1	Characteristics of three types of networks	59
6.1	Overview of informants	105

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Part I

Introduction

1

Approaching and Extending Business Networks—An Agenda for New Research Challenges

Peter Thilenius, Cecilia Pahlberg, and Virpi Havila

Introduction

Extending the business network approach involves the researcher's reconsideration on what assumptions should be employed when determining what is within the boundaries of the network and what is left outside. Extending also implies that something 'new' is presented to the business network. What is considered 'new' though depends on what is recognised as established within a research field. This means that 'new' is not necessarily novel per se, but represents a 'new' direction in extending the business network approach. 'New' in that sense is something that provokes the researcher to challenge the assumptions on boundary-setting in the business network approach, and consequently offers alternatives supported by empirical studies or conceptual reasoning. 'New' can involve embarking into previously uncharted territories where the business network approach allows for alternative explanations. 'New' can also be what the rapid technological development brings, and where the business

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P. Thilenius et al. (eds.), *Extending the Business Network Approach*,
DOI 10.1057/978-1-137-53765-2_1

network approach provides deeper insight into the consequences. Furthermore, ‘new’ can be altered terms for firms and markets where research following the business network approach offers complementary views on business effects.

The assumptions behind the researcher’s choice of boundary-setting within the business network thus involve more complex stances, over and above drawing geographical boundaries on a map, or setting the demarcation line between two entities. In the business network approach, boundary-setting involves deciding on a reason for the existence of networks, as well as determining what kind of relationships, and with whom, the researcher chooses to include or exclude. Furthermore, it concerns which situations the researcher deems to be appropriate venues for the business network approach and which are not. It involves what concepts the researcher decides should be part of the explanation and what are to be omitted. The assumptions on where the boundaries for the business network have been set, and reshaped during the years due to different research trends, have taken the approach in varying directions. The three directions discussed in the contributions in this volume, that is, *new territories*, *new technologies* and *new terms*, are chosen to represent some current trends in research following a business network approach.

The initial inspiration for the main theme of this volume, *extending the business network approach*, comes from the results of a study of firms’ marketing behaviour in a new situation, not encountered in prior research. In this study, the focus is on Swedish firms’ behaviour during the political crisis in Iran in the 1980s and 1990s. In the concluding discussion, regarding the theoretical implications of the study, it is noted that among the findings, one central notion is that ‘...the business network extends its boundary and includes actors from the intermediary and political systems’ (Hadjikhani 1996a: 208). The results provide evidence of the viability of adjusting the assumptions on the network boundary, that is, redefining what is included within the boundaries and thus is subject for analysis. The contributions directly related to this study (e.g., Hadjikhani 1996b, 1998; Hadjikhani and Håkansson 1996; Hadjikhani and Johanson 1996) have been characterised by Mattsson (2009: 64), in his analysis of research in Uppsala, as ‘extending the business network approach’ by incorporating the effects

of politically unruly times on firms' business relationship behaviour. This provides a good example of what extending the business network approach entails. The initial seeds planted by Hadjikhani (1996a) have over the years been cultivated, grown, and today the harvest is substantial.¹ Apart from engendering and provoking additional research in a new direction, the notion of questioning and challenging the assumptions of the boundaries of the business network approach is inspiring and has proven to be fruitful. In that vein, the contributions of this volume take their departure from the received view of the business network approach and build further, thereby extending the boundaries of analysis in new directions.

The origins of the research following the business network approach have been traced back to the 1960s, and development since then has been described and analysed (cf. e.g., Engwall 1984, 1998; Thorelli 1994; Mattsson and Johanson 2006; Mattsson 2009). According to Johanson and Mattsson (2006), two books,² both published in 1982, can be viewed as a starting-point for the business network approach. Following these inaugurating publications, many have followed, and in Chap. 2, by Lars Engwall, Cecilia Pahlberg and Olle Persson, an interesting view on the most influential contributions in terms of citation is presented. Over the years, the business network approach has developed into a set of international research streams with high vitality, covering a wide range of topics and with a rich collection of contributions all extending the business network approach.

The chapter proceeds with a section where some aspects of approaching business networks will be outlined. This is followed by a short retrospect to highlight what extending the business network further entails. The next section presents the volume's structure, before the chapter concludes with an agenda for new research challenges calling for the further extending of the business network approach.

¹ Regarding the research efforts building on Hadjikhani (1996a), some examples are Hadjikhani and Sharma (1999), Hadjikhani (2000), Hadjikhani and Ghauri (2001), Hadjikhani and Amid (2005), Hadjikhani and Thilenius (2005), Hadjikhani et al. (2008, 2012, 2014), Bengtson et al. (2009), Engwall and Hadjikhani (2014) and Hadjikhani and Pahlberg (2014).

² The two books are: 'Marknadsföring för konkurrenskraft' (Marketing for competitiveness) by K.-O. Hammarkvist, H. Håkansson and L.-G. Mattsson and 'Företag i nätverk' (Firms in networks) edited by I. Hägg and J. Johanson.

Approaching Business Networks

The researcher approaching business networks must, as indicated above, decide on where to set the boundaries for the network view before performing a single study. ‘Business network’ is in essence a metaphor allowing the researcher to conceptualise, analyse and understand the ramifications of firms’ business undertakings. It is the researcher’s application of this metaphor that decides what a business network becomes. Without dwelling further into the more philosophical aspects of the metaphor, it allows the researcher to develop analytical tools, which can be helpful in describing, explaining and understanding various aspects of business. The expansion of new, as well as the revision of existing, analytical tools offers further insights that extend the business network approach. However, the fact that ‘business network’ resides in a metaphor also implies that it does not exist in reality; that is, there is no actual ‘business network’ that can be studied. The business networks studied are the result of analytical efforts founded in the researcher’s choice of assumptions. To study business networks, the researcher needs to decide on these conjectures before approaching the business network to determine what it is, and what should be considered parts of it. This challenge has resulted in research which has taken different directions within the business network approach. In discussing the starting points and associated assumptions for any research following the business network approach, a representation of the metaphorical ‘business network’ can be useful. Figure 1.1 below depicts a business network illustrated as a topology of nodes connected with lines,³ which in the business network approach is a rather commonly used figuration.

Looking at the picture of the business network from a simplistic viewpoint, the researcher who wants to approach the network is faced with two crucial concerns. The first concern is what assumptions are to

³The network depicts companies that are connected through interlocking directorates in Uppsala, Sweden, in 2015. The network consists of 1191 companies (7143 links) out of around 8000 companies in Uppsala. On a national level, about 150,000 of the 470,000 Swedish companies form a coherent network based only on interlocking directorates. The data is from an ongoing study by Peter Dahlin, and the network picture was drawn with Pajek (de Nooy et al. 2011) using a spring-embedded layout (Kamada and Kawai 1988).



Fig. 1.1 A business network

be applied regarding the composition of the network; that is, what is the overall *raison d'être* of the business network, what does it signify and what are the accompanying implications for boundary-setting? With reference to the business network as illustrated (Fig. 1.1), the questions might be, what business is depicted, should all nodes be considered as the 'business network' or should a boundary be set somewhere (and if so, on what grounds), and are there reasons to include or exclude the denser cluster in the upper part of the figure? The second concern is, what assumptions are to be applied regarding the components of the network, that is, what is the network composed of and how are the boundaries for those components set? Relating again to the network pictured in the figure, questions could be, what do the nodes represent and how are they delimited (i.e. is it firms [only] or other organisations as well), what are the lines representing, are they relationships of the same, or different, types, how are those relationships understood (as pure exchanges or by employing concepts such as trust and commitment) and what (if any) are the effects of the lines on the nodes, or on other lines?

Despite many commonalities, researchers take different angles on the two concerns within their specific business network approach. Judging from the frequency of citations (see Chap. 2), two notions have been more influential in how to approach business networks. The first, and most

frequently cited, is that the business network might be tackled as ‘sets of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualised as collective actors (Emerson 1981)’ (Anderson et al. 1994: 2), thus promoting what can be considered an ‘atomistic’ view on the network. Put simply, the business network is approached from its components, and the network is analysed by connecting the components in patterns, thereby forming a complex interdependent network context, surrounding a focal starting point.

The second frequently cited⁴ approach departs from an abstract view of business networks as ‘a number of nodes [that] are related to each other by specific threads’, Håkansson and Ford (2002: 132) Consecutively they define nodes as ‘business units - manufacturing and service companies’ (p. 133) and threads as representing relationships which ‘are “heavy” with resources, knowledge and understanding’ (ibid.). The relationships are the result of complex interactions and mutual investments rendering a more ‘holistic’ view on the network composition, albeit specific and intense with economic, technical and social dimensions. Interpretably, the business network is approached as a whole and the network is analysed by detangling or deconstructing various aspects of it, where the result is contingent on that whole.

Following these alternative approaches, different studies, implicitly or explicitly, select an angle on the ‘business network’ by taking primary interest in issues relating to the network’s overall composition and effects thereof, or by paying main attention to issues concerning the interplay of components and the consequences therein. Furthermore, as the composition of the network relies on the inherent components which consequently affect the composition, research may also be concerned with such effects. Extending the business network by introducing it to the ‘new’ analytical tools can thereby engender research that deals with effects of those on the network’s composition or components, as well as the understanding on how these relate to each other, following one of two main approaches. Relating back to the business network depicted in Fig. 1.1,

⁴In the citation analysis in Chap. 2 Håkansson (1982), Håkansson and Snehota (1995) and Håkansson and Ford (2002) are listed among the most cited works in the 533 publications included. In this chapter, Håkansson and Ford (2002) is chosen as the most recent representation of the research stream.

extending the business network approach is not only a choice of angle or a simple decision on increasing the perimeter of the network; additionally it concerns what issues should be incorporated within the perimeter and what should be included (or excluded) as part of the set of explanatory concepts used in analyses.

Extending Business Networks

Research during five decades has followed the business network approach and contributed to extending it in new directions, albeit, extending means having a standpoint from which to extend. Today, the standpoint for the business network approach is carried by a large number of researchers, publishing a substantial amount of contributions in a wide variety of journals and books. In the early years, the contributions were considerably fewer. However, the gist of the business network approach was indeed evident. Before moving forward, a cursory look at these foundations allows for better understanding of what extending the business network approach further entails.

Mattsson and Johanson (2006) highlight, in their overview on the annals of business network research, two contributions (Hammarkvist et al. 1982 and Hägg and Johanson 1982) as conveying the first comprehensive views on the business network approach. Common in these two inputs is the closeness to industrial production in the rendering of relationships and networks. In the contribution by Hammarkvist et al. (1982), the industrial business network is looked upon from an industrial marketing stance and the network is characterised in terms of bonds⁵ between firms creating long-term orientation and stability, with a structure ranging from tight to loose. This view contemporarily represents much of the core of the business network approach, although years of research have refined the view in various directions. In furthering the discussion on industrial business networks, Hägg and Johanson (1982) focus on issues of heterogeneity and the composition of the network characterised

⁵Hammarkvist et al. (1982: 23–24) relate bonds to technology, time, knowledge and social, economic and legislative aspects.

as boundless and all-encompassing, while the structure is associated with interests and power. The main notion is that in industrial markets, relationships between firms form networks that are essential for the firms' competitiveness. This closeness of the business network approach to industrial production is augmented by Johanson and Mattsson (1985: 3), who depart in their view from an industrial system as '... composed of firms engaged in production, distribution and the use of goods and services' and describe it '... as a network of exchange relationships between these firms', implicitly relating it to the inter-firm coordination due to distribution and production.

Business networks were initially described as 'a form of organising that is neither firm nor market but "something" in between'⁶ (Hägg and Johanson 1982: 15). In the English translation a decade later, the discussion was rephrased and the term 'governance' used instead of 'organising' (Forsgren et al. 1995: 10), thereby disclosing one aspect of the development of the business network approach. Hägg and Johanson (1982) discuss that networks have densifications (denoted nets) characterised by '... a relatively high level of complementarity between companies, companies that are interconnected in relatively well-developed relationships' with 'seldom clear boundaries and even more rarely fixed ones' (Hägg and Johanson 1982: 47). In the later translation and revision, this view is refuted in favour of a more analytical approach involving the researcher's choice of boundary-setting based on 'focus, interest, knowledge, intentions, etc.' (Forsgren et al. 1995: 36), thus demonstrating yet another aspect in the development of the business network approach. Besides verifying that the early views on business networks are still central for the approach, these exhibits can very well serve as a bridge, back to the main theme of this volume. Extending the business network approach involves the researcher's ambition to challenge an existing view and possibly bring more elaborated alternatives by introducing something 'new', for example, by including the concept of 'governance' within the boundaries of the network, or highlighting the role of the researcher in boundary-defining.

⁶The quotes from Hägg and Johanson (1982) in this chapter are translated from Swedish by the authors of this chapter.

The motives for extending the business network approach can thus be described to encompass research efforts aimed at enriching the understanding of business networks by adjusting boundaries. The motives to adjust boundaries can be refinements which allow deeper insight, or reconsiderations due to aspects that hitherto have been considered uninteresting, irrelevant or merely neglected. There are several examples of research streams, all providing invaluable contributions that can be considered important steps in extending the business network approach. The scope of these research streams is unfortunately beyond the scope of this chapter. As indicated above, extending the business network approach involves the researcher's motives, stemming from the introduction of something 'new', thereby provoking the researcher to adjust boundaries in order to re-search, re-think, re-consider, re-define or re-fine notions of the business network. The next section will introduce the three 'new' directions as well as the contributing chapters, which extend the business network approach in this volume.

New Directions

This volume consists of 20 chapters divided into five parts. In this introductory section, besides this opening chapter, Chap. 2 by *Lars Engwall, Cecilia Pahlberg* and *Olle Persson* provides an overview of the emergence of the business network approach, building on publication data in 156 international journals. These data highlight the concept from its introduction to it becoming fundamentally established at the beginning of the 1990s, where from it has gained increasingly in popularity, especially throughout the last decade. Furthermore, the chapter notes that the research at the Department of Business Studies in Uppsala has been quite influential. This introduction is followed by three parts where emphasis is on the main directions in extending the business network approach. Part II deals with *New territories* (Chaps. 3, 4, 5, 6, and 7), Part III focuses on *New technologies* (Chaps. 8, 9, 10, 11, 12, and 13) and Part IV emphasises on *New terms* (Chaps. 14, 15, 16, 17, 18, and 19). The conclusion, *New times*, provides a reflection on the history of boundary extension for business networks.

New Territories

The business network approach can be traced back to studies of industrial firms. Focus has traditionally been on business firms and their interactions with others, meaning that relationships with customers and suppliers have dominated. However, there are also other vital counterparts such as non-business actors, for instance, political actors, non-governmental organisations (NGOs) and consumers. Earlier research has also had a strong emphasis on Western Europe, while neither emerging markets nor transition economies have received the same attention. In this section, firms in Russia, some Eastern European countries and Brazil will be involved. In addition, the network perspective would also benefit from studies on other types of firms which are outlined in one of the chapters where the complex networks of the financial sector are in focus. Another interesting, albeit under-researched, territory is the role of the individual in a business network analysis.

In Chap. 3, *Martin Johanson* and *Jan Johanson* conceptualise the network process when former planned economies change into more open market economies. They propose three movements from static to turbulent networks, whereby network stability is the outcome as the actors involved interactively learn and mutuality develops. The authors conclude that this transformation leads to identity replacing the anonymity of the firms. In Chap. 4, *Jimmie G. Røndell* and *David Sörhammar* approach another new territory for the business network as they focus on the end users/consumers. They stress that the increasing use of information technology, with interactive online forums and consumer communities, has given the consumer a much more influential role. This implies that there is a need to extend the business network approach to include consumers as active actors in the network. The business network view is also extended in Chap. 5 wherein *Emilene Leite* and *Mohammad Latifi* show the importance of including relationships with non-business counterparts in the analysis. A case study is presented highlighting the interaction between firms, political units and NGOs in Brazil. The chapter highlights that the NGO has a central role as an intermediary between the firms and the political actors in the development of a complex technical solution. The business network perspective has had a very

limited focus on the individuals, but in Chap. 6, *Martin Johanson* and *Heléne Lundberg* use interviews from Russia to demonstrate that expatriates' private relations matter in professional life, as they can be used as a way to gain knowledge, but they also offer support, which is crucial when living and working in a turbulent market. Concluding Part II in Chap. 7, *Pervez Ghauri*, *Annoch Isa Hadjikhani* and *Andreas Pajuvirta* discuss how the business networks within the financial sector relating to corporate customers have affected the internationalisation process of the four leading Swedish banks. They relate the discussion to push and pull factors emanating from corporate customers' business networks and how these affect the banks' market commitment and market knowledge.

New Technologies

The introduction of new technologies for information exchange has, during the last decades, to a large extent, changed the way of doing business. There are some common traits among the chapters in this section of the volume. The first two chapters relate new information technology to issues on innovation and network. The next two have a common stance on business relationships in an industrial setting, and study how information technology can reshape the business situation between suppliers and customers. The final two have a more network-wide approach on how technology affects consumers' behaviour and transfer of knowledge.

Chapter 8 relates the business network approach to service innovation as *Per Andersson* and *Lars-Gunnar Mattsson* discuss how digitalisation, especially technical platforms, enables service innovation. The chapter elaborates on the role of technical platforms as new intermediaries and suggests that intermediation should be formulated in terms of processes of intermediating. In Chap. 9, *Helén Anderson*, *Mike Danilovic*, *Diana Chernetska* and *Steinthor Oskarsson* illustrate how Web 3.0 technology can contribute to innovation by facilitating interaction on the internet with customers. The Web 3.0 technology can also be used for analytical purposes, helping companies to trace new trends faster. The chapter elaborates especially on managers' resistance towards new technology adoption. The use of information technology and the impact thereof on

business relationships between industrial firms are elaborated upon in Chap. 10 by *Cecilia Lindh* and *Peter Ekman*. In this chapter, the integration of information technology within business relationships is discussed by relating to behavioural elements such as adaptation, commitment and cooperation. The integration of such new technology brings changes to the business situation beyond the mere use of it, thereby revising the boundary of the business relationship. In Chap. 11, *Cecilia Erixon* and *Peter Thilenius* consider information systems (IS)-providers, that is, the external parties operating and maintaining outsourced information systems, and the impact on business relationships. Three parties are approached as a business-relationship triad, and the chapter shows the impact of IS-providers as interlinked and forming complex sets of multiple triads, indicating that the business network boundary should be redefined. The business network approach has also extended to include consumers as *Aswo Safari* and *Mohammad Yamin* discuss in Chap. 12 on the effects of firms' online internationalisation from the consumer perspective. By inventorying different alternatives when customers are involved in exchange relationships with foreign online vendors, propositions regarding search, deliberation and risk are presented. In the last chapter, extending the business network approach in the direction of the new technologies, the transfer of technological knowledge is highlighted. In Chap. 13, *Anna Bengtson* and *Susanne Åberg* redefine the boundary of the business network by the introduction of a new actor: the scientific organisation. In the chapter, the authors stress that the transfer of technological knowledge between science and industry is a translation and interaction process where learning about each other and the development of trust are essential for knowledge transfer.

New Terms

The change of firms' environment, such as entering new markets or the introduction of new technologies, means that they must adapt to new conditions/terms, yet also that these new concepts/terms are needed to capture change. In this section, both these aspects of new terms are presented and discussed. In some of the following chapters, phenomena such as competition,

strategy, increased regulations and ethics, which have received more attention in other areas, are in focus, and in other chapters, new concepts are introduced or are reactivated to be used in a business network setting.

In Chap. 14, *Johanna Dahl*, *Sören Kock* and *Eva-Lena Lundgren-Henriksson* elaborate on cooperative relations, that is, relations between competitors that contain both competitive and cooperative interaction processes. In the chapter, they discuss the concept of co-competition from a strategy-as-practice perspective, and extend our understanding of co-competition as a strategising activity. Few studies within the business network tradition focus on reactivation of former business relationships. In Chap. 15, *Mikael Gidhagen* and *Virpi Havila* introduce the term ‘business remains’ to capture the possible influence from the terminated business relationship to the reactivation process. *Anna-Karin Stockenstrand* and *Fredrik Nilsson* in Chap. 16 reflect on the effects of the new International Financial Reporting Standard implementation for the banking sector within Sweden. The chapter addresses how networking becomes of essential importance and a base for learning, also giving the possibility of voicing an opinion within an increasingly international context. In Chap. 17, *Sabine Gebert-Persson* and *Enikő Káptalan-Nagy* reintroduce legitimacy within the business network approach. Although the concept was presented in business network studies in the 1990s, it has received far less attention than the rather similar concept—trust. The chapter proposes a theoretical model that highlights how legitimacy is shaped and reshaped via interactions within the business network. Business network dynamics is the main topic in Chap. 18 by *Peter Thilenius*, *Virpi Havila*, *Peter Dablin* and *Christina Öberg*. In the chapter, ‘business netquake’ is introduced as an analytical tool to enhance our understanding of spread of change in business networks. The chapter proposes that business netquakes are a way to capture relatedness of events occurring in business networks. Chapter 19 deals with the important issue of ethics. After a thorough literature review, *Aino Halinen* and *Päivi Jokela* conclude that there is no theoretical model for ethical behaviour in business networks. Although ethical behaviour is likely to strongly affect business networks, for instance when it comes to relationship stability, reputation and performance, there is still limited empirical evidence. Hence, they suggest that to include ethics in business network studies is timely and highly relevant.

New Times

In the final chapter, Chap. 20, *Amjad Hadjikhani* and *Peter Thilenius* reflect upon the development of business networks over time. In the chapter, the 'business networks' existing since centuries due to business peoples' pragmatic approach to doing business are discussed and compared to the development of the business network approach as a field in science contemporarily. The main concern is the boundary-setting which implicitly or explicitly determines what the business network is, both for the practitioner and the researcher. The chapter is concluded with a request for an updated research agenda for the business network approach in the new times.

An Agenda for New Research Challenges

This volume contains examples of some recent new directions that have inspired researchers in extending the business network approach. The researchers have brought findings that allow further understanding of business networks, originating from what is considered as 'new', relating to territories, technologies and terms. The contributions within the chapters of this volume are substantial, yet an agenda for the new research challenges within extending the business network approach is always called for. Of course, there is a wide range of possible new directions for research, and the interesting and challenging question for all business network researchers is, what will be the next 'new'?

Judging from prior research contributing to extending the business network approach, there is a strong link to contemporary issues debated in business and society at large. In this volume, this is, for example, reflected by research on the new territories of emerging markets, the impact of information technology on innovation in business relationships between firms or between firms and consumers, and the formation of new terms for the business network approach such as legitimacy and ethics. The research agenda for extending the business network approach in the 'new' time will most likely be set by current and future topics provoking discussions among people in business, research and society. A contemporary

shortlist of topics could include the effects of globalisation on industries, the changes in markets and marketing due to migration, issues relating to the integrity and involvement of individuals, the increasingly rapid technological development, as well as the importance of environmental changes and altered consumption patterns for overall business conditions. All these topics can potentially bring something 'new' into the business network approach, inspiring researchers to make additional studies in new directions.

The introduction to this chapter mentioned the work of one researcher as the initial inspiration for the theme of this volume. It was said that one researcher could plant some seeds that, if cultivated, would form roots, grow and yield rich harvests in the years to follow. One prerequisite though is that the researcher generously invite others to be part of the collaborative work of research. Just as the main notion of the business network approach is that business is performed in relationships, research is created in a network context, whereby the effort of one researcher echoes through his or her relationships with others, thus forming a stronger research stream. This adheres to a central notion for research within the business network approach: there is no overall agenda set by a single or a few researchers. The research agenda for new challenges is set by the collective efforts of all researchers following the business network approach.

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2

The Emergence of the Business Network Approach

Lars Engwall, Cecilia Pahlberg, and Olle Persson

An Old Phenomenon Attracting Current Research Interest

Relationships between commercial actors have existed for thousands of years as highlighted by Hadjikhani and LaPlaca (2013) and Hadjikhani and Thilenius in the final chapter of this volume. However, research on relationships between business actors, often summarised under headings such as industrial marketing or B2B, has a more recent origin. In the words of Hadjikhani and LaPlaca (2013: 294), it ‘existed in society but had little scientific identity or inquiry’. This is even truer for research on wider relationship systems, that is, business networks. However, as will be demonstrated in the present volume, the situation in the beginning of the twenty-first century is quite different. Research on business networks is lively and manifested by a large number of publications. A search for ‘business networks’ in the data-

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P. Thilenius et al. (eds.), *Extending the Business Network Approach*,
DOI 10.1057/978-1-137-53765-2_2

bases SCI-EXPANDED, SSCI and A&HCI for all years until 2015 (with the restriction that the journals publishing the papers should be classified in the Subject Category ‘Business & Economics’ in all 156 journals) resulted in 533 hits, with the first papers published in 1992.¹ Publications then did not accelerate until the early twenty-first century with an all-time high in 2012 of 70 hits, and somewhat lower figures in the following years. However, it should be noted that the 2015 figures merely refer to the first part of the year (Fig. 2.1) and will increase.

Among the first six papers published before 1995 (Table 2.1) are three papers related to information technology (IT) (Burgess 1994; Short and Venkatraman 1992; Venkatraman 1994), one connected to Japanese capitalism (Cutts 1992) and another on a Japanese executive club (Yanagida 1992). None of these initial papers are thus close to what today is considered the business network approach, but this is indeed the case for the sixth paper published in the *Journal of Marketing*, which suggested that the understanding of business relationships required a network approach

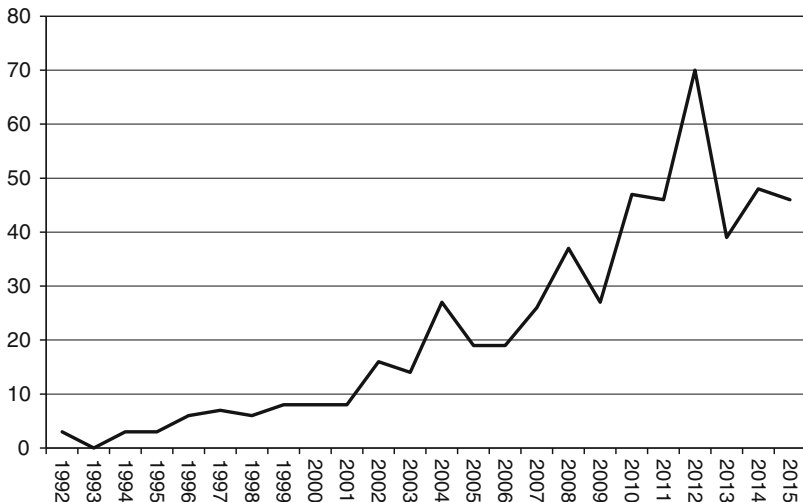


Fig. 2.1 Development for ‘business network’ papers until fall 2015

¹The search was made on 10 September 2015, in Web of Science (SCI-EXPANDED, SSCI, A&HCI), for the years 1945–2015 in the advanced search mode using TS = (“Business network*”) AND SU = (Business & Economics) AND DT = (Article OR Review). This approach favours precision since the number of hits compared to a broader search is delimited.

Table 2.1 Business network papers published before 1995

Bibliographical information	Citations
Short, J. E. & Venkatraman, N. (1992). Beyond business process redesign: Redefining Baxter's business network. <i>Sloan Management Review</i> , 34, 7–21.	59
Cutts, R. L. (1992). Capitalism in Japan: Cartels and Keiretsu. <i>Harvard Business Review</i> , 70, 48–55.	10
Yanagida, I. (1992). The business network: A powerful and challenging business tool. <i>Journal of Business Venturing</i> , 7, 341–346.	5
Anderson, J. C., Håkansson, H., & Johanson, J. (1994). Dyadic business relationships within a business network context. <i>Journal of Marketing</i> , 58, 1–15.	549
Venkatraman, N. (1994). IT-enabled business transformation: From automation to business scope redefinition. <i>Sloan management review</i> , 35, 73–87.	231
Burgess, T. F. (1994). Making the leap to agility: Defining and achieving agile manufacturing through business process redesign and business network redesign. <i>International Journal of Operations & Production Management</i> , 14, 23–34.	51

Table 2.2 Works cited more than 70 times in the 533 publications

Bibliographical information	Citations
Håkansson, H. & Snehota, I. (Eds.) (1995). <i>Developing relationships in business networks</i> . London: Routledge.	130
Håkansson, H. & Ford, D. (2002). How should companies interact in business networks?. <i>Journal of Business Research</i> , 55, 133–139.	120
Eisenhardt, K. M. (1989). Building theories from case study research. <i>Academy of Management Review</i> , 14, 532–550.	95
Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. <i>American Journal of Sociology</i> , 91, 481–510.	94
Anderson, J.C., Håkansson, H., & Johanson, J. (1994). Dyadic business relationships within a business network context. <i>Journal of Marketing</i> , 58, 1–15.	75
Uzzi, B. (1997). Social structure and competition in interfirm networks: The paradox of embeddedness. <i>Administrative Science Quarterly</i> , 42, 35–67.	75
Håkansson, Håkan (Ed.) (1982). <i>International marketing and purchasing of industrial goods: An interaction approach</i> . Chichester: Wiley.	71

(Anderson et al. 1994). Of the six papers, it is also the most alluded to with over 500 citations.

Anderson et al. (1994) produced their paper at the Department of Business Studies at Uppsala University in Sweden. It was based on earlier studies of industrial marketing within the same institution and followed by a number of other contributions. Thus, the department played a significant role in the development of the business network approach. This is demonstrated by the strong position of contributions among the seven works within the population of the 533 papers cited more than 70 times: four of them (Anderson et al. 1994; Håkansson 1982; Håkansson and Ford 2002; Håkansson and Snehota 1995) have departmental links. Evidently, research at the Department of Business Studies at Uppsala University has been quite influential and therefore should be given particular attention in a study of the emergence of the business network approach. However, before moving to such an analysis some significant earlier research will in the next section be recognised.

Some Early Contributions

As mentioned above, the business network approach is closely related to industrial marketing. This specialty within business studies, as marketing in general, appears to have caught attention in 1930s. Hadjikhani and LaPlaca (2013: 298) mention two books from the mid-1930s (Elder 1935; Fredrick 1934) as the ‘earliest books entirely devoted to industrial marketing’. However, as noted by LaPlaca and Katrichis (2009), besides journals specifically focused on B2B and relationship marketing—and there was actually such a journal, *Industrial Marketing*, published between 1915 and 1983—papers discussing industrial marketing were for quite some time relatively rare. The mentioned authors thus report that from its beginning in 1936 to 2006, the *Journal of Marketing* had only published 6.8 % of its articles focusing on industrial marketing. Concurrently, they confirm a significant increase in industrial marketing articles beginning in the 1980s as journals specifically devoted to B2B arose on the market.

Nevertheless, although papers published on industrial marketing were rare before the turn of the century, Wilkinson (2001: 25–26) has identified a number of ‘parental works’ per se. Among them, the works by John Commons (1934, 1950), Joseph Schumpeter (1939, 1947) and Ronald Coase (1937) were noted alongside those of a number of early marketing theorists from the 1920s to the 1950s (Wilkinson 2001: 27–29). Moreover, it was documented that in the 1940s and 1950s, ‘there was increasing dissatisfaction with the state of theorizing in marketing’ (Wilkinson 2001: 27–29). An early sign of this was a *Journal of Marketing* article by Alderson and Cox in 1948 with the title ‘Towards a theory in marketing’, which proposed that marketing theory should take advantage of ‘ideas from institutional economics, geography and other behavioral sciences’ (Wilkinson 2001: 28). Both authors throughout the passage of time became important for the development of the subject. Wilkinson mentions Alderson as representing ‘a watershed in the development of marketing thinking’ (2001: 29) and considers a paper by Cox and Goodman (1956) as ‘the first comprehensive in-depth study of a business network’ (Wilkinson 2001: 28). Their contributions were, according to Wilkinson (2001), later followed in the 1960s by studies of the economic structure of distribution channels (e.g., Bucklin 1966) as well as institutional studies (Hollander 1960), whereas behavioural dimensions in market channels (e.g., Stern and El-Ansary 1977; Walters 1974) and transaction costs (see e.g., Williamson 1985) were of focus in the 1970s and 1980s.

Thus far, research had been dominated by American scholars as listed above; however, as Wilkinson (2001) suggests, there was also a development in Europe. A particular early interest in marketing channels, not mentioned by Wilkinson, appears to have been present in Sweden at the Stockholm School of Economics, where the marketing professor Gerhard Törnqvist made path-breaking studies of distribution (Törnqvist 1933, published in Swedish). This inspired a number of other academics towards studies regarding the efficiency of distribution systems, and among them, Lars-Gunnar Mattsson, who was a professor in the Department of Business Studies at Uppsala in the late 1970s, the time when the business network approach started to emerge. And, as will be demonstrated in the following section, this development was closely related to research that started in the late 1950s on the topic of international business.

The Uppsala Research

In order to position business network research at Uppsala in context, it is appropriate to first say a few words about the institutional development in Sweden (see further, Engwall 2009). As such, contemporary business studies began in the twentieth century through the creation on private initiative of business schools in Stockholm (1909) and Gothenburg (1923). These institutions had apparent recruitment problems in relation to both competent faculty staff and students. However, throughout the passage of time, graduates from these two private schools became quite successful in the job market. This made the Government take measures in the mid-1950s to initiate business education in the two ancient universities of Uppsala (1477) and Lund (1666). As a result, one chair was created at each of the two universities with holders who had been professors at the Stockholm School of Economics: Sune Carlson (1909–1999) and Nils Västhagen (1906–1965). While Västhagen from the beginning worked to create at Lund the third Swedish business school, Carlson headed for a completely different strategy. He wanted business studies to be part of the Faculty of Humanities, which at the time was home to the social science disciplines, and pleaded for a specialisation of the research into international business. The latter idea was most probably stimulated by his time spent with the United Nations in the late 1950s, yet also due to the discussions at the time regarding European economic integration.

A person instrumental for the development of international business research was Carlson's first assistant Jan Johanson, who had not yet finished his studies at the Stockholm School of Economics, when he joined Carlson at Uppsala. After some time, Carlson sent Johanson to the steel company Sandvik for fieldwork, which truly was an 'eye-opener' for him. He found that the company had long-term relationships with their customers, many of them for several decades. This observation was presented and discussed in Johanson's licentiate thesis from 1966, *Svenskt kvalitetsstål på utländska marknader* (Swedish Special Steel in Foreign Markets). According to Mattsson (2009: 33), this:

resulted in observations implying that further research should focus on stability and change in relationships in industrial markets, market heterogeneity

due to technical diversity, perceived risk, information costs, experiential learning, cultural distance, and form of representation in a foreign market.

Such observations provided a basis for future research on international business and industrial marketing at the department. Within the first mentioned area, Johanson and colleagues continued studies of the internationalisation process, and consequently, the Uppsala School of International Business developed (see Forsgren et al. 2015). One of the initial papers in this stream of research was that of Johanson and Wiedersheim-Paul (1975) which presented the idea of a successive establishment chain. Two years later, Johanson and Vahlne (1977) appeared with an article regarding the internationalisation process; it is today the most cited paper in the *Journal of International Business*. This was in the coming decades followed by a large number of publications by Johanson and colleagues (cf., e.g., Forsgren 1989, 2008; Johanson et al. 1994), as well as multiple doctoral dissertations in the area of international business (e.g., Andersson 1997; Blankenburg Holm 1996; Havila 1996; Holm 1994; Pahlberg 1996; Thilenius 1997).

In parallel, an increasing interest developed in industrial marketing, closely connected to the internationalisation research. Mattsson (2009: 39) states:

It is easy to understand why the step from research on international business to research on industrial marketing was a small one for the Department in the early 1970s. It can even be argued that several of the early studies, especially Johanson (1966), belonged to the marketing subject area. First, Swedish firms involved in international activities are, to a large extent, producer goods' firms rather than consumer goods' firms. Second, the focus on export and the findings regarding internationalization processes concerning relationships, uncertainty, and distance had fundamental implications for marketing.

Early signals of the orientation towards industrial marketing were the dissertations about industrial purchasing by Håkan Håkansson (1975) and Björn Wootz (1975). However, already 2 years earlier a research group had been founded. A building assumption for this group was that industrial marketing should be seen as an interaction process (Håkansson

and Östberg 1975). It was stressed that relationships between business partners develop over time when the actors involved gradually learn and adapt to each other, consequently committing resources to the relationship. Heterogeneity and complexity characterised these relationships as they consisted of different dependencies such as technical, social, cognitive, legal and economic.

The insights of the research group were further developed when contacts were established in 1976 with researchers in some Western European research centres. This resulted in a joint research programme on industrial marketing and purchasing in an international context—the Industrial Marketing and Purchasing (IMP) project—with participation from France, Germany, Great Britain, Italy and Sweden. A basic driving force for the project was the dissatisfaction of the researchers involved with the still dominant consumer focus in the traditional (American dominated) marketing literature. They had the drive to put emphasis on relationships between industrial actors, as these dominated the European business context. Wilkinson (2001: 35) states:

In these markets the business buyer is active as well as the seller, the customer is not an anonymous mass market but often a limited number of known organizations, and technology development and its management play a more important role. Further, business was often conducted in the context of longstanding relations among buyers and sellers.

The first results of the IMP project were reported in articles about industrial market interaction. Johanson (1979) was followed by Håkansson (1982), and eventually the interaction model was widely cited and used in subsequent research (Mattsson 2009). A large number of articles and books have been published, building on insights from the IMP collaboration. In 1984 the collaboration became more institutionalised through the creation of the IMP Group, which from the outset has organised yearly conferences, and since 2007 has had its own journal.

While the initial studies focused on dyadic interactions, the research in the 1990s was expanded to connections between relationships. In Anderson, Håkansson and Johanson (1994), which as shown above was among the front runners dealing with business networks, the authors argue

that in order to understand business relationships, greater attention must be directed towards the embedded context within which dyadic business relationships occur. Accordingly, a business network can be defined as (p. 2):

a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualized as collective actors (Emerson 1981). Connected means the extent to which 'exchange in one relation is contingent upon exchange (or non-exchange) in the other relation' (Cook and Emerson 1978, p. 725).

Hence, the study of dyadic industrial relationships was expanded to include how relationships affect each other in a network, leading researchers to widen the business actor perspective to include others within the business network in addition to customers and suppliers, such as politicians and non-governmental organisations (see e.g., Hadjikhani and Ghauri 2001).

From Anderson, Håkansson and Johanson (1994) followed a large number of publications: Forsgren et al. (1995), Håkansson and Snehota (1995), Blankenburg et al. (1996; 1999), Anderson et al. (1998), Håkansson et al. (1999), Håkansson and Johanson (2001), Forsgren et al. (2005), Hadjikhani et al. (2006) etcetera. This research is still in progress.

The Core Business Network Research Field

Following the overview of development at Uppsala, it is appropriate to return to the core field, namely, the population of 533 referred to in the introduction of this chapter. Table 2.3 presents the most cited papers, that is, citations that they have obtained in the total population of journals covered by the databases, for which citations exceed 200.

Occupying the top position in Table 2.3 is Davidson and Honig (2003), a paper on entrepreneurship, in which business networks are defined as 'trade associations, chambers of commerce or service clubs such as the Lions or Rotary' (p. 314 – 315), which are business networks in a narrower sense. This paper is followed by the aforementioned article by Anderson et al. (1994), then by Henderson et al. (2002). The latter is a paper by

Table 2.3 Papers cited more than 200 times

Bibliographical information	Citations
Davidsson, P. & Honig, B. (2003). The role of social and human capital among nascent entrepreneurs. <i>Journal of Business Venturing</i> , 18, 301–331.	648
Anderson, J. C., Håkansson, H., & Johanson, J. (1994). Dyadic business relationships within a business network context. <i>Journal of Marketing</i> , 58, 1–15.	549
Henderson, J., Dicken, P., Hess, M., Coe, N., & Yeung, H. W. C. (2002). Global production networks and the analysis of economic development. <i>Review of International Political Economy</i> , 9, 436–464.	454
Håkansson, H. & Ford, D. (2002). How should companies interact in business networks? <i>Journal of Business Research</i> , 55, 133–139.	309
Bengtsson, M. & Kock, S. (2000). “Coopetition” in business networks – to cooperate and compete simultaneously. <i>Industrial Marketing Management</i> , 29, 411–426.	242
Pittaway, L., Robertson, M., Munir, K., Denyer, D., & Neely, A. (2004). Networking and innovation: A systematic review of the evidence. <i>International Journal of Management Reviews</i> , 5, 137–168.	233
Venkatraman, N. (1994). IT-enabled business transformation: From automation to business scope redefinition. <i>Sloan Management Review</i> , 35, 73–87.	231

geographers presenting a framework for the analysis of economic integration and it only used business networks as a keyword. The fourth paper, Håkansson and Ford (2002) definitely belongs to what, in this volume, is labelled a business network approach, and so does the fifth (Bengtsson and Kock 2000). Similarly, although only weakly related to the IMP research, Pittaway et al. (2004) provide a review of networking and innovation and Venkatraman’s (1994) paper focuses on IT. Table 2.3 thus demonstrates that the business network concept is used in a variety of ways in the literature, a point that should be kept in mind in bibliometric analyses.

An analysis of the most cited authors, by weighting their citations with the number of authors per paper (Table 2.4), places Håkan Håkansson in primary position, followed by the entrepreneurship paper (Per Davidsson and Benson Honig), and subsequently that of the IT network (Venkat N. Venkatraman). The three IMP researchers (Jan Johanson, David Ford and Kristian Möller) follow, highlighting clear evidence of the strong impact of Uppsala researchers and their collaborators within the IMP Group.

Table 2.4 Authors with weighted citations above 200

Author	Number of publications	Number of weighted citations
Håkansson, Håkan	3	336.67
Davidsson, Per	1	324.00
Honig, Benson L.	1	324.00
Venkrataman, N. Venkat	3	285.00
Johanson, Jan	4	252.52
Ford, David	8	214.00
Möller, Kristian	9	205.16

A further understanding of the development of the research field of business networks can be obtained by studying the citations within the population, that is, how authors in the population cite other works, for which we have already in Table 2.2 shown the top of the list. This analysis will now be extended to the cocitations between most cited authors. In order to model the dynamics of the field we added cited year to the author name and then calculated the number of cocitations. The co-citation map in Figure 2.2 shows from the left how works by Granovetter (1973, 1985), Pfeffer and Salancik (1978), Håkansson (1982), Håkansson and Snehota (1989), Dwyer et al. (1987), Williamson (1985) and Coleman (1988) provided early roots. Several of the publications from the IMP research are clustered farther to the middle (Axelsson and Easton 1992; Easton 1995), and others are even farther to the right (Halinen et al. 1999; Möller and Halinen 1999 and Möller et al. 2005; Håkansson and Ford 2002; Gadde et al. 2003; Ford et al. 2003; Ford et al. 2006). Among other papers in the map are the following: Powell et al. (1996) on networks of learning in biotechnology; Gulati's (1998) alliances and networks; Dyer and Singh's (1998) cooperative strategy; and Ritter et al. (2004) on the management in complex business networks.

It can also be noted that the co-citation map contains a number of publications on methodology, particularly the case method, such as Eisenhardt (1989), Miles and Huberman (1994) and Yin (1994, 2003) as well as Easton (1995), Dubois and Gadde (2002) and Halinen and Törnroos (2005), by network researchers. In addition, the central position of Karl Weick's *Sensemaking in Organizations* (Weick 1995) is particularly worth noting.

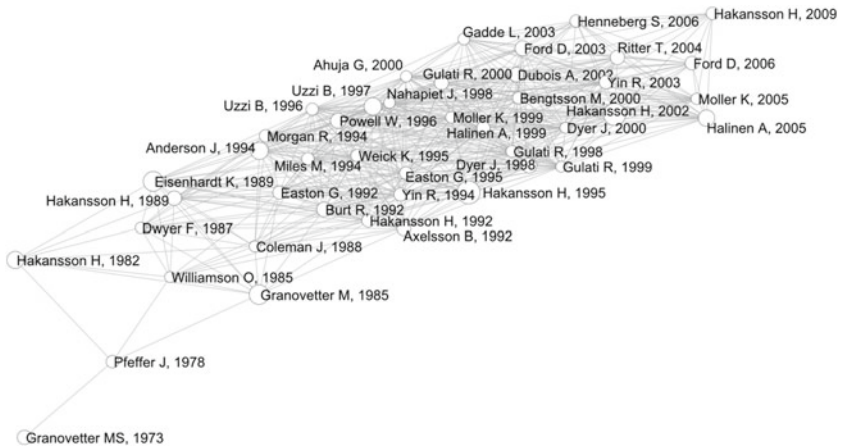


Fig. 2.2 Co-citations among authors based on cited first author and cited year

Concluding Remarks

The evidence presented in this chapter has demonstrated that the business network approach has early predecessors in the area of industrial marketing. However, it has also been apparent that journal publications focusing on business networks did not appear until the 1990s. The bibliometric analysis has shown that research in Uppsala from the 1960s onwards, in the areas of international business and industrial marketing, has been crucial for the later development. An important part of the development has been the European collaboration within the IMP project that eventually led to an organisation being established that annually arranges conferences and publishes a journal which has recently been bought by a commercial publisher. In relation to this development, it is very natural to raise the question why all this happened in a European context, and particularly a Swedish one. There are reasons to believe that the answer is related to the advantage that Swedish researchers, and also their European colleagues, have had, and fortunately still appear to have, in terms of access to companies for empirical studies. In contrast, their colleagues on the other side of the Atlantic have much more difficulty gaining access. A reminder of this was the difficulties faced when the

IMP Group planned a continuation of the first IMP study in the USA which could not be realised due to the expected resistance in answering questions regarding relationships within the US context. Behind this, the strong US antitrust laws and the perpetual fear of being sued, thereby going into costly judicial processes, were of central concern. Nevertheless, there are reasons to believe that business networks, often invisible, exist all over the world. The task of uncovering them and understanding their nature is therefore very important for future research. Hopefully, this book will make a contribution to further development.

Acknowledgements This research has been supported by a grant from the Swedish Research Council (Grant (324-2009-6717)).

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Part II

New Territories

3

From Anonymity to Identity: Network Transformation in Economies and Industries in Transition from Plan to Market

Martin Johanson and Jan Johanson

Introduction

Perhaps the most striking institutional change over the last 30 years is the transition from some kind of state-governed and planned economy to a more open economic system governed by the market. This development has occurred or is currently occurring in countries that are often labelled transition economies or emerging markets. Included among these countries are China, India and Russia, as well as most other countries in the 'communist bloc' in the former Soviet Union, as well as Central and Eastern Europe. Within the market economies of Europe, similar, although less dramatic, changes in the mix between planned and market exchange have been implemented. Industrial sectors, for instance telecom, air transport and energy, have been transformed from plan governance to open market governance through an institutional deregulation. The plans and the

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P. Thilenius et al. (eds.), *Extending the Business Network Approach*,

DOI 10.1057/978-1-137-53765-2_3

associated authorities in planned economies are being abolished, prices are being liberalised and the countries, or the industrial sectors, are moving towards increasingly open market economies. The relative merits and problems of the two modes of coordination of economic life have been analysed and discussed in a number of studies. Coase (1937), Hayek (1945) and Williamson (1975) are examples of scholars who have analysed the plan (hierarchy) versus the market mechanism of economic coordination.

In contrast, the transition from plan governance to market governance has received less conceptual attention. While research focusing on the institutional changes has been conducted (Boisot and Child 1996), there is a lack of studies conceptualising the transition process on the micro level. It has been the object of considerable empirical research, and one general conclusion is that such a transition takes time and a 'continuous process of incremental change is now inevitable' (Filatotchev et al. 1996: 101). The objective of this chapter is to contribute to a conceptualisation of the process. We want to develop an understanding of the process in which the industrial system moves from plan governance to market governance. More precisely, we aim at explaining how a plan-governed industrial system can evolve into a self-regulating exchange network of the kind discussed within the tradition of the Industrial Marketing and Purchasing Group (IMP) (Håkansson 1982). We do not study institutional changes except as a background and starting point of the process. In the following section, we discuss our concept of networks, and then present the institutional changes that provide a background to the transition process of the network. After that, we propose three movements, which are assumed to characterise networks in transition from planned economies to market economies. The chapter ends by summarising the character of interaction, change and use of knowledge in the three different types of networks.

The Concept of Networks

For our purpose, we need concepts that can capture key characteristics of both plan and market governance. During the last decades, networks have been regarded as a third generic mode of economic coordination (Thorelli 1986). However, it has also been:

...argued that the idea of 'networks' might be used to encompass both markets and hierarchy. Thus networks could be considered as the most general category of coordination; the market is a network of competing price- and information-emitting firms and their customers; while hierarchy is also a network of bureaucratically administered order-giving and receiving departments. (Thompson et al. 1991: 18)

In research on industrial markets, the term 'networks' has its own distinct meaning. The basic premise for this concept is derived from the findings of the IMP (e.g., Axelsson and Easton 1992; Ford 1990; Håkansson and Snehota 1995; Turnbull and Valla 1986). The existence of networks within this tradition is based on the notion of combining heterogeneous resources in order to interlink activities and actors (Håkansson and Snehota 1995). In this way business relationships are formed. In a wider context, relationships are connected to each other through their interdependence and constitute a structure, the network, which is defined as a set of two or more connected relationships (Anderson et al. 1994).

In a conceptualisation of the market process based on this research tradition, Snehota (1993: 17) defines it as 'the process of networking, that is, establishing, strengthening, weakening and dissolution of exchange relationships between market participants'. This definition with its focus on exchange relationships concerns market governance. In order to capture the transition from plan governance to market governance, we need a wider network concept that also can be used to characterise plan governance. The exchange network on which Snehota (ibid.) bases his definition builds on bilateral relations between firms that find it useful to exchange with each other. In the plan-governed network, the firms, or rather the production units, are related indirectly to each other through connected unilateral authority relations. Therefore, the concept that we use must not assume exchange between organisational units. We need a more general definition of 'network' and follow Knoke and Kuklinski (1982), defining a network as a specific type of relation linking a set of people or objects. Thus, we regard the transition as a process in which a network of authority relations is dissolved and a network of exchange relationships can emerge. We have a definition of 'network' that encompasses the exchange network as one type and the network of authority

relations as another. The aim of the chapter is to analyse the process in which the network of authority relations is transformed into a network of exchange relationships.

Institutional Changes

Strong beliefs in the market as the most efficient mechanism to allocate economic resources and as the vehicle to achieve growth have guided governments that initiated institutional changes aiming to deregulate the economy and to change to market governance. In some countries, changes were partial and concerned either specific industries or specific parts of the formal institutional framework. In Western Europe, these large-scale changes accelerated in Great Britain during the 1980s when state-owned enterprises were privatised (Martin and Parker 1997). Following that, deregulation of several industries, such as energy (Yajima 1997), telecommunications (Eliassen and Sjøvang 1999; Sapolsky et al. 1992) and civil aviation (McGowan and Seabright 1989), occurred in large parts of Europe, and also in several countries in North America and Asia. In Eastern Europe and the Soviet Union, similar, but more complete, institutional changes began in 1985. After the fall of the Berlin Wall, these changes exploded and, with some differences in strategies, most former planned economies underwent economic reforms during the 1990s (Eliasson 1998; Van der Mortel 2002). Outside Europe, institutional changes have transpired in China and India (Lal 1995) as well as several Latin American countries (Trevino et al. 2008). In China, the reforms began at the end of the 1970s (Child and Tse 2001), and 1991 is considered to be the starting point in India (Pedersen 2000). The changing institutions in Europe and Asia have several common features. Two striking properties are a change of corporate governance and a change of market governance. Countries applied different approaches to change corporate governance, but most important was the privatisation of state-owned firms. In some countries, the privatisation happened rapidly and almost the whole state-owned sector ended up in private hands, while other countries took a more gradual approach, which was the case in China (Boisot and Child 1996; Rajagopalan and Zhang 2008) and India (Gouri 1997).

In regulated and planned economies, governance is performed through an administrative, bureaucratic planning system state, represented by committees and authorities, fixed prices and determined quotas, licences and standards. Plans and planning authorities determine who supplies and who buys from each firm. They also decide upon the volume and quality produced. In countries and economies that are regulated, and where economic activities are planned by the state, the institutional changes usually imply removal of the plans and the plan authorities; prices are liberalised and firms make their own decisions about product volumes and qualities. The deregulation of industries and transition to a market economy tends to imply liberalisation of foreign trade, which results in new firms and new products entering the network, as well as new opportunities for the domestic firms to internationalise. Firms entering and leaving the network are furthermore enabled by the abolition of entry barriers for new firms and the appearance of such features as bankruptcy acts. This results in the emergence of entrepreneurs and the entrepreneurial firms (Pedersen 2000; Smallbone and Welter 2001).

The Nature of Networks in Planned Economies

Hierarchical Structure

A well-defined hierarchy is the main foundation for the networks in planned and regulated economies. In general, the plan fulfils the same function as the market in market economies (Lange and Taylor 1938), that is, to allocate resources, albeit the plan also functions as a tool to achieve progress. The plan is a codified rule that requires three conditions to be able to function. The *first condition* is that someone has perfect knowledge about all dimensions in the economy. This is necessary so that the correct decisions, according to the political intentions, can be made. This is not enough, however. The perfect knowledge and the political intentions should be either united in one body or linked very strongly. Furthermore, authority and power to implement these correct decisions are needed. It is not those who have the political intentions and those who work out the plan who actually realise the contents.

The *second condition* concerns the information encoded in the plan. The plan should contain all information necessary for the producing firm and the using firm; it is crucial that this information is interpreted in one way by the firms. Misunderstanding has severe consequences, and it is therefore essential that the commands are correctly communicated to the firms. Otherwise the plan cannot be realised, and it can destroy the possibility of other firms to realise their plans. The *third condition* concerns incentives, which have to be tied to the plan; that is, if the firm does not obey or understand the plan, and therefore fails to fulfil it, it has to be punished or miss a reward.

In such a hierarchical structure, product quality is typically regulated through the application of a general standard. There are no incentives to produce products of a higher quality than stated in the standard, because the price is regulated and an increase in quality would merely induce higher costs. Manufacturing products of higher quality than necessary does not affect the bonuses or the well-being of the firm. Regardless of the general standard, the firms have to give priority to the production of quantity at the expense of quality. The plan is the result of a process and, as such, it is definite. The planning process, on the other hand, is a process over time where various actors play different roles. During the process, the actors' knowledge is a point of departure for how the ends are specified, and how the means are identified and allocated in order to realise those ends. Several governmental organisations exist in parallel to the firms. Their task is to coordinate the activities in the economy, by establishing plan commands. Planning is an iterative bargaining process, which begins with political decisions on a high political level. The plan authorities then analyse, interpret and compare such decisions with old information before they create the new plans.

Static Networks

If a strict hierarchical structure is the foundation for plan governance, static networks become a natural consequence. In a static network, activities such as payment, transportation, production and storing are performed in the same way by the same actors and towards the same

counterparts over time. Furthermore, machines, equipment, premises, products and other types of resources used by the actors to perform specific activities do not change. The main cause for the static networks is the plan and the planning process and the fact that the plan authorities do not have complete knowledge, as establishing plans requires an enormous amount of information. The planning process is less problematic to perform if the networks do not change. It is easier to collect and compare the information and also to assess the results if the networks are static. This increases the chances that the information is valid, which, in turn, increases the probability that the plans correspond to the political intentions. This means that, by not changing, the authorities avoid having to face the economic problem to the extent they would have to in the opposite situation (Hayek 1945).

Some studies demonstrate why the hierarchical structure of plan governance makes the networks static (Berliner 1976; Ericson 1991; Nove 1984). Production and the interaction between firms change very slowly. Firms are almost never closed, relations with customers and suppliers rarely change, and capital stock and capacity are only abandoned due to breakdown and not for economic reasons. Furthermore, the authorities remain the same. The technology used is constant for long periods and competition is absent. Laws and regulations also remain unchanged. Changes are commanded from above, based on the idea that the authorities have superior knowledge. Research and development activities are isolated from practice and remote from the problems of the firms, and the economic consequences of the change, produced by new technologies and innovations (Johanson 2004; Kogut and Zander 2000). The primary function of the firm is to implement the changes commanded by the authorities. Both the potential users and the suppliers of an innovation are resistant to new product and production technologies, and there are reasons for that (Berliner 1976). As change increases the uncertainty, and because risk-taking is not rewarded, change is not in the interest of either the authorities or the firms. The only changes welcomed by the firm are those making plan fulfilment easier to achieve. These may occur within the firm or in the relationship, but under one condition: that the amount of resources allocated is the same. Usually, change means tougher plan goals and/or fewer resources, which means no improvement for

the firm. Change forces the firm to adapt and to learn, which increases the uncertainty and the possibility of failure. Therefore, firms avoid change and their task is to absorb and put the change into use; this decreases the probability of change occurring, which leads to a static network. Monitoring and control, the main mechanisms in the hierarchy, thus support the static nature of the networks.

Anonymous Firms

It is unnecessary for firms to have knowledge about other actors in planned networks, as the economy provides no incentives for firms interacting with their counterparts (Mattsson 1993); incentives are geared towards implementing plan commands (Ericson 1991). Consequently, the hierarchical structure creates anonymity in the network. Anonymity can be defined as the state of not having your name or identity known, especially when you have done a particular thing and exist, and the firms in a network are ignorant about existing and potential customers and suppliers. Anonymity is also a result of the static network, while in an unstable network, the main means of handling the growing uncertainty is to learn more about other individuals, firms and authorities. Thus, as a regulated economy and an extensive plan governance lead to static networks, it follows that anonymity prevails in these networks. A commitment to maximal use of resources, implying tautness in planning, and the lack of liquidity or flexible response capability in the system are typical for planned networks (Ericson 1991). This means that disturbance has consequences for the network, which results in situations where some firms have a surplus, while others have a scarcity of products.

Summary

We conclude that, typically, plan governance is based on a hierarchical network structure with unilateral authority relations and the firms on the base of the network. There are only weak relations between the firms as they are mainly connected indirectly to each other through authority relations. We also posit that the plan governance gives rise to a static

network. There is no room for adaptations in the relations between firms or for innovations by the firms. As the firms can only influence their own internal relations, they are anonymous. As decision-makers they are irrelevant to each other. This plan governance structure is the starting point of the network transition process.

Movements Towards a New Network Logic

The results of the processes in the network can be viewed as movement from one type of network logic towards another, new, network logic (see Fig. 3.1). When the planned network, with its hierarchical structure, static network and anonymous firms, is abolished, the transition leads to collision of the firms' plans, turbulence and discovery of unexpected problems and opportunities. In this process, the firms gradually and interactively learn to coordinate their plans so that mutuality develops between them. The anonymity of the firms is gradually replaced by identity, and a stable network emerges that makes it possible for the firms to coordinate changes. Although we regard this as one process, the following section distinguishes three separate movements.

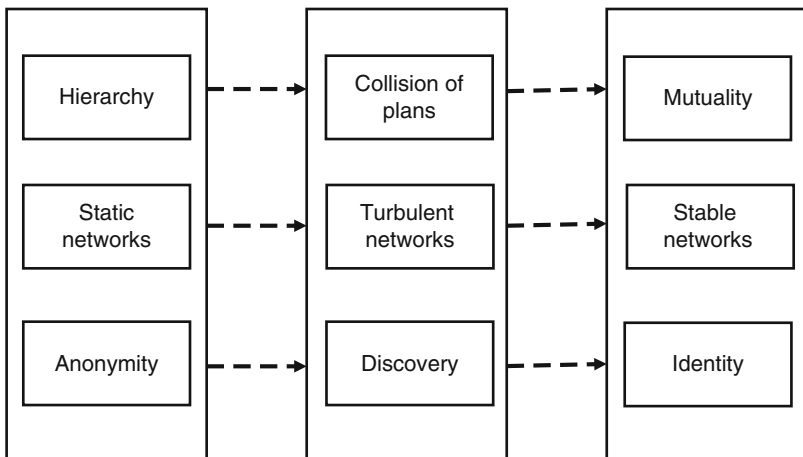


Fig. 3.1 Movement towards a new network logic

From Hierarchy to Mutuality

Movement to Collision of Plans

Changing the way of planning influences not only the authorities and each firm, but also the network as a system, one firm's plan being related to another's. What the primary firm produces, which machines and equipment it uses, and how it stores and transports goods are never autonomous, but related to how the second firm deals with these activities and how much it pays for them. Moreover, the first firm's plan is related to the second firm's production, storage, transportation and so forth. Dismantling of the plan authorities and the removal of the centralised planning completely change the planning function within the network. In the planned economy, the knowledge needed for these activities is codified in a central plan, and it governs the network. It is developed by the authorities, which do not perform any activities in the network. It follows that the centralised planning leads to the firms having no routines for how to plan. They lack experience of jointly planning the relationships with other firms. In order to be able to plan, the authorities try to keep the network simple. Hierarchy thereby produces fragmented relationships, which prevail when there is a weak link between the firms' exchange of resources and their use of internal resources (Johanson 2004). Typically, low intensity characterises the interaction in fragmented relationships. In contrast, integrated relationships are those in which there is a strong link between the exchange and the use of resources. In such relationships interaction is intense. The planning is decentralised, and the firms begin to create plans independently of the authorities, and also independently of their customers and suppliers. This means that, even though firms are able to plan their operations, the plans are made in isolation from those of others. This implies that fit or matching of the plans is a result of luck. Usually, the plans do not align with each other, which leads to collision between plans (Kirzner 1992).

Plans collide when a firm cannot satisfy the needs of other firms. This has both short- and long-term consequences. Production and delivery times are not kept, the expected quality of the products is not met, the volumes delivered are not what the customers need and firms are not paid

according to their needs. This influences the ability to fulfil obligations towards other customers and suppliers, which leads to a diffusion of plan collisions. Furthermore, there are long-term consequences. In order to keep a relationship viable, it must change; activities like storage, payment, product development and transportation have to be transformed. Collisions of plans hinder long-term maintenance and development of relationships.

Movement to Mutuality

As the firms gain experience and develop planning routines, they realise that they are connected to others' plans. In order to maintain the relationships, that is, to produce products in the qualities and quantities needed by the customers and to deliver on time, a process starts, where fit is brought about in the plans so that they begin to match each other. Richardson (1972: 69) states that the matching of plans is typical for a relationship in a market economy:

This co-ordination cannot be left entirely to direction within firms because the activities are dissimilar, and cannot be left to the market forces in that it requires not the balancing of the aggregate supply of something with the aggregate demand for it but rather the matching, both qualitative and quantitative, of individual enterprise plans.

Firms in a relationship are lucky if their plans are matched without interaction. Instead, it is likely that firms fail if they do not interact. In the planned economy, uniting individual firms' plans into one grand centralised plan accomplishes harmonising, whereas, in a decentralised system, this requires interaction. Due to the fact that plans can be viewed as codified knowledge, firms have to learn from each other. Interaction enhances this, which means that the unilateral dependence on the plan authority and its knowledge is gradually transformed into interdependence between the firms, as they begin to mutually adapt their plans. Jointly planning and mutually adapting strategies require that the firms modify the activities they perform in the relationship and the resources they invest (Brennan et al. 2003; Hallén et al. 1991). The transition thus entails a movement from fragmented to integrated relationships,

where exchange is integrated and thereby linked with the firms' internal use of resources (Johanson 2004). The integrated relationships force firms to interact more extensively, not with everyone, although with some actors. By adding new activities or increasing the number and the quality of activities performed, the possibility of gaining experience increases. However, as the hierarchical planning and collision of plans are transformed into mutual planning, the tautness of the plans disappears. The plans become more flexible so that firms can cope with unexpected disturbances.

From Static Networks to Stable Networks

Movement to Turbulent Networks

The transition to a market economy provides evidence that the movement from static networks is not unproblematic. Owing to anonymity, with firms being ignorant about their customers and suppliers and about how to jointly plan the operations in the relationships, the transition is initially characterised by a collision of plans, which spreads throughout the network. Turbulence therefore tends to characterise economies that are exposed to institutional changes (Czaban and Whitley 2000; McCarthy et al. 2000; Salmi 2000). The turbulent networks can be regarded as extensive reconstructions of the relationships that made up the networks in the economy. This reconstruction can, in turn, be characterised as widespread dissolution of relationships, establishment of new relationships and extensive transformation of relationships. This results from lack of supplies, decrease in demand, severe financial constraints, firms entering and exiting the network and new products and technologies. Starting from anonymity and static networks makes it difficult for the network to adapt. Insufficient supplies tend to remain while, at the same time, firms experience a sharp decrease in demand (Blanchard and Kremer 1997; Buck et al. 1998; Golden et al. 1995; McCarthy and Puffer 1995; Shama 1992). This is in part due to a lack of means, with which to purchase, and high debts to suppliers. Firms are sometimes forced to begin to barter (Aukutsionek 1998; Commander et al. 2002; Gurkov 1996; Poser 1998). Thus, the relationships deteriorate (Filatotchev et al.

1996) and they form the most serious problem for a long period of time (McCarthy and Puffer 1995). Owing to the hierarchy, static network and anonymity, there is no foundation on which to build trust. Firms have a short-term horizon and engage in opportunistic behaviour (Blanchard and Kremer 1997; Peng and Heath 1996).

Firms disappointing other firms causes the dissolution of relationships (Hallén and Johanson 2004) which strengthens the turbulence. The dissolved relationships are a widespread outcome (Gurkov 1996), which means a collapse of the existing networks that is sometimes spread to other countries as the networks cross national borders. It is difficult to isolate the collision of plans to a specific relationship (Davis et al. 1996), and for many firms the first option is to exit the relationship (Gurdon and Savitt 2000; Gurdon et al. 1999). Turbulence is also an outcome of firms developing new relationships, which happens when entry barriers for new firms are abolished (Eliasson 1998). Small and medium-sized firms tend to be established (Kontorovich 1999) and, as the number of firms fluctuates, and even stagnates now and then, and due to varying backgrounds, and consequently actions (Peng 2001; Smallbone and Welter 2001), the movement from static networks to turbulent networks accelerates. In parallel, new products and technologies appear (Golden et al. 1995) as an effect of the removal of the hierarchical planning and decentralisation of research and development. This is coupled by the increasing number of foreign firms offering new products and technologies which ultimately leads to the development of new relationships within the network (Bridgewater 1999). Foreign firms already established in the networks change customers (Salmi and Möller 1994). Thus, the firms perceive increasing competition (Golden et al. 1995; Shama 1992). These processes tend to contribute to the movement towards turbulent networks.

Movement to Stable Networks

The turbulence does not remain, but leads to a more stable network, which is defined as a set of relationships that are intact as a structure for a long time, implying that few of them are established or dissolved. Stable networks allow changes, which take place incrementally within existing

relationships, and in contrast to the static network change are not a result of plan orders from the authorities, but of the relationship interaction in combination with interaction links to the surrounding network. The stable networks do not mean that the substance of the relationships is not changing. The movement to stable networks is a process where firms learn more about other firms and relationships. When firms begin to jointly plan the activities in the network and the plans begin to be matched, stability replaces turbulence. In the process of building integrated relationships and stable networks, firms' commitment to exchange with each other is important, which may be a result of the firms realising that they have a long-term interest in exchange with one another. In the static networks there is no need for trust; however, in the turbulent networks, where changes are chaotic and unexpected, the need for trust grows; the firms can demonstrate that they are trustworthy, making pledges that demonstrate their commitment (Anderson and Weitz 1992) and thereby creating conditions for commitment development (Johanson 2008; Morgan and Hunt 1994).

As planning is decentralised and firms learn more about each other, they can develop more relationships than they could when the authorities planned the network. This means that firms are likely to have more relationships when mutuality gradually replaces hierarchy. The increased number of relationships is a source of technological change (Ahuja 2000; Powell et al. 1996), while more integrated relationships lead to joint problem solving and transfers of fine-grained information (Uzzi 1997). Integrated relationships signify that the exchange of resources between the firms is interdependent with the use of resources such as production processes, human resources, machines and equipment. On the other hand, a firm with integrated relationships searches for solutions within the relationships, where the problems have occurred, rather than across the relationships or beyond the boundaries of the network (Uzzi 1997). Learning as a discovery process combined with mutual planning leads to increased integration of the relationships. Stable networks enhance gradual change (see e.g., Easton and Lundgren 1992; Håkansson 1987, 1989; Halinen et al. 1999) as they provide two preconditions for learning. The number of relationships means diversity, which opens up new ways of combining different types of knowledge, while the stability provides

a platform for reflection and repetition. As the stable network consists of integrated relationships, changes in one relationship also influence other relationships, which leads to incremental changes.

From Anonymity to Identity

Movement to Discovery

Anonymity prevails in the planned economy networks, and fragmented relationships with low interaction are typical. The anonymity, characterised by ignorance about the network, and the static networks with fragmented relationships are why a learning process starts after the institutional changes have been initiated. This process is characterised by a high uncertainty about what will happen and, consequently, the firm cannot know what knowledge it needs to have in the future. The process is unknowable, and as Tsoukas (1996: 22) states, 'Firms are faced with radical uncertainty: they do not know, they cannot, know what they need to know'. Firms do learn things that they could not predict or plan beforehand. Firms make discoveries. The perfect discovery occurs only in a situation of sheer ignorance (Kirzner 1997), and when firms learn by making discoveries, they undergo an interpretative shift (*ibid.*). This means that discoveries are accompanied by surprise when the firm suddenly discovers something in a non-obvious and non-deliberate way (Demmert and Klein 2003). In the transition economy, where the networks are turbulent and the transition starts from multilateral ignorance and anonymity, discovery is a driving factor in the learning. In the literature, discoveries have been described as resulting from accidents (Hayek 1980), sense-making (Weick 1995), serendipity (Denrell et al. 2003) and luck (Barney 1986). We maintain that a firm's ignorance about the network in the transition economy is a prerequisite for discovery. That is, the stronger the anonymity in the planned economy, the more extensive the discoveries are in the transition economy. The character of the network is in itself a source of discoveries. Fragmented relationships are less efficient when it comes to joint learning, as they are less mutual. Firms with fragmented relationships are more open to finding solutions

outside the relationships, as they are a good basis for novel knowledge (Hansen 1999). When expanding their interaction, firms face situations that are impossible to plan for. The firm cannot know them in advance, and thus the search for the known often turns into the discovery of the unknowable.

The turbulence in the network opens up for discoveries as existing knowledge becomes obsolete and other types of knowledge are introduced in the market. Thus, discovery is essential in the transition economy because of the anonymity that prevailed in the planned network and the change of governance. When the economy is governed through a set of decentralised plans instead of one centralised plan, it means that the plans cannot always correspond. The firms realise that plans will collide, and they discover things of which they had no prior knowledge. The ends and the means are recurrently redefined and reallocated, and no one has complete knowledge about what is going to happen (Eckhardt and Shane 2003). This unpredictability means that it is impossible to have knowledge about even a limited range of possible developments. Expanded interaction with customers and suppliers becomes necessary. The interaction itself and the customers, the suppliers and their characteristics are something new and unknown for the firm. In the interaction, firms discover things that had been heretofore unknown.

Movement to Identity

Discovery is an important factor in the movement to market networks. As the firms begin to expand the interaction, they develop a more multi-dimensional and more detailed view of themselves and other firms in the network. Both discovery and stability in the network are prerequisites of the emergence of identity, and a clear and rich identity improves coordination in the network (Kogut and Zander 1996). Identity is a relative concept (e.g., Dutton and Dukerich 1991; Gioia et al. 2000), and the word implies that something or someone is the same for those inside as for those outside. However, identity is not forever; it is modified and thus identity also grasps the 'sameness' over time. It is something changeable and formable, and it is interaction that builds identities (Anderson

et al. 1994; Håkansson and Johanson 1989). The firm's identity develops when it fulfils specific tasks—not just anything or what everyone else is doing—in its relationships. 'Identities are constituted out of the process of interaction. To shift among interactions is to shift among definitions of the self' (Weick 1995: 20). The firm's identity is distinct from everyone else's; it is a result of an interaction with other firms, which implies heterogeneity among the organisations (Håkansson and Snehota 1995). The movement to stable networks is characterised by an increased number of relationships (Sedaitis 1997) and the tendency of the relationships to be more integrated than in the planned networks. These two characteristics create a platform for development of identities.

Interaction in the relationships as a driving force in the identity-building process implies that a firm's experience and reputation are important. Experience is gained from doing things in relation to others; the relationship is a vehicle for gaining experience and, consequently, the fewer issues that have to be managed in the relationship, the less experience is gained. In fragmented relationships there are few issues to manage, whereas an integrated relationship, with a more extensive interaction, gives the firm a clearer identity. The movement from turbulent to stable networks tends to give firms a deeper and richer type of identity, but it also diversifies the identity, as one cannot have a relationship with everyone. The heterogeneity of the identities increases.

Identity is composed of one additional component—the connected firms' way of perceiving the focal firm. In a stable network, the transmission of experience to connected firms supports the identity-building. Reputation transmits the experience in the network, as reputation is experience transformed into opinions, ideas and information about specific firms. Reputation can be defined as the information firms get about another without doing business or having any real direct contact with that firm. Thereby, a firm learns about the others beyond its direct relationships. Reputation is instrumental when firms establish relationships (Anderson and Weitz 1992), and information can be transmitted between firms even when they are located far away from each other in the network (Granovetter 1973). In transition networks, lack of reputation as a mechanism to transmit experience is a reason why the movement to market networks is characterised by inertia (Blanchard and Kremer 1997).

Discussion

The analysis does not only increase our understanding of a firm and its context in the light of the change of governance from a planned to a market economy. It also provides insight into the nature of networks in three different economic systems (see Table 3.1) by highlighting six aspects of networks. These aspects are interrelated and they describe how the networks go from simple, centralised and tautly planned to a system of decentralised planning, where the firms' individual plans are isolated from each other, which tends to cause them to collide. Moreover, in the planned networks, the interaction in the relationships has narrow range and low intensity; that is, few of the firms' activities are adapted to specific counterparts. The planning affects not only the interaction in the relationships, but also the dynamics in the planned networks, as change and interaction are separated in time and space. The reason for this is that the firms in the relationships interact while change is initiated from authorities that are remote from the relationships. This means that changes, which the authorities initiate, often are very big with an extensive effect on the firms, and they are often distant from the firms' daily operations. The firms, on the other hand, do not have incentives to change, as they are not rewarded if the interaction becomes more efficient. As the centralised and taut planning is replaced by decentralised planning, the collision of plans tends first to mean radical changes, and later the interaction and change begin to merge and become more integrated. Changes then spring from the interaction within the relationships rather than coming as a result of initiatives from the authorities.

As the transition ends, firms are likely to begin to match their plans. Planning is still decentralised, but no longer performed in isolation; rather, it is conducted as a mutual activity. Typically, the planning is also slack, and the plans provide a flexibility that is not inhibited by taut planning. The flexibility is necessary as it makes the relationships less vulnerable to disturbances from the surrounding network. The flexibility is also necessary as the plans concern and integrate a wider interaction that is performed with a higher intensity than in the planned and transition networks.

Table 3.1 Characteristics of three types of networks

	Planning	Interaction	Change	Use of knowledge	Relationships and networks	Identity
Planned networks	Simple, centralised and taut planning	Narrow range and low intensity	Interaction and change are separated Either small or huge changes	Knowledge is used to preserve the current structure	Fragmented relationships in static networks	Poor and one-dimensional
Transition networks	Decentralised and isolated planning Chaotic collisions of plans	Expanding range and irregular performance of interaction	Interaction and change begin to merge Radical changes	Knowledge is used either to reconstruct the network or to defend old structures and to break down old structures	Turbulent relationships in turbulent networks, which undergo an integration process	Emerging and contradictory
Market networks	Decentralised and mutual planning Matching of flexible plans	Wide range and high intensity	Interaction and change are integrated Incremental changes	Knowledge is used to cause change, but within a stable structure	Integrated relationships in stable networks	Multidimensional and rich in details

Altogether, this development is characterised by a movement from fragmented relationships and static networks via turbulent relationships and networks during the transition to integrated relationships in stable networks. Owing to the integration and stability and to the decentralised planning, change separated from interaction is difficult to achieve. Instead, market networks tend to be dominated by gradual changes, which arise from the interaction and have to align with that within the relationship.

This slow development implies a new way of using knowledge. While the planned networks are static and the relationships fragmented, the knowledge is used to preserve the current network structure, but also to keep the narrow interaction intact. This means that new knowledge is not needed and, instead, in the planned networks firms use existing knowledge. The situation in the transition network is likely to be almost the opposite. As the firms learn about their customers and suppliers, and as the structure inherited from the planned networks is challenged, new knowledge is created and used. The new knowledge created in the market networks must be balanced with the old knowledge, which results in a combination of both forms. As there is no reason to interact more closely or to change the interaction, the firm's identity in the network is likely to be poor and one-dimensional. Anonymity prevails in planned networks. However, first, firms develop rich and multidimensional identities in the market networks; their identities emerge as contradictory in the process where knowledge often is used in order to terminate the relationships inherited from the planned networks. When plans are colliding and radical changes tend to dominate, firms discover previously unknown details about their counterparts—details that in the market network compose the firm's identity.

Transition from a regulated and planned economy to market governance has over the last 30 years taken place in several countries and industries, but we have so far lacked conceptualisation of this process based on a network perspective. By developing new concepts and extending the existing business network approach, we have been able to capture the main characteristics and pattern in this process. This is a process that is not over but continues in large areas of the world.

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4

Extending the Role of Consumers: From Marketing Targets to Participants in Business Networks

Jimmie G. Røndell and David Sörhammar

Introduction

In traditional theories and models of the consumer marketing process, the active role in the marketing process is assumed to be confined to the business firm and/or constellations of commercial actors in a business network, while the role of the consumer is one of an isolated, receptive and, at most, merely reactive individual. By postulating an isolated, undistorted one-way flow of pre-allocated information regarding products (goods and services), the customer is implicitly described as somewhat exogenous to the marketing activities of firms and the business network (cf., Jensen-Schau et al. 2009).

The buying decision process of consumers is thereby described as isolated information processing episodes, listing and comparing accumulated information about available options as defined, made available and transmitted either by the single firm or by a constellation of actors in a

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business network. In this sense, consumer contacts are dyadic in terms of being pictured either as ‘single firm–single consumer’ contacts, or as ‘business network–consumer segment’ interactions. In accordance with this view, and in the wake of the digital revolution, the internet has primarily been treated as a new one-way channel and advertising medium for firms or as offering new opportunities for information gathering, mapping purchase patterns and retrieving information from consumers in order to better target offerings through direct promotion activities. Accordingly, the internet is seen as a new vehicle with which marketers can control the information exchange process by managing the flow of product information to the end consumer (e.g., Swaminathan 2003).

However, with the emergence of interactive online forums and aggregated online information intermediaries, ‘infomediaries’, new possibilities have also emerged for consumers to search for and exchange information about products beyond the control of firms and the traditional marketing communication channels. Along with the phenomenon of global online consumer communities, where consumers interact within the realm of different consumption cultures, constellations of individuals emerge as influential actors in loosely coupled social networks similar to firms in business networks. According to research on ‘consumer tribes’ (Maffesoli 1996) and the consumer culture theory stream, this signals a changed view of how to understand the behaviour and the role of the consumer in the marketing process.

As consumers increasingly take on a more active role in an *information exchange process* rather than just an *information gathering process*, the traditional understanding of the consumer marketing process seemingly comes into question. For instance, it has been argued and expected that this progress will lead to consumers increasingly abandoning manufacturers and retailers as their primary information sources, instead relying solely on the knowledge and experiences of their fellow consumer peers by turning to online infomediaries, price comparison websites and online forums (e.g., Swaminathan 2003). This phenomenon subsequently changes the structural and behavioural assumptions on which the prevailing consumer marketing theories are based. For firms it would seem that there is a need to extend the business network horizon in order to incorporate consumers as actors in the business network. To understand what this entails, it is therefore vital to explore the ‘new’ role and behaviour of consumers as actors in the information exchange process and the business network.

The purpose of this chapter is to explore this phenomenon empirically, reporting on a study that combines interviews with consumers and firms regarding mobile phone purchases. The aim is to subsequently gain an understanding of how the ‘new’ role of consumers as actors in the business network affects the nature of the information exchange process and how this in turn affects the role of business actors in the consumer marketing process.

Extending the Business Network Approach: The Empirical Exploration

The empirical study is divided into two phases. Firstly, the chapter reports on interviews conducted with business representatives within the mobile phone market along with initial consumer interviews, serving to provide the study with the basic themes for the subsequent collection of more in-depth consumer interviews. Secondly, interviews were conducted with consumers to deepen the understanding, capturing ‘insight stimulating examples’ of the matter at hand.

Business Representative Perspectives

We conducted 13 interviews with business representatives. Even though these are not the main empirical focus, they serve to ‘tap the knowledge and experience of those familiar with the general subject being investigated’ (Churchill 1999: 105). Four different categories of these actor types were interviewed (brackets indicate the number of interviews): producers (5), retailers (5), information intermediary (1) and mobile phone market analysts (2). All interviews were conducted face to face and recorded; they lasted between 1 and 2 h. For discretionary reasons they are listed below on the basis of their position. Further elaboration and explanation of the data can be found in Hansen (2012).

Since the 1980s, both mobile phones and telecommunication systems have undergone rapid technological development, accompanied by changes in usage and requirements; they are used not only to transmit and receive voice and text, but also to perform a number of other tasks

such as taking photos, watching videos, listening to music, connecting to the internet and navigating by GPS. Even though the first communicator models presented (which are similar to today's smart phones) were far from successful, they turned out to be prototypes of what we expect to find in a mobile phone today. One striking aspect heard in an interview with a producer representative concerned the subject of not being able to see beyond the established and traditional perceptions and line of actions, in this case failing to embrace a new dimension of product features or product functionality from the user's perspective:

They [the competitor] simply went out and asked people: 'what kind of mobile phone do you want?' As people unexpectedly answered: 'a round one... a pink one' etc. they subsequently went back, added these aspects and adopted this somewhat unorthodox approach towards product functionality, such as offering a variety of changeable casing colours. We [the producer] did not embrace this approach instead saying: 'no no, they will buy what we design and produce as we offer other, better features and more value for money'. (Producer)

Ironically, the latter 'take it or leave it' approach is in many ways the prevailing approach even though it seemingly fails to incorporate the aspect of what is relevant for the consumers and users of the product. According to the interviews, the development of mobile phones over the years has been a process of trial and error: 'Features such as a calorie meter, pedometer, and height meter initially failed since these features were recognised as irrelevant at the time, but now on the other hand...' (Retailer). 'Compared to the early years it is also vital to enable updates and upgrades of hardware aspects such as memory cards as well as the software' (Producer). 'Additionally it is important to be able to connect your phone with other equipment, TVs, computers and so forth' (Analyst). Collectively, the business representatives believe that the concurrent increasing use of the internet during recent years has accelerated the demand for new models containing new or improved features. It is difficult to 'hold back the new ones while waiting for the current stock to leave the shelf' (Producer) as due to the information transparency as a result of the internet, users also have access to a more nuanced palette of information such as upcoming features and models 'sometimes even before we know about them'.

According to an official national survey in 2014, 88 % of Swedish companies within the context studied have a website, and 49 % of these also sell their products or services online (Statistics Sweden 2014a). 'Retail chains are increasingly using the internet as a complementary promotion and sales channel' (Retailer). However, according to one of the analysts interviewed, there is a vital issue to address in the latter point: 'There is an enormous interest in e-commerce, or for some, rather a state of panic' (Analyst). When the internet is viewed as just another promotion and sales channel, there seems to be a high degree of ambiguity as to how it affects the presentation and perception of products and services as 'the control over the messages can slip and rapidly gets somewhat deformed' (Analyst). Besides being a new promotion and sales channel, the internet has also become a breeding ground for new consumer activities, organised groups using online forums and communities, often operating outside the traditional control of the retailers. And with the increasing accessibility of the internet, this is not just the activity of a chosen few. At the beginning of 2014, 93 % of Swedes aged 16–74 used the internet regularly (Statistics Sweden 2014b). At the same time, a rapidly increasing number of consumers, 86 %, claimed to be using the internet as their primary tool for finding information about products and services (Statistics Sweden 2014b), and search engines, forums and so-called information intermediaries, or infomediaries, are examples of websites used to find and manage this vast amount of information.

'Mobile phones are the most frequently searched products on PriceRunner's website, followed by products like TVs, digital cameras, and laptops' (Intermediary). During interviews, several of the representatives recognised these infomediaries as 'a force to be reckoned with', indicating the need for an upcoming strategic shift in order to be able to manage the new dynamics and consumers' changing habits in the internet-influenced mobile market. The traditional, supposed control of the market and the marketing procedure, which was previously taken for granted, appears to be an important issue to grapple with. Several of the representatives mentioned what can be described as the discernable effects of consumers' increasing use of infomediaries, such as the 'involuntary' emergence of new business relationships, the creation of new services, the difficulties of guaranteeing the quality of these services along with lower prices and shrinking margins.

The first official information intermediary or infomediary in Sweden was launched in 1999, aiming to give consumers free access to information from both companies and other consumers, assisting users with comparing company information about various products, prices and retailers, and learning about other consumers' purchase and consumption experiences. One intermediary states:

Together with consumers we are transforming the process. Now it is possible to get an overview of all products that can be chosen from a large number of retailers, letting consumers access and provide input, using extensive price comparisons and detailed product information, both from web shops and traditional shops. Consumers' options increase with a few mouse clicks! (Intermediary)

By using these so-called infomediaries, consumers can subsequently share their purchase experiences, advice and opinions with other consumers linked to discussion forums, blogs and websites such as PriceRunner and Prisjakt.

The relevance of issues mentioned by firms' representatives was confirmed in the initial consumer interviews, acting as a thematic guide for the subsequent consumer interviews. Respondents mentioned infomediaries as being their primary source of information, superseding the traditional channels and the retailers' and manufacturers' own websites. It was also stated that the main sources and actor types were *Infomediaries*, such as blogs, user forums and price comparison sites; *Manufacturers*, such as Apple and Samsung; and *Retail chain online stores*, such as MediaMarkt and Amazon. Furthermore, other aspects affecting consumers' perception that were mentioned were *Features and Applications*, their own perceived *Knowledge and Experience*, as well as and *Trust and Trustworthiness* in terms of their confidence in the different information sources.

Consumer Perspectives

A total of 66 respondents aged 20–60 years were interviewed over a 6-month period. The aim was to provide the study with a broad idea of consumer perceptions regarding the matter at hand. Respondents

were asked to openly describe how they process and evaluate information regarding mobile phones. Further elaboration and explanation of the data can be found in Hansen (2012), but questions included: How do you evaluate different options? What sources do you use? Do you use different aspects of the various sources, and are they interrelated and combined over time? What are the aspects affecting the choice of source and actor type? How is 'new' information compared and related to existing experience-based, experiential knowledge?

While describing their attitudes and actions when searching, sorting and processing information, respondents were asked to identify types of sources, actors and other related aspects that affect their perceptions. They were also asked to reflect on whether and how these aspects were related and utilised during the process.

Six empirically generated categories of themes emerged from the interviews. As listed below, the first three categories relate to actor types with which the respondents have an exchange relationship, while the remaining three relate to aspects affecting the nature of these exchange relationships, how information is exchanged, interrelated, combined and utilised by a specific consumer over time:

1. Infomediaries, such as blogs, user forums and price comparison sites;
2. Manufacturers, such as Apple, Sony Ericsson;
3. Retail chain online stores, such as MediaMarkt, Amazon;
4. Features and Applications;
5. Knowledge and Experience; and
6. Trustworthiness.

These six categories are presented and discussed below, featuring quotations based on 'insight-stimulating examples' (Selltiz et al. 1976).

Infomediaries: User Forums and Price Comparison Sites

'It's like asking a friend I've never met!' Respondents regularly used phrases like this to describe infomediaries as an important information source and a kind 'para-social' (Ballantine and Martin 2005) exchange relationship.

The term *infomediary*, or rather the functional label describing a certain type of actor in the network, is a composite of *information* and *intermediary* that generally refers to 'websites on which large amounts of information are accumulated and organised as a supposedly neutral entity'.

A common view was that these websites were seen as mediators of other consumers' experiences combined with proposal views from different business actors. Accordingly, these sites were described as interactive message boards where one could post and read about 'what's hot and what's not', as well as share and compare facts like features, functions and prices. In this sense, infomediary websites make it possible to exchange information on a vast number of highly subjective thoughts, judgements and evaluations, as well as more casual hard facts (e.g., price, memory capacity, size) as provided by different vendors: 'They do give me insights as to what to look for, and not to look for, when I approach the sellers'. However, many respondents did state that, just like other friends, these websites sometimes become mainly a 'wail of complaints' and that the judgements and recommendations, as well as the hard facts used in the comparison charts, were sometimes perceived as being flawed.

A significant difference between infomediaries and, for instance, reports in magazines about products in testing is that the infomediaries are interactive, which means that when consumers post questions in these forums, they also become sources of information themselves. As put by one respondent, 'It's funny, sometimes when I'm looking for help I end up helping others instead'. So by taking part in these activities, they are also redefining the meaning of existing knowledge.

Given the increasing importance of online communities in terms of influencing consumer preferences through the advocacy of other users, these online para-social interactions constitute a new kind of exchange relationship. The findings illustrate that it is vital to concede that consumers adopt a somewhat balanced approach in how these relationships are influentially weighted. Additionally and most importantly, the empirical findings illustrate that these websites constitute an element which *serves as an input to interactions with other actor types* and marketing functions, not just as a simple decision support, and that consumers take on a more mediating role, consummating the information exchange process rather than being just receivers.

Manufacturers: For Example, Apple, Samsung

‘On the manufacturer website you can pick any mobile, click on its buttons online and try out all kinds of features to get the hard facts’. These features were perceived as being somewhat ‘sophisticated’ in terms of information, focusing on every detail. This made some respondents reluctant to use these websites because ‘you cannot see the forest for the trees’, whereas others seemed to love exploring the possibilities and testing all available options. Either way, all respondents felt that the information was not neutral, as ‘they only tell the good stuff’, but it nevertheless provided the consumer with other important details such as links to retailers and vendors.

Previous research has perceived manufacturers as creators and providers of the value that is built into the product (e.g., Porter 1985), or ‘created in the factory’ (Jensen-Schau et al. 2009). In comparison, the empirical findings of the present study illustrate that manufacturers do not solely determine what constitutes value from a consumer point of view. Instead, the main task for a manufacturer from this perspective is to be a complement to the more social relationships between consumers. Manufacturers thus have two functions in the networks, to produce and provide the consumer with ‘hardware’ in the form of phones and also to function as a knowledge pool for hard facts such as the number of pixels in the phone camera.

Retailers’ Online Stores: For Example, MediaMarkt, Amazon

‘When I visit online retailers’ websites, I generally get more information regarding how I can bundle my phone with different features. I hate it when you find all these hidden costs, such as the absence of a decent hands-free set’. At the online retail chain, consumers feel they gain detailed information about the constellations (or bundling) of insurance, transportation costs, after-sales service and subscription details, as well as accessory bundles such as memory card, hands-free sets, extra chargers and carry cases. For instance, phones may be bundled with a specific subscription, which forces consumers to face a number of additional options

regarding network coverage and tariffs. Some subscriptions focus on rural regions and others on conurbations, while tariffs differ in terms of day-time and night-time prices, text messages and data charges.

In the present study, the importance of retailers as information sources for consumers was twofold and complementary. On one hand, scattered information attained from other sources (e.g., actor types like infomediaries and manufacturers) was utilised to form an opinion regarding a single constellation of offerings, as set out on the retailers' websites. On the other hand, information generated from the retailers' different constellations enabled less informed consumers to better assimilate information from other complementary sources. It is important to note that even if retailers offer information about what can be configured, they do not influence the consumers' perceived meaning and value of this configuration on their own. It is also noteworthy that, similar to the other actor types, they represent a complementary function which is important to consumers as active network actors in the information exchange process.

Features and Applications

'Even though I basically only use it [the phone] to make calls, I don't want to embarrass myself by having a phone that my surroundings laugh at or one by which people get the wrong impression of me, such as being old-fashioned or outdated'. The interviewees considered recognition from one's surroundings and the allied social context as an important aspect that influences the perception of value, in terms of generating and obtaining information as well as how information is interactively evaluated. It became apparent that a mobile phone is, in itself, a configuration of a broad variety of features and applications, all of which have symbolic meanings (e.g., Levy 1959). 'Even if it's just some bizarre feature, I have to have it'. Accordingly, a mobile phone is not just steel and plastic; it is both an information carrier and a signifier of its carrier. Hence, information regarding certain features and the evaluation of these features are closely related to group belonging and status.

The findings from this study indicate that features and applications are symbolically and contextually dependent. This finding questions the

traditional basis of screening, product features and attributes (Bettman and Park 1980), often used in consumer marketing, in which the focus is on predefined, comparable characteristics of a mobile phone, such as size, battery life and number of camera pixels. According to the findings, consumers not only list and compare on the basis of technical specifications (e.g., Kotler and Armstrong 2010), but they focus just as much on the symbolic meaning attained from contextual and experiential evaluations. Hence, features and applications are, in terms of both purely technical aspects and their symbolic meaning, based on the networked and contextual nature of the consumer's idiosyncratic, experientially and contextually formed perceptions, being an outcome of a multitude of interactions between numerous actors in the business network.

Knowledge and Experience

'I think it's fun to read about new mobiles, new features and new ways of using it. It's also a great opportunity to, at least momentarily, be the expert among my friends and colleagues'. The vast amount of information available online was generally described as being somewhat of a 'jungle'. However, respondents did not agree to the same extent whether entering this jungle was exciting or mind-numbing. For some consumers, information seeking itself was a source of pleasure (resembling Holbrook and Hirschman 1982), while others found this somewhat aggravating but important. Regardless, knowledge and experience were mentioned as vital aspects that affect the behaviour of the information exchange process. For instance, it was expressed that 'new information' was in many ways perceived less as new information than as a clarification or confirmation of existing knowledge (either their own or that of others).

Therefore, previous experience appeared to overshadow or taint new information. The findings from the present study suggest that those who consider themselves as lacking knowledge or experience (or interest) compensated by relying on others, turning to various online forums (i.e., infomediaries) while or prior to exchanging information with actors such as retailers or manufacturers. Accordingly, gaining knowledge becomes a more complex issue than simply searching for, listing and comparing

predefined offerings found on various websites. Experience and knowledge have long been regarded as key variables to be considered when investigating the effects of information (e.g., Alba and Hutchinson 1987).

However, it has not been established how these variables should be studied within an online context (Pan and Chiou 2011). The empirical findings in the present study suggest that Alba and Hutchinson's findings are valid in an online context because consumers, who perceived themselves as knowledgeable, found it easier to distinguish between different kinds of information and were more able to grasp the information presented. Nevertheless, the context or rather the connected social and business actors are an important aspect in considering what is regarded as important information. The meaning and implications of online information were perceived as being dependent not only on personal evaluations, knowledge and experiences of the individual consumer, but also on the knowledge and experience gained by and through the marketing network of which the consumer is a part. Additionally, these interactions are based on generalised exchange or indirect information exchange (e.g., Ekeh 1974); thus, reciprocation is indirect and knowledge emerges in a network-generalised exchange structure (cf., Yamagishi and Cook 1993).

Trustworthiness

'I often realise that I don't understand all the information describing the phone, its features and functions and so on'. Respondents frequently noted that it is necessary to combine, compare and interrelate different information sources in order to get as 'clear a picture as possible'. This process involved actors and sources that the respondent had used before, some that others had suggested and some that were totally new. By combining different sources, respondents felt it was possible to attain a trustworthy picture. The main difference from the traditional somewhat passive or reactive *information gathering process* is that now, information is not just received, listed and evaluated; it is instead utilised by the consumer in information exchange processes from which knowledge emerges. Naturally, the respondents felt this was relative, subjective and also dependent on their social surroundings, but since the perceived

benefits obtained from products is also highly contextual, an increase in the objectivity of the evaluation was considered less important in terms of trustworthiness. Consumers frequently stated (as could be assumed) that when they were evaluating information, they first consulted sources they had used previously with positive results.

Findings also suggest that consumers combine their own previous experiences with other sources and actors' experiences, and not just facts. This networked blend of one's own lived experiences and those of others (e.g., Thompson et al. 1989) leads to trustworthiness in the information exchange process. Respondents with few experiences of their own leaned more heavily on trust gained from and mediated by others (e.g., Zucker 1986). In this case, these others took the form of infomediaries, manufacturers and retail chains, which over time are dynamically combined. Experienced users, on the other hand, initially formed their perceptions based on their own knowledge-gained trust (e.g., Lewicki and Bunker 1996), which they continuously generated from network interactions. In conclusion, it is indicated that trust is a dynamic perception and not something that is stagnant once established between, for instance, a retailer and a customer. The consumer over time, through various interactions, re-evaluates what is perceived as relevant for establishing trust, which in turn emphasises the networked nature of the increasingly dynamic consumer marketing process.

Concluding Discussion: From End User to an Active Network Participant

Obviously, there is nothing new in concluding that consumers use different sources to arrive at a purchase decision or that consumers not only interact with a single firm but also interact with a constellation of different actors, that is, a business network. However, a main point derived from this study is that all these activities amount to a much more complex and non-linear process than just simply searching for, listing and comparing predefined functions and/or features and prices found on various websites, contrary to the current view of this matter. Consumers are no longer the end point of the marketing activities of the business network; instead

they represent a new kind of actor that is not an equivalent to commercial actors but are instead social actors with great influential power. As consumers take on an intermediating role, their activities not only transfer information, but also change the meaning of the information and the expected value identified from products and offerings. Rather than merely taking part of the available information, they are actually becoming a part of the information flow and the creation of product knowledge.

This brings about implications for how to understand the role of consumers in the business network. Consumers utilise offers from business actors as *inputs*, not primarily for decision-making processes but to initiate interactions with other actors in the network. It is therefore important to acknowledge that in this network the consumer has a consummating (completing) role rather than merely one of a receptive decision maker and buyer. This does not mean that the role of consumers replaces the role of firms as information providers, nor do the activities of consumers make offerings made by firms obsolete. Instead, the information exchange activities of consumers generate and facilitate a flow of information in the network, a consummating process in which the meaning and value in offerings emerges.

For managers, rather than merely regarding various internet-enabled communication platforms as additional promotion and sales channels, it is equally important to acknowledge that the internet has also become a breeding ground for new consumer activities. These include organised groupings that use online forums and communities and often operate outside the traditional control of the initiating product supplying actors. It is hence important to not only coordinate activities with other business actors but also with the active consumers. The active consumers' activities have economic implications beyond the four walls of a retailer, as well as for connected network actors such as manufacturers and sub-suppliers. When companies initiate their offerings, it is important to acknowledge that this is not simply a linear procedure of 'choosing the value, providing the value, and communicating the value' of products (e.g., Lanning and Michaels 1988).

It is therefore important for the individual firm to shift towards a 'communicate *with*' approach, rather than a 'communicate *to*' approach, involving both business actors and what would in traditional terms be referred to as end users or consumers. The consumer is in many aspects a resource integrator which needs to be treated as interrelated *with*, as

opposed to being merely related *to*, the business network. As consumers no longer merely search for and accumulate information to list available options for impending purchase decisions, but instead utilise information gained from one source to interact with another, firms are also provided with new information and generate knowledge *with* consumers. Consumers thereby take on an intermediating and consummating role in the marketing process, fortifying the exchange of information and experiences, generating knowledge both amongst and between consumers and firms. This shows that consumers commit more resources to the network than just time and money, also committing information and knowledge either directly or indirectly. So rather than viewing consumer marketing as the isolated actions of firms towards a group of individuals, consumer marketing is a network process in which the consumer takes an active and vital part. These findings extend the understanding and existing literature on business networks by illustrating how the consumer is no longer merely the target but rather is a participant in the business network.

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5

The Role of NGOs in Business Networks: Partnership in Innovation

Emilene Leite and Mohammad Latifi

Introduction

Globalisation has intensified competition and empowered consumers worldwide. In order to sustain growth, firms are under constant pressure to embark on the development of new products and/or services while addressing societal and environmental issues. In times where mobile technology is changing every industry from healthcare to banking, the locus of innovation may not be limited to the in-house creation of ideas (Chesbrough 2003). Companies are instead looking to acquire external knowledge by partnering with multiple actors who may lie outside of the traditional (customer–supplier) business network of relationships.

Cooperation among multiple actors has been acknowledged as an alternative for finding new solutions mainly because complex issues such as climate change and urban mobility cannot be solved by a single entity (Powell et al. 1996). Among such actors, non-governmental organisations (NGOs)

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P. Thilenius et al. (eds.), *Extending the Business Network Approach*,
DOI 10.1057/978-1-137-53765-2_5

in particular have become important in the international business arena by influencing the interactions between business and government. An interesting aspect is that many NGOs have gone global (e.g., Greenpeace and World Wildlife Foundation (WWF)), and conflicts with such organisations in one country may have a spillover effect in another (Lehrer and Delaunay 2009). Therefore, cultivating such relationships may be strategically important for firms.

NGOs can provide tangible or intangible resources to help firms to not only address sustainable issues but also deliver products and/or services in novel ways. One of the main current trends is that NGOs have recognised the importance of working more cooperatively with companies to achieve greater social impact (Perez-Aleman and Sandilands 2008). Some scholars affirm that cross-sector partnerships can be a source of new ideas and product development (Leite and Bengtson 2015). In such partnerships, firms and NGOs contribute with complementary capabilities such as intangible assets, for example, local knowledge, reputation and brand, as well as tangible resources such as human capital, production capabilities or market access (Dahan et al. 2010). Combining these aspects may allow the creation of new products and/or services.

In this chapter, the focus is on NGOs. We argue that partnership with NGOs can not only enhance reputation and corporate image but also have an impact on the creation of novel ways of developing products and/or services. More precisely, we demonstrate how an NGO can promote innovation. To accomplish this, a case study has been undertaken based on the development of a solution for public transportation in Brazil. The case illustrates how a local NGO, by bringing its resources and competencies into a partnership involving firms and the local government, contributed to the improvement of the public transport system.

The chapter is organised as follows. The first section summarises studies with a business network approach including non-business actors, with a focus on the role of NGOs as intermediary actors. The next section presents a case study and examines the interaction between business actors, government and NGOs. The third section presents the analysis and discussion of the case, and the final section provides concluding remarks and discusses the theoretical and empirical implications.

Incorporating the Non-business Actors in the Business Network

Most of the literature on business networks (Håkansson and Johanson 1992; Håkansson and Snehota 1995) emphasises the business actors, while the non-business actors remain implicit. The basic assumption is that these non-business actors have little impact on the relationships between firms. This implies that only actors with business goals are considered in the network context. However, some authors have highlighted the importance of adding other actors in firms' business network.

The studies of Johanson (2001) and Hadjikhani and Thilenius (2005) explore the role of political actors in influencing firms' decisions, and others like Dahan et al. (2010) consider that developing relationships with NGOs can be a good strategy for firms to address more socially responsible behaviour. Additionally, the study performed by Ljung (2014) highlights that cooperation with NGOs can be a source of innovation.

Hadjikhani (1998), for example, describes the interaction between business and non-business actors, regarding political risk for project-selling firms. Doh and Teegen (2002) also find that NGOs, host governments and MNCs are main actors in business–government bargaining over investment projects. Additionally, they affirm that NGOs can complement MNCs with knowledge and local contacts the MNCs probably lack. Other studies in technological development have emphasised the role of NGOs working cooperatively with MNCs to find technological solutions to reduce the impact of pollution (Sjöberg 1996; Stafford et al. 2000).

The context operated by non-business actors extends from political actors, which belong to the political system, to organisations like NGOs, media, peace organisations and environmental organisations. In a broad perspective, NGOs are non-firms and non-state actors which may include—but are not limited to—labour unions, academic institutions, business associations, religious groups, environmental groups, disaster relief organisations and poverty alleviation groups that represent civil society (Dahan et al. 2010).

Some of these NGOs have increased in size, number and geographic scope. Many NGOs have become global organisations, and their campaigns in one country may have effects elsewhere. Greenpeace, WWF and Friends of the Earth are examples of global organisations that encourage debate about environmental issues. Such organisations have also increased their power and influence on the business strategies of MNCs, particularly inducing organisational strategies towards social issues such as labour conditions, human rights, poverty alleviation and environmental issues, while simultaneously influencing policymakers. In other words, NGOs have the potential to change and influence the institutional environment in which firms are embedded (Allard and Martinez 2008). They can affect the future formulation of rules and laws in society.

With the pressure on firms towards more responsible behaviour, NGOs have become important non-business actors in the international business arena, and cultivating relationships with such actors has become strategically important. Social problems have grown in complexity, and NGOs have proliferated to address such issues, bringing NGOs and firms together (Austin 2000). NGOs may provide firms with important intangible resources such as legitimacy and reputation within society. However, such interactions may differ from the traditional business relationship. While firms aim to maximise shareholder value through the commercialisation of products and/or services, NGOs aim to provide goods and services altruistically.

Some NGOs are intermediary actors, acting between actors and sectors (Assaad 1999; Carroll 1992; Doh and Teegen 2002; Teegen et al. 2004). Rather than being relatively isolated from society, these NGOs are located at the centre of several constituencies—for instance, civil society groups and organisational as well as institutional structures at the national level—creating communication links and bringing ties that are beneficial to all parties. In order to be effective in such intermediary roles, these NGOs not only possess knowledge, skills and expertise for community development, but also familiarity with the needs and objectives of other actors in an extended network.

Figure 5.1 illustrates an extended network view containing political actors, business actors, local communities and NGOs. One can observe

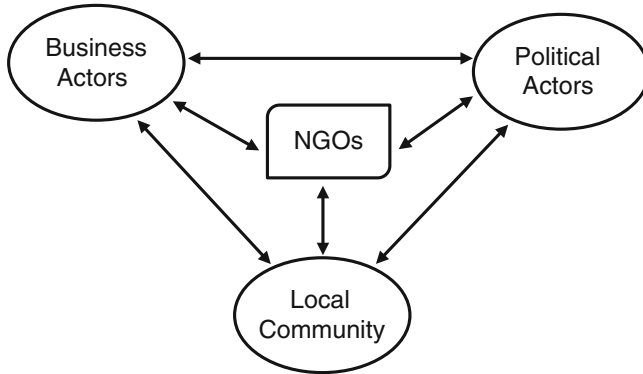


Fig. 5.1 An extended network view

that NGOs positioned in the centre of the diagram demonstrate that such organisations act as intermediaries between the state, business and the local community. In other words, they have a moderating role in influencing firms' production process on one side and the institutional environment in which they operate on the other side. With the mission to promote social development, NGOs represent a voice or a collective interest within society represented here by the local community. The local community is formed by local people, and they are considered here as active partners rather than passive actors in the network. Moreover, as intermediaries NGOs combine the resources of other actors in social projects. Combining and tying resources has both direct and indirect innovative functions, as parties in the network learn about the use and provision of resources (Håkansson and Snehota 1995: 146).

The extended network in Fig. 5.1 illustrates three common elements: the importance of cooperation between different parties, diversity (heterogeneity) of resources and most importantly, the role of an intermediary actor in mobilising other actors, in realising resources and in helping to bring changes that are necessary for community development. According to Alter and Hage (1993), one cannot adopt a strategy of isolation, and the process of community development makes networks between actors that specialise in different kinds of activities necessary. In other words, community development represents collective action intended to achieve a 'supra-organisational' goal (Alter and Hage 1993: 27).

NGOs have increasingly affected MNCs corporate behaviour regarding issues such as the environment, safeguarding the interests of society and human rights (Ghauri et al. 2012: 12–14). In their interactions with firms and governments, NGOs seek procedures for public participation, fairer distributions of returns and the protection of natural resources for economic and social benefits (Doh and Teegen 2002; Teegen et al. 2004).

To summarise, interaction and relationships among different actors are the essence of a network, and the network of an actor is assumed to include all of the relevant actors that an organisation comes into contact with and all of the relevant relationships in which it becomes involved. Business actors, by developing cooperative ties with NGOs and other non-business actors, can build their legitimacy and provide continuity and stability in their operation.

Method

In this investigation, a single case study methodology was employed to examine an information communication technology (ICT) project in Brazil. The aim of this project was to develop a solution for improvements in the transportation system of Curitiba city. The local government was the main sponsor and the core coordinator of the project, but an NGO worked as an intermediary actor between the local government, business and society.

Analysis of a single case permits a deep description of the innovation process and inter-organisation interactions mainly when process-based information is required to make the analysis (O'Donnell and Cummins 1999; Yin 2009). The data was collected through 42 in-depth interviews with 5 participating organisations including firms, local government and an NGO. The interview questions focused on the direct role played by the NGO and the firms in the final outcome.

Theoretically, the questions were derived from relationship and network theory dealing with relationships between business and non-business actors (see e.g., Hadjikhani et al. 2008; Welch and Wilkinson 2004) and contained questions about the development of the project and the understanding of each actor's contribution to the final outcome. In addition

to interviews, secondary data such as companies' annual reports, CSR (Corporate Social Responsibility) reports and local news related to the project were used to rebuild historical events and also as a complement to the interviews. The researcher who performed the interviews is familiar with the local culture, language and the Brazilian market.

The ICT project in Curitiba city is a particularly interesting case for analysis, firstly because it is a project that was successfully developed in the context of an emerging economy, Brazil. Few studies have examined innovation among firms in emerging economies (Tellis et al. 2009), so we see an opportunity to make a contribution in this field. Moreover, we want to highlight the competencies and resources that NGOs can bring to the partnership. We believe that a cross-sector partnership facilitates the creation of new products and/or services that would not be easily achieved by a single actor.

The following section describes the research setting and how the idea of using a new technology came through as well as the final positive outcome to society.

The Empirical Setting

In Brazil, politicians know that improvements in urban mobility are associated with citizen well-being, and the quality of the transit has a direct impact on people's lives. Therefore, mobility has become an important theme in political campaigns and has also been on the agenda of some local NGOs. Below, we describe the project called 'The Buses of Brazil: Connectivity—Transport Solution' to illustrate the relationships between business firms, NGOs and political actors as well as to elucidate what each actor contributed to the transport solution.

The Buses of Brazil: Connectivity—Transport Solution in Curitiba

In Curitiba, public transportation is managed by URBS, a state-owned enterprise (SOE) responsible for the operation, supervision and transit

system of the city (99 % of URBS belongs to the Curitiba City Hall). Founded in 1963 with the aim of working on urban planning projects, it assumed the task of managing the public transportation, and since 1986 it has also had a mission to improve urban life. URBS monitors 250 bus lines, and more than 1.7 million passengers are transported every month (URBS homepage). In this specific project, Institute Curitiba of Informatics (ICI), an NGO responsible for the supply of IT solutions to URBS, identified a new way to improve the city transportation and transit system.

Founded in 1998 and headquartered in Curitiba, ICI enjoys a good reputation in the local market, having received several awards and certificates. The NGO is also very active in finding new partnerships that meet its mission of providing integrated, agile and innovative IT solutions for public management. To give some examples, ICI has partnerships with local universities and MNCs such as IBM, CISCO and Renault-Nissan (ICI homepage). It has also been very active in presenting its projects, portfolio of services and solutions as well as awards through social media (e.g., Facebook, LinkedIn and YouTube). ICI takes local initiatives to enhance the concept of the digital city in the Brazilian municipalities.

ICI identified that wireless communication could be a route to improve the transportation system. By shifting from radio to 3G technology, it would be possible to track the geographical position of each bus and thus enable URBS to better manage, for example, bus routes, distance travelled, and times of arrival and departure. This would in turn enable passengers to predict the time spent on their journeys and save time spent travelling.

The two MNCs Ericsson and Vivo were involved along with the Brazilian firm Dataprom in developing the project. Ericsson, headquartered in Sweden but with long experience in Brazil, is known for its mobile and fixed network and telecom services. Ericsson has a business-to-business focus and its main clients are the telecom operators. One of these clients is Vivo.

Vivo is a subsidiary of Telefonica, a Spanish telecom company and a leader in the local market. A third important business partner for URBS in this project was Dataprom, a Brazilian MNC headquartered in Curitiba with several offices in Latin America. The company develops and produces hardware and software for urban mobility. In the new

product development, Dataprom provided the card reader equipment installed in each bus station that was adjusted to receive an embedded Vivo SIM card to allow connectivity. Ericsson provided its F3607gw mobile broadband modules with GPS capabilities. This module was originally developed for notebooks and was installed in buses for the first time in this project.

The Project Outcome

In 2012, this project was successfully implemented to the benefit of more than 3 million citizens of Curitiba. The solution solved several communication problems; it resulted in better control of electronic ticketing and increased security for staff and passengers. As a result of the project, the level of passenger satisfaction increased substantially. Further, in addition to national recognition and success, the United Nations Framework Convention on Climate Change also recognised the initiative as an innovative solution, exposing the firms internationally. With a more efficient public transport, URBS could help to mitigate emissions and energy use.

Figure 5.2 below depicts a network view of how the actors were connected to each other. Actors from the public sector (the city’s mayor and

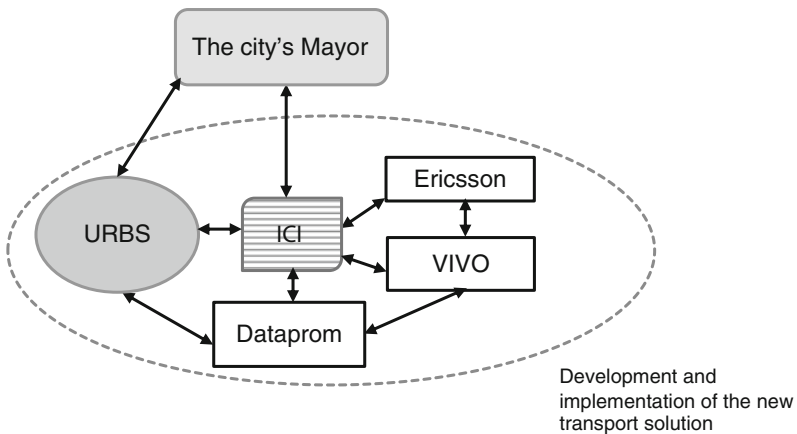


Fig. 5.2 The network view of business and non-business actors

URBS) are represented in grey; stripes represent ICI (the NGO) and white the MNCs (Ericsson, Dataprom and Vivo). Note that ICI has an intermediate position between different actors in the network. More precisely, ICI creates communication channels among those actors. The grey circle emphasises the main actors directly involved in the project. It is important to explain that although the city has a mayor, URBS is in charge of providing a good public service to the community. Hence, from the project point of view, URBS and ICI together have a more relevant function in coordination, while the companies provide the technology.

Analysis and Discussion

The case illustrates an ICT project in which partners recombined their existing technologies to produce a new solution through cross-sector partnership. The case shows that different actors were closely connected to each other and contributed differently to the development of a new product and improvement of the transport service.

The development and implementation of the product and improved transport service for URBS occurred with the help of the NGO ICI. URBS coordinated the project with the business actors, but it was ICI who identified the technology necessary to increase transport efficiency. The companies brought their technological know-how, but the idea and need were identified by ICI together with URBS. The NGO had an important role in designing, organising and mobilising resources to help URBS make the Curitiba transport system more efficient. Another important aspect is that ICI identified suitable partners that could provide the technological solution and brought them together. Thus, ICI with its ideas, local market knowledge and regional expertise brought learning and improvements to the public transport system.

Unlike the companies, ICI was more concerned about the social mission and the impact that the final product and the transport service could have on society. For example, with the new technology, URBS can now monitor passengers on their way in and out of the bus, and when the bus is full it sends a new bus to the same route. In practice this helps

URBS to reduce fuel consumption, due to fewer bus stops, while delivering faster public transport to the passengers. ICI also helped to create communication channels between URBS and the MNCs. Most of the interviewees highlighted that the meetings to discuss the project occurred at ICI's offices.

Competencies and Resources

In this chapter, we highlight the role of an NGO in working together with companies to achieve its social mission. The innovative solution in the project was not attainable without the partnership between firms, the NGO and the SOE, that is, URBS. In the partnership, all actors involved contributed with their different resources, skills and capabilities.

The NGO had a different approach in comparison to the business firms. That is, ICI focused on societal aspects of the public transport of Curitiba and worked cooperatively with the business actors to find ways to change an existing technology. The combination of skills and technological capabilities of the actors created the new solution. For example, the Ericsson module had previously never been used in buses. This is in line with the affirmations of Sjöberg (1996) and Stafford et al. (2000) that NGOs can be important non-business actors in firms' business networks. Without this cooperation, Ericsson certainly would not know that its module could be used in the transportation industry. This is in accordance with Doh and Teegen's (2002) affirmation that NGOs can complement MNCs with local knowledge that the MNCs probably do not possess. According to Ericsson's manager, the company could not have predicted that such an interesting project could allow it to use its capabilities in such a novel way. At the same time, it also helped the company to enhance its corporate message that technology can be good for society, business and the environment.

Unlike in Latifi's (2004) study which shows that NGOs can be invited by MNCs to take over responsibilities in innovative rural projects given their local expertise, in this chapter the NGO was in charge of inviting MNCs to work closely together in product development. This implies that NGOs may also have an emerging role in creating the necessary

conditions for firms to use their expertise to find new ways to use their existing technologies. The companies were not previously aware that their existing technological expertise could help to develop this product. It was the recombination of skills and the idea of ICI together that enabled the success of the project. Since then, all the companies claim that they are able to provide urban mobility solutions to their clients. This study also suggests that the source of innovation can lie outside of the firms' boundary, and innovative products and services can be developed with the help of non-traditional business network actors like NGOs. This illustrates the importance of non-business actors for firms' business activities, which is in accordance with Perez-Aleman and Sandilands (2008).

Conclusion and Implications

In spite of the fact that the business world is in continuous contact with non-business actors, traditional business network studies neglect these actors by only describing their low or short-term impacts. This chapter goes against this stream by arguing that non-business actors, specifically NGOs, can have a positive impact on firms' innovation. By highlighting the competencies, local expertise and resources that such actors can bring to the partnership, this chapter has expanded our knowledge of the importance of an extended business network. Additionally, we focus on a specific type of NGO, that is, an intermediary actor or a bridging organisation that creates links between firms, government and society.

The intermediary NGO in this study, ICI, acted as a moderator between local government represented by URBS—the SOE—and the MNCs. ICI possessed the ability to mobilise and direct the necessary resources of various actors, thereby playing an important role in carrying out the project 'The Buses of Brazil: Connectivity—Transport Solution'. As described above, the involvement of ICI contributed to identifying an innovative solution to a community problem in urban mobility. This is an interesting way to manage community development projects since the intermediary NGO can push and pull as well as furnish know-how, a network of contacts and resources. This view of intermediary actors is not new and has been prevalent in traditional network theory

(see e.g., Anderson and Narus 1990; Havila 1996). Nevertheless, in these earlier studies the intermediaries are business actors and have business goals. This chapter, however, changes this view and considers intermediaries that have non-business goals.

It is worth mentioning that the partnership also illustrates how complementary resources can be valuable to companies in achieving economic benefits and the societal aims of NGOs. Here, it is clear that ICI brought to the partnership the expertise embedded across the local community, their reputation and their brand, while the companies brought their brand, human capital and production capabilities to adjust the technology towards the need to improve the public transport system. It is interesting to note that as more partners mobilise distinctive competencies and their own resources, the potential for creating something new increases, and that this remains true in partnerships between business and non-business. The importance of complementary resources has also been noted by Dahan et al. (2010) in cross-sector partnerships.

In this study we emphasise the relative importance of intermediary NGOs, mainly in partnerships involving companies and government. This type of organisation can contribute stability to such partnerships, helping to accommodate the interests of all actors while pushing the social mission to the fore. A network of relationships involving different actors within firms' business networks is a promising way for MNCs to contribute to community development while at the same time improving their cost-effectiveness. Furthermore, such networks can enhance the image of an MNC in the host country, in its home country and in the market. More research is needed to explore the roles and the impact of intermediary NGOs in firms' business networks.

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6

Why Expatriates' Private Relations Matter

Martin Johanson and Heléne Lundberg

Introduction

Due to increasing globalisation it follows that a growing number of expatriate managers, that is, individuals having a managerial position in a foreign country, play a critical role within multinational corporations (MNCs), acting as a link between headquarters and the international units (Au and Fukuda 2002). In order to perform well in this role, they need to align their behaviour with the host country's cultural norms and values. The larger the cultural differences, the more demanding this task is likely to be. The expatriates need both a willingness to adapt as well as information regarding local conditions. Such information can be gained from various sources: the human resource department of the MNC in question, locally from co-workers, other expatriates or personal friends among host country nationals. In total, the latter relationships constitute their *social network* which, in line with Osman-Gani and Rockstuhl (2008: 33) in the context of expatriates, is defined as 'relational ties

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between the expatriate and other individuals, such as family, peer expatriates, local working partners, or local friends'.

This chapter discusses specific types of relationships which, so far, have been neglected by business network scholars, namely private relations. Thus, in order to extend the business network approach, we focus on social relations, which are not embedded in a professional or business context. They are private, and thus follow the aim to try to understand how expatriates create and use such relationships and their consequent outcomes of networking. In spite of the importance of expatriate social networks, there has been little research on expatriate managers' private relations, for example, how they build them (Farh et al. 2010; Wang 2002; Wang and Kanugo 2004) as well as how social networks influence their performance (Osman-Gani and Rockstuhl 2008). Moreover, there is an even greater shortage of research concerning social networks created within emerging markets, such as Russia (Michailova and Worm 2003). Although private relations may be of importance in contexts where rules and regulations are not fully developed or undergoing change, such relationships may furthermore be a means to access important information, necessary for understanding contextual processes and procedures (Björkman and Kock 1995).

We believe that an empirical study focusing on expatriates' private relations in the Russian market can contribute to the understanding of these issues. Accordingly, our research questions are as follows: How are private relations created and used by expatriate managers in Russia, and how do they and their corporations benefit from these social networks? In order to answer these questions, we develop an analytical model, which departs from the literature on expatriates' social networks. In the empirical section it is applied on several expatriates' private relations in the Russian market.

Theoretical Foundation

The Social Networks of Expatriate Managers

Within the social networks, boundary-spanning activities (Burt 1992, 2004) are performed as knowledge is transferred between different communities (Au and Fukuda 2002; Osman-Gani and Rockstuhl 2008).

Such networks within the host country are crucial for both personal and business reasons (Manev and Stevenson 2001) as expatriates form them in order to gain emotional support as well as useful business information (Farh et al. 2010; Wang 2002; Wang and Nayir 2006). When expatriate managers move to a new country, they lose contact with their old networks, and if they do not create new ones, their personal well-being may be endangered (Liu and Shaffer 2005). It has also been suggested that social networks are important for firms as they imply an opportunity to access knowledge, technology and resources (Inkpen and Tsang 2005). Expatriate managers are an important part of an MNC, linking the headquarters to the local unit. However, when expatriates are transferred overseas for an assignment, they need to deal with a new context and a foreign culture, which can be a difficult adjustment process (Caligiuri 1997).

On the basis of a literature overview concerning expatriate managers, Wang (2002) identified psychological well-being as a very important component in their adjustment process. Wang also highlighted how strong private relations appeared to facilitate the adjustment process by providing the expatriate with both emotional and informational support. However, the former social networks of expatriate managers started to fade once they were relocated to a foreign unit. Consequently, expatriates needed to develop new social networks in order to adjust to their new environmental setting.

From an extensive research overview, Osman-Gani and Rockstuhl (2008) concluded that the knowledge of what impact the expatriates' social context relationships have on their performance is still fairly low. They furthermore suggested the following propositions: (1) if more high-performing individuals are a part of an expatriate's network, the expatriate will also perform to a higher level and (2) when the diversity in an expatriate's social network is high, the expatriate will conduct more boundary-spanning activities. In other words, the successfulness of an expatriate is related to both the quality and quantity of the networks' resources.

Social capital is an umbrella used to describe resources embedded within social networks (Adler and Kwon 2002) and has also been used in order to explain those of expatriate managers (Liu and Shaffer 2005; Osman-Gani and Rockstuhl 2008). A basic assumption is that the social capital is an asset created by the networks and that such resources have a

profit or return potential (Lin 2001). Several scholars have used the following definitions:

Social capital is the goodwill available to individuals or groups. Its source lies in the structure and content of the actor's social relations (Adler and Kwon 2002: 23) and social capital is ... investment in social relations with expected return in the marketplace. (Lin 2001: 19)

A Model of Private-Relation Development

We propose that the process of developing and maintaining private relationships can be divided into three parts: creation, use and outcome (see Fig. 6.1). The first part, *creation*, concerns how, where and why people initially meet and begin to develop relations. Relations may be borne out of existing social networks; however, there are also organisations which partly exist in order to give people an arena to meet (Wagner and Vormbusch 2010).

The second part of the model concerns the *use* of these relations, referring to the activities that those involved in a relationship actually conduct. We argue that the expatriates use their networks in three main ways, the primary being as source of information and knowledge. Closely related are the involved connections which act as a vehicle to better understand the foreign environment. This is partly achieved by reflecting and comparing the newly acquired knowledge and experience with that of others'. An individual can access information that would otherwise be unattainable if the networking partners have access to sources normally not available to the individual. Furthermore, in social relations, information, such as references, can be shared and thus influence decision-makers, potentially affecting the individual, for example regarding promotions (Lin 2001).



Fig. 6.1 The networking process of expatriate managers

Private relationships can generate returns for an individual in two forms: instrumental or expressive (Lin 2001). This is displayed in the third and final part of the model, *outcomes*. Instrumental returns are very much related to business and work as they are mostly characterised by increased wealth or power. The expressive returns, on the other hand, are related more to private life; one seeks similar individuals in order to gain, for example, empathy. In contrast, instrumental actions occur when one is searching for new resources to achieve goals, such as a new job or a promotion. These forms are often intertwined. For instance, Liu and Shaffer (2005) found that social relations provide an opportunity to improve performance as well as adjustment processes, whilst Osman-Gani and Rockstuhl (2008) concluded that private relations gave expatriates feedback, and emotional and informational support, hence reducing long-term uncertainty. The social capital theory focuses on how social relations affect individual actors, but also takes an interest in how private relationships affect the firms where the individuals work. A third type of return thus covers the firms' outcomes of the private relations. In a study of employees working in China (Björkman and Kock 1995), it was noted that most of the employees stressed the importance of personal relationships in order to receive business opportunities. In a similar vein, Håkansson and Snehota (1995) argued that although companies can be seen as actors themselves, they do act through individuals and social ties to generate new business deals or, for example, establish an image. Wagner and Vormbusch (2010), who studied the social networks of German expatriates in Russia, found that the MNCs did benefit from these networks in the form of both loyalty and local knowledge.

The Russian Context

During the past two decades, Russia has transitioned from a centrally planned system to an increasingly market-orientated economy. As a consequence, business and management in Russia have undergone substantial change. Russia is of significant interest as it is not only one of the largest emerging economies in the world, but also a member of the G8 economic powers and one of the BRIC (Brazil, Russia, India and China)

countries predicted to lead the world economy (O'Neill 2001). Russia is also the emerging market geographically closest to the European Union, making it attractive for foreign direct investments (Larimo and Huuhka 2007). Thus, it is likely that European companies will invest more heavily in Russia in the future, and, consequently, the recruitment of expatriate managers to subsidiaries in Russia will grow. However, research on the Russian context has been sparse in comparison with other BRIC nations such as India and China (Puffer and McCarthy 2011).

Interpersonal networks are of importance in uncertain and unstable economic environments as interpersonal trust mitigates risk and reduces the influence of environmental changes (Batjargal 2003). Russian managers have a tradition of strong reliance on informal institutions, including personal networks, to conduct business due to the void created by the weak legitimacy of the country's formal institutions (Puffer and McCarthy 2011). This pronounced tendency for informal rules and networks emerged in response to the technological determinism of the Soviet system (Kuznetsov and Kuznetsova 2005) and included the traditional use of favours known as 'blat' (Michailova and Worm 2003). Johanson (2008) concludes that research on Russia has shown that interpersonal relationships are important for trust building and uncertainty reduction, and also for knowledge exchange, development and combination aimed at mutual adaptation and innovation processes. However, mistrust of outsiders and reliance on ones own networks have been identified as key aspects within Russian culture, hindering communication with foreign managers of Western subsidiaries (Ayios 2004). It has even been argued that developing social capital is critical to ensure long-term continuous business survival in Russia (Butler and Purchase 2008).

Method

Research Design

We used an abductive approach (Gadde and Dubois 2002), which gave us the flexibility to discover aspects of the phenomena that were not part of the initial research scope but were found to be important. As data were

continuously coded and analysed, a clearer understanding arose further guiding subsequent collection and allowing the research concepts to be modified.

Data Collection

Data were gathered through face-to-face interviews with ten business managers working in the Russian market (Nilsson and Thyr 2012). As questions probing private relations are sensitive in nature, a semi-structural question guide was chosen for the flexibility it offers in establishing rapport with informants (Saunders et al. 2009). The interviews were conducted at the beginning of 2012. They were audio-recorded and later transcribed. However, to protect the integrity of our informants, their names have been changed. Given the potential sensitivity of our research topic, snowball sampling was applied and candidates were contacted through existing acquaintances. We began the interviews by inviting the informants to present their five strongest business relationships alongside their five most important personal relationships. The informants were asked to describe when and how they met these individuals, and the importance they had in both their professional and social lives. Within this chapter, informants who did not provide at least five pure private relations were excluded. This resulted in five expatriate cases (Table 6.1) specified in more detail in the Appendix.

The transcribed interviews were sent to the informants for confirmation, with the aim of correcting potential misunderstandings and

Table 6.1 Overview of informants

Informant	Gender	Nationality	Occupation	Industry	Location
1	Male	Swedish	CEO and Country Manager	Recruitment	St. Petersburg
2	Male	Swedish	Corporate Relationship Manager	Bank	Moscow
3	Male	Swedish	CEO	Automotive	St. Petersburg
4	Male	Swedish	CEO	Advertising	St. Petersburg
5	Female	Swedish	Partner	Legal	St. Petersburg

ensuring the reliability of the data. Coding and analysis were jointly conducted by two members of the research team, and later verified by two different team members to increase consistency as well as strengthen the quality of analysis.

Empirical Findings

Case 1: CEO of a Swedish Recruiting Company

E1 had been living in Russia for 7 years and spoke fluent Russian. When he first started working in Russia, he used friends and contacts from his previous university studies, also working in Russia, in order to establish new private relations. However, such relations were mostly with people from the Nordic countries rather than from Russia.

Being foreigners we see the issues slightly differently I assume. I think that we have a great support from each other.

This quote illustrates that expatriates in Russia have alienation in common no matter what home country they originate from and that they support each other in handling these differences. The roots of his relations differed. Three of them, which could not be defined as purely private, had a background in E1's professional and business experience; one represented a customer, Hans, and another a supplier, Anton. As Hans and E1 changed workplace, the business element was no longer there but they remained private friends. The relation with Stig, who had a very long experience from working in Russia, began when they met at the Swedish Club in St. Petersburg. The two remaining relationships emerged in other ways: E1 met Olle by coincidence at the local airport and Jukka, a Finn, through mutual friends.

E1 said that the interaction within the private relationships revolved largely around sharing information and experience, allowing him to compare impressions and experiences with people of the same background. His Russian friend, Anton, a former supplier, had provided E1 with in-depth information and knowledge about Russia. Hans and

Anton offered support if necessary and could give him access to business opportunities, while Jukka helped him to connect with the Finnish community in St. Petersburg. He saw this relationship as a mode to further access Finns, which he hoped would support the growth of his company's services, as:

...the Finnish business community in St. Petersburg is large and they speak very much among themselves so information is spreading quite fast.

Therefore, even if the relationship with Jukka was of a private character, E1 believed that it could, in the long-term, also be fruitful for his business. His different relations thus had a complementary function. By helping him adapt to his new environment, they supported his personal well-being while also assisting his long-term purpose of conducting business. As such, they brought both instrumental and expressive personal outcomes to E1.

Case 2: Corporate Relationship Manager in a Swedish Bank

E2 was working in a Swedish bank located in Moscow. He had been living in Russia for 8 years and started as the only foreigner in an all-Russian firm. This situation led him to believe that the only way to create a career for himself was to start building relations with local people and learn Russian. He therefore began to attend business clubs, embassy meetings and networking organisations. Consequently, two of his private relations were a result of these initiatives. Bengt and Tobias were people whom he initially met at Sweden's embassy in Moscow. The other three personal relationships represented two common ways to begin a private relation: through mutual friends (Cecilia and Måns) and by coincidence (Linus). E2 and Linus met at the airport and began to talk. What is striking is that three of the relations do not contain any other elements or activities other than socialising and being friends: Bengt, Linus and Cecilia. One of the reasons for this may be that through his stay in Russia, E2 had changed from someone seeking information, to someone with the capability to channel information:

... when I was in the beginning of my career, I thought of it to a greater extent as a way to get to know other, let's say, maybe Scandinavians or people living here who you want to socialise with, so it was more for the private purpose of getting to know more people. Now I have had an existing network. If someone wants to know something they can ask me, and if I don't know the answer then I would know whom to ask.

At the time, E2 had 8 years of experience working in Russia and he spoke fluent Russian. He was in no need of finding friends or developing private relations any longer. Neither was he in need of learning and getting information. Consequently, the outcome of the private relations was merely, to a small extent, connected to his work in the bank. In reality, only Måns gave him information that he could use directly in his work.

Case 3: CEO of a Swedish Automotive Company

E3 had been living in Russia for 6 years and served as CEO of a Swedish automotive company in St. Petersburg. He spoke fluent Russian. Hans, a fellow Swede, was a close friend and one of his most important private connections in St. Petersburg. Their cultural affinity was a relief to him:

He is one of my few Swedish friends here in St. Petersburg. And that's important.

E3 also had private relations with Russians. Andrey was one of them. He was a colleague in E3's previous job and had become a close friend. They shared similar interests and political views, and enjoyed spending free time together as they both had Swedish/Russian families. On some occasions, Andrey provided E3 resources from his business ties such as candidates for a job. Another Russian friend was Dmitry, an entrepreneur who helped him adapt to Russian life. They met through the Swedish Trade Council. These private relations both began as professional ties, but had since acquired a more personal nature, and they remained friends upon changing workplace and losing the business connection. E3 had accumulated so much experience in Russia and thus no longer needed to adapt or learn about the culture. According to E3 and his boss, he himself was 'his door to Russia and the Russian market'.

Case 4: CEO of a Swedish Advertising Company

E4 was living and working in St. Petersburg. He spoke fluent Russian and had been living in Russia for the last 6 years. He felt that his affinity for the country and being active on the social scene had made the adjustment to Russian life much easier and that he now had reached a state when he did not need any support from other expatriates:

I know from experience, that the job offers I get come through my contact network. But I don't use my contact networks with other expatriates in order to do business.

E4 claimed that he used his private relations purely for socialising and personal gain, such as emotional support or to find a new job. Nevertheless, he also mentioned informational business-related gains:

He (a personal friend) has a good view on the world market so I get information on what's going on with the world economy.

Three of E4's private relations had their roots in his already existing networks of friends. Anders, Fredrik and Rickard were characterised by close friendship, and the main activity was primarily to socialise. The longest, and maybe closest, private relationship E4 had was with Gunnar. They met when they were both studying Russian. In Russia, E4 could easily meet and build connections with many successful foreigners. These relations offered emotional support:

They have helped me to develop and to grow up, and I can say I connect easier to my Russian-Swedish friends than with my Swedish friends back home.

E4 stated bluntly that he had no problem to build private relations for instrumental purposes:

When I moved here I used social networks to have lunches, to talk about where to put the company. They had their views what was good and bad and I used this.

Case 5: Partner in a Swedish Law Firm

E5 had a relatively limited experience of living in Russia. She moved to St. Petersburg 2 years ago, did not speak Russian and did not know any people in Russia beforehand. E5 began to actively participate in various events held by the Swedish Club, in order to make new friends. She met Andrey and Rickard at events arranged by the Swedish Club. She considered her frequent presence at the club and the relations she made there as a way to create a 'trade mark' for herself and her company, leading to an improved reputation and increased legitimacy in the Russian market:

You kind of distribute your business, you get to know people, they get to know you and you kind of confirm your presence in the market.

My work here consists of different types of assignments. One part is definitely, of course, to be out and make social connections representing the company.

Andrey, who was Russian but had a Swedish wife, had been of great help during E5's adaptation in Russia:

I think I put hundreds of questions to him each time when we meet, and he answers all of them definitely. He is a guide in everything I would say.

As their personal friendship developed, they began to exchange business information and gave references to one another. E5 had also developed a private relation with Ekaterina, her Russian teacher who had helped her to adjust to the new life:

She is about my age, and she has advised me a lot about the Russian mentality.

E5's most important private relationship was with her Swedish boss Stig, who had 20 years of experience working in Russia. He had on multiple occasions taken the time to explain the work and society in Russia,

which had helped her tremendously in becoming acquainted with her new environment:

Especially during my first time here we spent a lot of time together.

This relation had not only contributed to a successful start of E5's career in Russia, but it had also transformed into a private relation. E5's private relationships produced different outcomes, but as she had little experience of Russia she appreciated the knowledge she gained regarding Russian mentality and culture from those mentioned above.

Analysis

Creation

The cases demonstrate that private relations emerge in different ways, related to both context and mode. The contexts exemplified in the cases are: events arranged by the Swedish Club, existing social relations, airports and trains, previous working places or business. The most common contexts in the cases are existing social relations and professional situations, especially among the expatriates who are experienced and know the language. Less experienced expatriates appear to use other sources such as the Swedish Club, or other arenas for social interaction. A rather specific context for initiating private relations was via travel channels, where people meet by coincidence. These sources represent a non-deliberate mode; that is, the interaction leading to the development of a relationship is due to serendipity, not planned or searched for, in comparison to, for instance, the Swedish Club which primarily exists to facilitate expatriate meetings. Thus, the contexts can be divided into professional or non-professional, and the modes can be either deliberate or non-deliberate. It is difficult to identify any patterns concerning the context or mode of creation for private relationships, but it is apparent that the experience of the expatriates has an impact on how much they require private relations, in turn, influencing

both the context and the mode. The less experience the expatriates have in a given context, the more likely they will create private relationships through non-professional situations and deliberate modes; they are open to new relationships as well as actively search for those of a private nature. It is illustrated in the empirical material that the expatriates are well aware that lack of private relationships may indeed harm their assignment, hence the active search.

Use

Due to the above illustrations, we have problems identifying any specific correlation between creation and use of various relationships. It is not necessarily the case that a specific creation leads to a specific use of that private relation. The two observable ways of using private relations are either purely by socialising or as a way to gain information and knowledge. That is, the use of a private relationship may merely be to spend time together. All informants exemplified that being together without obligations, just relaxing, having lunch etc., has a specific value in itself. The other use of the relationships within the cases is to gain knowledge and exchange information. We conclude that the creation (contexts and modes) and use (socialising and information exchange) have different components; however, it is difficult to see patterns among them as they may be intertwined.

Outcomes

The outcome data on private relations can be divided into two main groups: private life and business life. The private-life outcomes concern comfort and support, which contributes to making life as untroubled as possible for the expatriate, both in leisure and at the workplace. The business-related out-comes enable expatriates to perform their jobs to the best ability, with respect to profession, business and career within a foreign country. Both these outcomes are present in the five expatriates' private relations, as in the development of these relationships, information and knowledge are essential ingredients. The manner in which the private

relations are used determines the quality and volume of the information and knowledge exchanged within.

We cannot observe any specific patterns between the use and outcome of the illustrated relationships. Instead it appears that several of the private relations produce both outcomes concurrently and that both non-deliberate information exchange (socialising) and deliberate search for information, to a large extent, are intertwined. This study deals with private relations existing between expatriates and people in the foreign country. They are not embedded in the expatriates' business or professional relationships, but are considered to be 'purely' private. Nevertheless, this study provides evidence that such connections are important as they also produce useful outcomes for the expatriate in professional life.

Conclusions and Implications

A Revised Model of Private-Relation Development

The 25 private relations described and analysed in the empirical data indicate that private relations are, even when not embedded in business or professional relations, important for expatriates for both private and professional reasons. They offer the expatriate emotional as well as instrumental returns. In that respect, we argue that the private relationships analysed support the model developed for this study. We have been able to observe both the concept and the sub-concepts in the model. However, the analysis does not give us any more sophisticated insight into how these concepts and sub-concepts are interrelated. Nevertheless, the data signals that the experience of the expatriate tends to influence the creation of private relationships, as well as how they are used and what type of outcome they produce (see Fig. 6.2).

We argue that the less experienced expatriate, like E5, had a bigger need to develop new private relations than expatriates, such as E2, who had experience and knew the language. This need to develop relationships makes the expatriate more open to various contexts and modes in order to develop private relations. It forces the expatriate to be as creative as possible in order to develop the relationships needed to be able to conduct

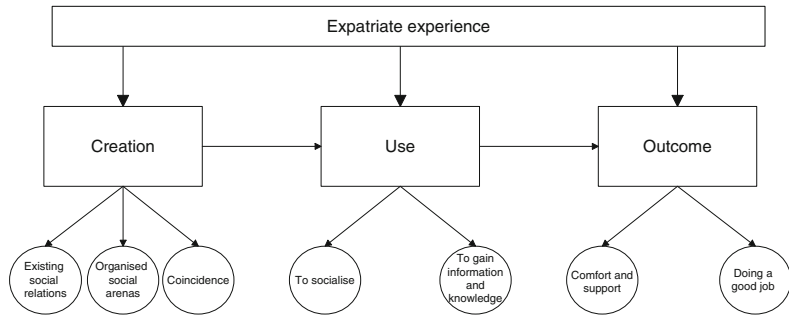


Fig. 6.2 A revised model of private-relation development

the assignment. In contrast, the experienced expatriate already has a lot of knowledge and an existing network of private relationships. Every potential new relation is therefore implicitly compared to the existing ones as the time needed to develop a new relationship may have to be sacrificed from those existing.

Furthermore, it is likely that expatriates' experience, existing network and knowledge about the country influence why and where relations emerge. A less experienced expatriate has no existing network of contacts and is more in need of both knowledge and friends. As the assignment requires the expatriate to be aware of how the market functions and especially how to successfully conduct business activities, this shortage of knowledge could be crucial to an MNC. Such pivotal combination consequently forces the expatriate to rely on formal settings such as business club meetings. A more experienced expatriate had probably hitherto developed a network of private relations through which information is channelled. Moreover, the gained knowledge is likely to require a smaller need for information. When the infrastructure of private relations is established, new information through formal sources will not be as necessary as it was during the initial phase of the foreign assignment.

Beyond formal contexts, expatriates also have access to private, informal settings, where the first seeds of private relationships can be manifested. Within this category, the main arenas for relation-development processes exist, and therefore such networks can increase exponentially,

omitting certain contexts such as airports or railway stations. In other words, with less experience, expatriates' private relations are more likely to arise haphazardly in places not primarily designated for social activities. Thus, coincidence and something that could be labelled luck are important elements in developing private relationships for the non-experienced expatriates. However, besides this serendipity, lack of experience and the need for relationship-building tend to force the inexperienced expatriate to proactively search for people in arenas and events designed for social interactions, such as meetings at embassies, clubs and associations. These contexts thus partly fulfil different functions for expatriates with experience compared to those without.

Based on the same logic, the cases indicate that the degree of experience matters not only for why and how private relations are created, but also for how the expatriate uses them. The experienced expatriate is likely to have more knowledge, both about business and culture, as well as existing relations, which may serve as information providers. The experienced expatriate is also likely to feel more secure and certain both professionally and privately. It is in light of these differences that private relations are used distinctively. The more experienced expatriate most probably uses private relations solely to socialise, whereas those with less experience also use them for business purposes.

In sum, we have extended the business network approach by examining how individual expatriate managers strive to learn about, and adapt to, foreign market conditions through private relationships. A model for private-relation development has been suggested, which proposes that besides established creation modes, such as existing relations and established social arenas, coincidence is often the initiation. It is also argued that expatriates' private relations are not only a source of information and knowledge, enhancing the performance of the expatriates, but also important to decrease personal stress, as socialising without professional obligations gives the expatriates comfort and support. This is likely to be especially critical in countries perceived as turbulent, different and uncertain.

Acknowledgements The authors are grateful to Aron Thyri for his contributions in earlier versions of the chapter.

Appendix

A Summary of the Private Relations

Informant	Counterpart	Creation	Use	Outcome
E1	Hans	Previous sales contact that turned into a customer and later became a personal friend	Exchange of local information, discussions on managerial problems etc.	Support and information
E1	Olle	Met him at the airport	Information exchange regarding management issues and emotional support	Support and to some extent important for business
E1	Jukka	Met through a mutual friend	Information exchange regarding management, and emotional support	Personal support and some business
E1	Stig	Met at the Swedish Club in St. Petersburg	Shares much information from his long experience in Russia	Knowledge of Russia
E1	Anton	Started as their IT supplier and then became a personal friend	Has plenty of local understanding	Knowledge about the Russian environment
E2	Bengt	Met him at the embassy in Moscow	Just socialising	Friendship
E2	Måns	Met him at a party in Moscow	Exchange of formal and informal information	More information about what he is doing, as well as some work-related information

Informant	Counterpart	Creation	Use	Outcome
E2	Tobias	Met him at the embassy in Moscow, used to do sports together	Exchange of information	Information on global economy etc.
E2	Linus	Met him when they were flying together to Russia	Not much use now, but could increase in the future	Not much outcome now, but wants more in the future.
E2	Cecilia	Met her through his wife	Mostly socialising, parties and similar activities	Access to her networks in Russia and Sweden
E3	Anna	His Russian wife, whom he met on a train from Moscow to St. Petersburg	Marriage. Most important of all relationships.	Support. Knowledge about culture and everyday life.
E3	Dmitry	Met while E3 was working at the Swedish Trade Council	Socialising, going to the gym, having fun	Have fun and be able to relax
E3	Andrey	Met through E3's previous work	Socialising with him and his family. Spending time and share interests, go to a summer house, relax etc.	
E3	Hans	Met through E3's previous work	Socialising, going to concerts	Friendship with someone from Sweden. Sharing experience
E3	Irina	Met through his wife (his mother-in-law)	Babysits his child	Provides free time for the respondent and his wife to relax
E4	Gunnar	Met in St. Petersburg while E4 was studying Russian.	Discuss business ideas, meaning of life etc.	Important friendship
E4	Fredrik	Met through friends in Moscow	Talking over a beer, or in restaurants	Friendship

(continued)

(continued)

Informant	Counterpart	Creation	Use	Outcome
E4	Rickard	Met through friends	Not much usage since Rickard is occupied with a wife and child now	Friendship
E4	Anders	Met through friends in Sweden	Talking about life	Friendship
E4	Hans	Former business partner	Have dinner, maybe go to a concert.	Friendship, some information on Russian politics and market.
E5	Rolf	Met through work in Sweden (boyfriend)	Socialising	Friendship
E5	Stig	Met through work	Talking about different phenomena in Russia, about work, and so on	Introduced E5 to the Swedish Club, gets information about Russia
E5	Andrey	Met at the Swedish Club in St. Petersburg	Interacting on both personal and professional levels	Gets local information about the Russian culture
E5	Rickard	Met at the Swedish Club in St. Petersburg.	Hanging out on occasion, having lunch, meeting at the Swedish Club etc.	Rewarding from a personal point of view
E5	Ekaterina	Found her through the internet, met for classes in Russian	Meet for lessons in Russian	Provides much advice about the Russian mentality and help to learn Russian

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7

The Internationalisation of Swedish Banks and Their Business Networks: Push Versus Pull Strategies

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Introduction

Constrained by both domestic and foreign regulations, Swedish banks' operations have historically primarily occurred in Sweden (Engwall 1992). National regulations only allowed minor operations in foreign markets, whilst internationally, other countries did not permit foreign banking ventures. The Swedish banks' choices and possibilities for internationalisation were clearly constrained. Since the 1990s conditions have changed due to foreign and domestic deregulation, allowing Swedish banks to broaden their foreign ownership and expand internationally, often following their corporate customers to global markets (Marquardt 1994). To deepen our understanding on banks' internationalisation, this chapter seeks to explore how their relationships with existing and poten-

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tial corporate customers and, in turn, their business network, might influence the internationalisation process.

Studies using the *internationalisation process* (IP) model (Johanson and Vahlne 1977) have mainly focused on manufacturing or industrial firms. Less attention has been given to service firms', and even less to banks', internationalisation process. In the revised IP model, focus changed from approaching the environment as consisting of markets to viewing it as business networks (Johanson and Vahlne 2009). Firms' incremental knowledge accumulation and commitment decisions are no longer about markets per se, but about business networks. Opportunity development and commitment building activities are thereby specific to actors in the firm's business network (ibid.).

From an extended resource-based view, Etemad (2004) suggests that firms' internationalisation is affected by both internal and external push and pull forces. The push force stems from existing customers that drive the firm to enter a new market, while the pull force relates to the firm's attraction to a foreign market, based on a perception of potential customers within. Inspired by the contributions above, this chapter aims to illustrate how banks' corporate customers' business networks can influence their internationalisation process by pushing or pulling. We assume that on the one hand, internationalisation activities, in the existing network of corporate customers in the bank's business network, can push the bank to follow their existing network of corporate customers to new foreign markets in order to support and maintain the business relationships. On the other hand, the potential of gaining access to corporate customers in new business networks can pull the bank to new foreign markets.

The internationalisation patterns of banks have been described as mimetic as they follow their competitors in order to find funding or capital investment (Ekman et al. 2014; Engwall and Wallenstål 1988). Studies also show that banks' internationalisation process involves following important corporate customers (Tschoegl 1987). Cardone-Riportella et al. (2003) found that some Finnish banks followed their corporate customers to new foreign markets, while patterns of Spanish banks were more widespread as they also followed competitors. However, as Álvarez-Gil et al. (2003) illustrated, banks' internationalisation process differs from both industrial and other service firms as they, in their options, are more profoundly subjected to national and supranational rules and regulations.

Following the shift from a market to network focus in internationalisation research on industrial firms, more research regarding banks' internationalisation is needed. The purpose of this chapter is to illustrate how Swedish banks' internationalisation process has been affected by either the existing corporate customers' 'pushes' within the business network or the potential corporate customers' 'pulls'. The following section introduces our theoretical framework, followed by a presentation of methodology. Subsequently, three illustrative examples are presented and analysed before the chapter ends with a final discussion and conclusions.

Internationalisation of Banks

Engwall and Wallenstål's (1988) study on the internationalisation of Swedish banks showed that the banks consecutively followed one other into different foreign markets, displaying a mimetic behaviour in their internationalisation activities. Furthermore, Marquardt's (1994) longitudinal study on Swedish banks' foreign activities, from the beginning of the twentieth century until 1994, showed that their entry modes did not require high investments. Building on these results, the study by Ekman et al. (2014) on Swedish banks internationalisation between 1961 and 2010 verified the mimetic behaviour in the pre-deregulation period, while the post-deregulation period also saw market-seeking behaviours. However, these studies focused on internationalisation in general, in order to establish common patterns in the process over time.

There are few examples of studies on specific banks' internationalisation using a longitudinal case approach (see e.g., Cattani and Tschoegl 2002; Hirst and Taylor 1985; Parada et al. 2009). Apart from these single bank studies, most contributions involve groups of banks and their internationalisation, often with focus on foreign market entry (see e.g., Blandón 2001; Tschoegl 2002; Ursacki and Vertinsky 1992). Spanish banks have been the subject of a number of studies where both Álvarez-Gil et al. (2003) and Cardone-Riportella and Cazorla-Papis (2001) studied the Spanish banks internationalisation into Latin America. Sanchez-Peinado (2003) followed the general internationalisation of Spanish banks, while Cardone-Riportella et al. (2003) included both Spanish banks and

Finnish financial service firms, finding that smaller banks seem to follow larger domestic banks, and their corporate customers, into foreign markets. Studying German banks, Buch and Lipponer (2007) found that larger and more profitable banks are more prone to internationalise, while Mutinelli and Piscitello (2001) found that Italian banks followed their corporate customers abroad by using branch offices as entry mode. These contributions illustrate that the banks' internationalisation process has strongly been influenced by push forces, where existing corporate customers have pushed them into new foreign markets. Interestingly, Ekman et al.'s (2014) finding on market-seeking behaviours indicates that there has also been a pull force influencing banks' internationalisation process, whereby potential corporate customers in a foreign market have attracted the bank to enter.

Rather than concentrate on the aforementioned examples on mimetic behaviour in the internationalisation process, this chapter seeks to understand how the business networks of banks' corporate customers have affected the internationalisation process of banks. Here, emphasis is placed on network ties, rather than internationalisation patterns over time. Engwall (1992) demonstrates that distance has less impact on the internationalisation behaviour of banks compared to other industries. Rather, the main barriers are instead regulatory. Similar to the assumption in this chapter, Engwall and Johanson (1990) illustrate that banks are embedded in industrial networks, and in order to protect and develop their network position, they need to develop long-term relationships with the actors herein. Supported by earlier studies on Swedish banks (Marquardt 1994), this chapter employs the IP model (Johanson and Vahlne 1977, 1990, 2009; Vahlne and Johanson 2013) to analyse banks' internationalisation process.

With a business network approach, the IP model specifies factors that describe the state from which the company starts its endeavours, as well as the end state of an internationalisation activity (Johanson and Vahlne 2009). We assume that banks are embedded within a business network, where the business relationships between the bank and its corporate customer are connected to those customers' business relationships with (industrial) customers and suppliers (Anderson et al. 1994). These connected relationships in a foreign market can provide a route for the bank

to find potential corporate customers, and might thereby exert a pull to enter a new foreign market in order to receive access to the connected relationships.

Networks evolve both intentionally and unintentionally, with some firms active in assessing their relative position (Colville and Pye 2010; Ford and Redwood 2005; Ramos et al. 2012), and others engaging in relationship-building activities, intuitively or unreflectively. Thus, a firm's understanding of its larger network can be seen as a device for outlook. Banks that lack market experience cannot merely 'piggyback' on their competitors and corporate customers; they also need to recognise, or validate, their corporate customers' business relationships. Gradually, the bank upon receiving a new network position can have easier access to external resources, and influence these (Johanson and Mattsson 1988). Although the 'piggybacking' per se might have been intentional, such as for industrial firms, it may also have been unintentional as the bank is pushed abroad by its current business network (ibid.). A bank that realises that it is being pushed by its existing network of corporate customers, and is unwilling to commit to the new network position, faces the dilemma of potentially losing corporate customers as well as its network position.

Firms being pushed or pulled into a market have also been discussed by Etemad (2004) with evident differences in what is considered a push or pull force. As illustrated in Fig. 7.1, both push and pull factors influence the internationalisation process of banks. The push factors are the internal forces which lead to the bank exploiting international opportunities, while the pull factors are the external incentives that attract the bank to invest in foreign markets, for example in a large market with

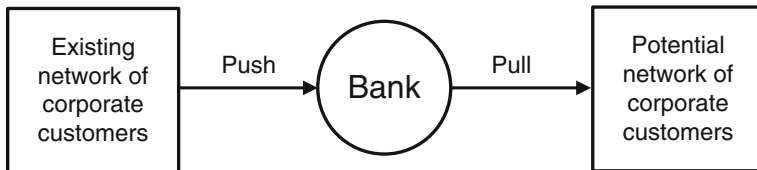


Fig. 7.1 Local push and foreign market pull in banks' internationalisation process (Adapted from Etemad 2004: 6)

unfilled demand. Push factors could, according to Etemad (2004), be operationalised by, among other aspects, the response to domestic corporate customer needs, or competitor actions, internationally. Pull factors on the other hand could be seen as a response to previous domestic corporate customers and also as a way of getting ahead of competitors to prevent them from gaining access to new potential corporate customers. Liberalisation of a market and the opportunities that follow are also seen as possible pull factors that could attract the banks to internationalise.

Method

This chapter applies a process view and a qualitative method approach to emphasise the context of the banks' operations. The study is a continuation of Engwall and Wallenstål (1988), Marquardt (1994), Hadjikhani (2013) and Ekman et al.'s (2014) contributions on the internationalisation of Swedish banks. Similar to the above-mentioned works, this study is based on secondary data sources regarding Sweden's four largest banks' activities spanning from 1995 to 2010. The decision to use secondary sources was based on avoiding biased post-hoc rationalisations, or selective amnesia. Though data was collected retrospectively, information is about the banks contemporary plans and activities.

The three illustrative examples were extracted from multiple sources of evidence as suggested by Yin (2009) and Ghauri and Grønhaug (2010). Firstly, data was collected from press releases and quarterly, semi-annual and annual reports from Sweden's four largest banks. Secondly, to increase reliability, the examples have been constructed from Scandinavian and English-language business and daily newspaper articles concerning the four banks, with reference to their past, current and potential corporate customers. These news items were retrieved from the database 'Bisnode' and cross-referenced with other news items and reports, as well as the banks' press releases. Retrieved data was then compiled into a dataset within NVivo. For a more elaborate description of the process of data collection, coding and analysis, see Ghauri (2004), Hadjikhani (2013) and Hadjikhani et al. (2012).

The analysis was achieved by tracing the banks internationalisation patterns and studying their relationships. In addition, managers' statements over time, and about specific actors, were vital to uncover what type of relationship it was, the strength, as well as how it affected the bank and its activities.

The four Swedish banks—Nordea Bank AB (Nordea), Skandinaviska Enskilda Banken AB (SEB), Svenska Handelsbanken AB (Handelsbanken) and Swedbank AB—have used different methods to enter and expand into foreign markets, as well as chosen different internationalisation paths (different markets) as recent studies have shown (Ekman et al. 2014; Hadjikhani 2013; Hadjikhani et al. 2012). These previous studies have applied a market-based view to study banks' internationalisation process. The following illustrative examples seek to highlight that by applying a business network-based view, other findings and explanations may be found on banks' internationalisation process.

Three Examples of Swedish Banks Expansion Abroad

Nordea Enters Poland

In 1989 the Polish banking market was deregulated, and during the late 1990s Nordea decided to expand into Poland by acquiring 49.9 % of Bank Komunalny in 1999. A manager of Nordea's Polish operations explained (as seen below) that Nordea from then on, not only sought to service Nordic corporate customers in Poland, but also to service local Polish private and corporate customers.

Our ambition is to service Nordic customers with business in Poland, but also improving banking services to Polish private and corporate customers. (Waikla 1999)

In line with the statement above, Nordea recognised opportunities in Poland for two specific reasons: one being that only 5 % of the citizens in Poland had a bank account, and the other that 1600 Nordic companies

had already taken the 'leap' into the Polish market. The acquisition of Bank Komunalny was merely the starting point for Nordea's expansion, and they accrued the remaining shares in 2000, only to acquire yet another bank (LG Petro Bank) in 2002. From this point on, Nordea's focus was on organic growth within the Polish market. Interestingly, the pace of organic growth accelerated from 2007 with one new office opening every week. Though these offices were launched all over Poland in areas with high presence of companies, they were primarily concentrated in Warsaw and Gdansk.

The liberalisation of Poland facilitated the opportunity for Nordea to enter the country and service existing corporate customers in its business network, similar to earlier findings by Cardone-Riportella et al. (2003) and Mutinelli and Piscitello (2001). Following Etamad's (2004) explanation, this illustrative example could be described as a push from existing corporate customers, whereby Nordea followed its corporate customers in the business network. However, Nordea's expansion in Poland through further acquisitions and later on organic growth was mainly due to pull forces. Potential customers in the Polish business network attracted Nordea into larger investments in order to gain new corporate customers in this business network. Perhaps Nordea from the initial push forces received knowledge that aided opportunity discovery and access to corporate customers' business relationships, as explained by Anderson et al. (1994) and Johanson and Mattsson (1988). Even if Nordea may have been 'piggyback riding' initially to receive knowledge and access to new corporate customers, changes in Nordea's business network were intentional commitment decisions. It was the lure of 'the market' that pulled Nordea and led to the bank's relationship-building activities in the Polish business network (as suggested by Johanson and Vahlne (1977)).

Volvo Chooses SEB Instead of Handelsbanken

In 1999, Volvo decided to move their euro 'cash-pool' (all of Volvo's transfers within Europe) from Handelsbanken to the competitor SEB, which Swedish media termed 'one of the decade's biggest banking affairs'.

The manager for Cash Management at Volvo indicated why this change of partner arose:

We want a bank in every country. This is why we switched from Handelsbanken to SEB. (Hedberg 1999)

Volvo believed that Handelsbanken did not have the capacity and international presence to deliver what Volvo expected from the entity handling their euro cash-pool. Volvo's Cash Management manager also understood that Handelsbanken might feel disappointed, and though he did not want to reveal the amount of money involved, he stated that there was a large sum. SEB's manager of commercial banking at the time told a Swedish business newspaper:

As far as I can remember this is the largest and strategically most important cash management deal we have made. (Hedberg 1999)

Historically SEB have had a strategy focused on servicing large Swedish corporate customers, and their vision has been to follow large corporate customers abroad in order to service and maintain the relationship. Therefore, SEB had established a strong international presence, which Volvo considered essential in the decision of switching from Handelsbanken to SEB. Handelsbanken lost a large corporate customer and a large amount of money in the process, but it did not seem to faze Handelsbanken's CEO. In contrast to SEB's manager's statement above, the CEO of Handelsbanken commented on the deal as not being that large and:

Not that strategically important either. (SHB tar SEBs in hopp med ro 1999)

Handelsbanken's CEO continued by stating that Handelsbanken had accrued some of Volvo's affairs from SEB too. In this illustration, the business network of SEB attracted Volvo as a corporate customer mainly because they recognised that SEB could provide the international presence required. From SEB's point of view, they were willing to broaden

their boundaries to include Volvo and their international ventures into their specific network.

This internationalisation behaviour is illustrated by how Volvo affected Handelsbanken's competitor SEB's internationalisation decision. From the connectedness perspective, Handelsbanken also lost Volvo's connected relationships (Anderson et al. 1994) due to the dissolved actor bonds with Volvo (Håkansson and Snehota 1995). SEB's history of being pushed into new business networks by corporate customers (Cardone-Riportella et al. 2003; Mutinelli and Piscitello 2001) ultimately led to SEB pulling Volvo into their business network; in other words, SEB's history of being pushed by its business network generated a new business relationship.

MAN Attracts Handelsbanken and the Business Network Reacts

In the Swedish corporate world, there are some centres to which a significant amount of power is concentrated. One of these 'centres' per se is that of the firms which have a connection to the investment company 'Investor', controlled by the Wallenberg family. Investor has ownership in many Swedish firms including Scania, where Volkswagen and Investor together have a majority ownership, forming a paramount background to the following scenario.

Handelsbanken acted as 'supervisor' when Scania bought back their own shares from Volvo. This deal was called Ainax, and occurred in 2006 giving Handelsbanken deep insight into Scania as a company. Handelsbanken had good relations with Scania and handled a lot of their trading, shares, currencies and interests. Scania and the corporate finance department at Handelsbanken had, over the years, established strong ties with the CEO at Scania stating that Handelsbanken had been their main bank for several years.

The situation that ensued is the reason for Investor's issues regarding Handelsbanken. Handelsbanken decided to be advisor to the German truck manufacturer MAN which was planning a hostile takeover of Scania. Volkswagen and Investor had declined MAN's previous attempts to acquire Scania. Thus, Investor subsequently strongly objected to

Handelsbanken's involvement as they had received integral information about Scania, and the CEO was astonished by the bank's decision and commented in relation to the Ainax deal:

Without a doubt there are... ethical aspects in this. We barely finished the Ainax deal before this came up. (Cervenka 2007)

As a consequence of Handelsbanken's decision, Scania decided to search elsewhere for their banking partners, which had implications for the other companies connected to Wallenberg and Investor. Some companies within the Wallenberg-sphere had concerns about Handelsbanken making use of their knowledge if a competitor should decide to place an offer for acquisition. Handelsbanken, on the other hand, did not believe that the way these companies acted was appropriate. Managers within the bank felt that it was unjust to punish the whole bank when only the corporate finance department was involved in the situation.

Acting as advisors to competing sides as Handelsbanken did proved to have consequences extending beyond those involved companies. The underlying reason was that these companies had ties to others by ownership, which made them cautious due to the fear of ending up in the same situation as Scania. In effect, Handelsbanken was declined business with these companies, in addition to Scania. Hence, by being pulled and establishing a business relationship with MAN to expand their business network, Handelsbanken caused a reaction whereby several other actors withdrew from Handelsbanken. This illustrates that internationalising and expanding the business network can have radical implications within those existing.

Discussion and Conclusions

The literature on banks' internationalisation suggests that the empirical evidence in this chapter would either exhibit market-seeking commitments (Álavarez-Gil et al. 2003), 'follow-the-client' (in our case corporate customers) or follow the leader (Álavarez-Gil et al. 2003; Cardone-Riportella et al. 2003), or display mimetic behaviour (Cardone-Riportella et al. 2003;

Engwall and Wallenstål 1988) or portfolio commitment behaviours (Ekman et al. 2014). Although such explanations are likely to hold under other circumstances, the empirical evidence in this study offers alternative explanations. Specifically, this chapter contributes by illustrating how corporate customers' business network influences banks' internationalisation process. This was achieved by scrutinising situations where banks have deviated and instead, their corporate customers' business networks effectively influenced their internationalisation process.

The illustrative examples show that banks take strategic commitment decisions to manage and navigate their business networks, albeit, sometimes more proactively by following their existing corporate customers' business networks into new markets, as a 'push' mechanism. In other instances, they are 'pulled' by potential business networks into a new market. Interestingly, whether they are pushed or pulled, banks must still take strategic decisions on their willingness to be pushed or pulled further, by analysing any possible future consequences of network embeddedness and profitability. The illustrative examples display firstly the variety of options banks have when entering and establishing in foreign markets, secondly how the bank's business network can drive a bank to internationalise in order to stay embedded in the network, and thirdly how potential business networks can pull the bank to enter a foreign market. The illustrative examples combine Johanson and Vahlne's (1977, 1990, 2009; Vahlne and Johanson 2013) business network view with Etemad's (2004) push and pull mechanisms, to show that such forces are not always inseparable in a firm's internationalisation process. The firm may be pushed into a new business network, but over time generates knowledge of potential opportunities that draws it to increase commitments within foreign domestic business networks.

In the first illustrative example, Nordea is pushed to Poland by 'piggyback riding' multiple domestic corporate customers and potential corporate customers. However, the bank is soon pulled by the potential corporate customers in the market, by this reasoning the push force in place was primarily to relieve the transition phase to attract new business relationships through connected ties in the business network (similar to that described by Anderson et al. 1994). The case could also be seen as a scenario where Nordea from the beginning was pulled towards Poland,

yet made use of the existing corporate customers' established business networks to ease relationship-building activities with new corporate customers.

In the second illustration, Handelsbanken's business relationship was dissolved because SEB's history of following corporate customers into new foreign markets was appealing to Volvo. By dissolving the relationship, Handelsbanken lost a counterpart and potentially also connected ties and future opportunities. This illustration is an example where the corporate customer is pushed to the bank, demonstrating that the bank can gain new corporate customers in a foreign market due to its presence. By having a strong market presence domestically and abroad, corporate customers may indeed seek the bank. Furthermore, this implies that network embeddedness can generate a higher degree of trustworthiness as being perceived as a more resourceful partner. Hence, being pushed may facilitate new opportunities as presence within international business networks can attract new domestic or foreign corporate customers, in particular, for intermediary firms such as banks.

The third illustrative example relates to SEB's networks' reactions to Handelsbanken's activities with MAN. Handelsbanken tried to change its embeddedness in the business network by including new business relationships, and the existing network reacted negatively. What seems intuitively likely as the empirical evidence suggests is that what the bank does internationally can strongly affect the business network established at home. Hence, behaviours based on pull forces can have negative effects that might reduce future push forces. Unsurprisingly, overlooking the business network may have severe implications. Expanding the business network has strategic limitations if the firm aims to keep existing corporate customers while gaining new ones in its business network. Establishing new business relationships may mean loss of existing ones and indeed, in such a scenario, it may be that other potential corporate customers exercise caution.

Furthermore, from a bank perspective on commitment degree, as described by Johanson and Vahlne (1977, 1990, 2009), being pushed into a new business network may not always necessitate significant cost. If the aim is to only support existing corporate customers, the costs may be outweighed by indirect profits. From a relational perspective when

the bank is pushed, a single representational or branch office may be sufficient, as well as perceived as important to maintain its presence in the business network. Simultaneously, from a learning perspective, the changes in the bank's activities by being present in a foreign market facilitate new knowledge about opportunities, which may influence future commitment decisions. Hence, some commitment decisions, for example, to follow the network of corporate customers or the leader, resemble a sleeping strategy (Hadjikhani 1997), as the bank only invests to maintain business relationships rather than seeking an insider-position in new business networks.

In line with Engwall and Johanson's (1990) explanation, the illustrative examples indicate that a driver for banks to internationalise is to maintain their business relationships and stay embedded within the network. On the one hand, if the firm is pulled it will inevitably change its embeddedness within; on the other hand, if the bank is unwilling to internationalise, there is a strong chance they may lose their business relationships in the long-term, as well as future possibilities via connected ties. Thus, the bank's commitment decisions in the internationalisation process will, to a significant extent, revolve around being pushed or pulled into new foreign markets. In addition, due to the fact that internationalising is risky and highly uncertain, the bank has to consider if the option to piggyback (that reduces uncertainty and risk) will be available in the future. Perhaps it does not want to internationalise, but future potential opportunities and risk can spur the bank to internationalise anyhow. Finally, Álvarez-Gil et al.'s (2003) study highlights that banks' internationalisation process differs from that of both industrial firms and other services. The explanation might be that the banks are embedded in an industrial (and service) context, which strongly affects the possibilities and activities.

The illustrative examples in this chapter show that business networks in which the Swedish banks are active not only consist of dyadic business relationships in which one party affects the other, but also involve several relationships, both existing and potential new ones, that affect the actions in order to internationalise. We can see that it is a matter of internationalising not only to maintain business relationships, but also to gain new relationships because of their previous engagements abroad.

For this reason, this chapter has tried to extend the business network approach by highlighting the impact non-existing corporate customers have on Swedish banks internationalisation behaviour.

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Part III

New Technologies

8

Digitalisation and Service Innovation: The Intermediating Role of Platforms

Per Andersson and Lars-Gunnar Mattsson

Introduction

The vocabulary used in economic and business analyses of information and communication technology (ICT) developments comprises terms such as business models, ecosystems and platforms. Such terms require clarification and translation to concepts used in general economic and business analyses. The process that interests us in this chapter is the intermediating role of platforms for service innovation. Examples include mobile phone-based platforms that enable innovation in payment processes and related service transactions; hotel booking sites that enable innovation in several related tourist services; and technical platforms for development of services related to 'smart homes.' As illustration we use platforms developed to connect vehicles with a variety of actors and resources.

In a recent publication (Andersson and Mattsson 2015) on the 'Internet of Things' (IoT), we observed how digitalisation draws previously unconnected or only weakly connected business networks closer

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P. Thilenius et al. (eds.), *Extending the Business Network Approach*,
DOI 10.1057/978-1-137-53765-2_8

together, thus creating overlapping between them. We also observed the increasing role for objects or devices, alone, or related to humans and other objects, as capable of agency in network processes. These two observations were connected to changes in intermediation. The purpose of the chapter is to elaborate on intermediating as a central aspect of how digitalisation enables service innovations. We relate the intermediating phenomenon to three connected streams of research: marketing (Alderson's functionalism), business networks (Industrial Marketing and Purchasing Group, IMP) and socio-material aspects of markets (Science and Technology Studies, STS). The conceptual and theoretical aspects of intermediation are central. Intermediation in the digitalisation processes seems to be associated with dynamic network processes of changes in network connections. Hence, we need to develop a conceptual understanding of intermediation as a process of intermediating. Part of this issue concerns the important role of technical platforms as new intermediaries in service innovation. The intermediating role seems to be associated with new complex patterns of cooperation and competition.

In the following development, we first give a definition of the (technical) platform concept. Next, we provide various quotations from presentations by Ericsson on 'The Networked Society' that indicate concern in practice about intermediating. We continue with a theoretical and conceptual discussion and offer a few notes on method. This is followed by an empirical illustration of the intermediating role of a new technical platform. The chapter concludes with ideas for further studies.

The Platform Concept

The general term 'platform' relates to a flat surface on which people physically and/or mentally are positioned when performing an activity or interactivity with other people and/or physical objects.¹ In relation to IT, a platform is the computer architecture and equipment using a particular operating system (*ibid.*). Gawer and Cusumano (2014) distinguish between internal and external (industry) platforms. An example of an internal

¹'platform'. *Merriam-Webster.com*. 2015. <http://www.merriam-webster.com> (15 September 2015).

platform is a ‘product platform,’ defined as the collection of assets (components, processes, knowledge, people and relationships) that a company’s set of products share (Robertson and Ulrich 1998). A ‘supply-chain platform’ is an extended internal platform. Internal platforms form a common structure of resources for further product development as well as adapt to a variety of customer needs. External platforms, or ‘industry platforms,’ are, according to Gawer and Cusumano (2014: 420), ‘products, services, technologies developed by one or more firms which serve as foundations upon which a larger number of firms can build further complementary innovations and potentially generate network effects.’ Furthermore, the authors see industry platforms as purposefully managed to bring multiple parties together, primarily users and ‘complementors.’ Platform leaders and their competitors as well as suppliers, complementors and users are involved in both competitive and cooperative interaction: co-opetition.

One Company’s Perspective: Intermediating in Practice

The ICT supplier Ericsson states in one of its presentations² that ‘a key conclusion is that IT and telecoms are rapidly combining to transform all areas of life, affecting people, business and society.’ As such, the concept ‘The Networked Society’ was created to capture these ongoing changes, as one of the structural issues concerns the disruption of traditional industry logic emerging from technology change. Many of these changes are concerned with shifts in intermediation:

Increased usage of ICT has led to a complex and dynamic process of ‘disintermediation,’ as producers are able to generate direct sales and creators can directly distribute their work online. Telecom and IT players, meanwhile, create a move towards ‘re-intermediation,’ allowing smaller companies that may not have large marketing budgets to participate in the market.

²The quotes in this section are taken from several official presentations made by the ICT company Ericsson under their label ‘The Networked Society’. These presentations are listed and are made available at <http://www.slideshare.net/Ericsson/industry-transformation-in-the-networked-society>

The quote indicates three important things. Firstly, intermediation is seen as a dynamic process that changes the previous dominant logics associated with the ICT and media industries. Secondly, the new dominant ‘intermediaries’ that emerge are based on digital platforms, which allow for completely new service bundling processes as well as new actor entry. Thirdly, old ideas about ‘dis-intermediation’ are once more put forward in practice, here associated with the dialectic view that contemporary processes of disintermediation seem to be associated with interdependent processes of its opposite, reintermediation:

The dialectic process is further commented on:

Rather than the simplistic notions of disintermediation or reintermediation, the media industry is experiencing a two-fold interaction between: 1. The reallocation of costs across the industrial structure. Some costs are disappearing, e.g. physical transportation. Some remain unaffected, e.g. editing. And others are being introduced, e.g. software security and digital rights management. 2. The increasing importance of non-market and non-proprietary content production through the creation of dynamic strategic networks across well-established internet technologies.

In other words, from a practice perspective, the network processes associated with the new internet technologies make it very difficult to separate the ongoing intermediation processes into simplified disintermediation/reintermediation dichotomies.

Ericsson also comments on the old versus new emerging channels of distribution, due to digitalisation. The argument is that digital presence enables direct distribution to end users over the internet; hence, it is a strength for those who have organised their operations around direct distribution from the outset, rather than transforming their existing distribution model. The companies and businesses that solve consumer needs digitally, rather than with physical products and services, have open access to digital marketplaces where they can launch and distribute their offerings. The idea of disintermediation as part of this development relates to:

Distributors, for instance, [as they] often become redundant as all enterprises within an industry begin to have touch points with end users. In the digital space, where access is disrupting the old linear value creation process,

it is increasingly relevant to work within value networks. When all market actors have direct access to all other market actors, they can deal directly with one another – as well as with end users – incorporating each other's products and services into their own market offerings. Accordingly, in the access model, we see markets that produce for the end user in relatively complex value networks, where two companies can be both suppliers and customers to each other in the creation of relevant market offerings.

Under the heading 'From business platform to platform business,' the new central role and position of technical platforms are emphasised:

As the term suggests, the logic of a platform business is to create technology that can serve as a basis for other services and products – either those created by the platform owners, or by other parties. The more businesses that are built on the platform, the more the platform becomes a full-fledged market ecosystem with a highly valuable technology platform at its core.

Hence, the new technical platforms are described as important intermediaries and foundations for completely new infrastructures compared to the traditional ones. The platforms are seen as being at the centre of processes of convergence, driving the new structures and processes of intermediating. Summing up, aspects of intermediation seem to be at the core of this central actor's concerns, raised in response to the effects of the continued digitalisation and technological changes in ICTs.

Notes on Method

As stated in the introduction, this chapter builds on a previous article on service innovations associated with the IoT. This preceding study built a conceptual framework in which the first phase was aimed at envisioning the IoT phenomenon linked to service innovation to potentially identify new concepts, revise existing ones and delineate others. As theoretical foundation we relied on the business network perspective. As stated in that text, a recurrent aspect within IoT texts referred to 'converging industries..., intersecting industries..., [and] gaps/bridges between previously unrelated industries.' These observations connected back to IMP

perspectives and to the first concept in our framework: ‘overlapping.’ Another recurrent aspect in IoT texts was that the technology would potentially change the intermediary roles and positions of actors depending on the design of IoT structures for service production, delivery and use. These observations related to IMP perspectives and to the second concept: ‘intermediating.’ Our use of the dynamic concept intermediating instead of the static concept intermediary is an aspect of *conceptual revision* according to MacInnis (2011). The new technologies were described as ‘interacting/communicating machines and other artefacts..., [and/or] technical platforms with central roles/positions’ (ibid.), and technologies as more or less ‘acting’ objects in these new emerging infrastructures. This motivated the emergence of a third of the four variables in our emerging framework: ‘objectification of actors.’ In an abductive manner, this led back to theories about materiality and agency, especially to STS and ANT (Actor Network Theory) research.

An Empirical Case Illustrating Intermediation and Platform-Based Innovation

We now present a short illustration where old structures of intermediation and industrial logics are challenged by the emergence of industry platforms. The case on the Connected Vehicle concept was introduced in Andersson and Mattsson (2015).

The Connected Vehicle

‘The Connected Vehicle’ is the presence of devices in an automobile that connect the devices to other devices within the car/vehicles and or devices, networks and services outside the car. The infrastructural and business challenges are big as the new systems involve a large number of diverse activities and functions such as infotainment, system and automobile diagnosis, navigation services, roadside assistance, voice commands, contextual help/offers and parking apps. The *Connected Vehicle* case, in which we are involved as academic observers, concerns a fairly new

process leading to the emergence of systems in which cars and trucks increasingly become connected to the internet and to wireless networks. The case only refers to service innovation processes in early stages: plans, visions, technical feasibility and pilot projects. Even if it will take a long time before the specific IoT-based services have come into widespread use, we believe that studies of early stages will reflect important aspects related to changes in market practice during such innovation processes.³

In December 2012, the auto manufacturer Volvo Car Group and the telecom company Ericsson announced their new partnership to take new 'Connected Vehicle Services' to market. Ericsson's 'Multiservice Delivery Platform' and 'Connected Vehicle Cloud' solution formed the technical foundation for providing new services in Volvo's latest cars. Drivers and passengers would be able to access applications for information, navigation, entertainment and more from a screen in the car. Volvo Car Group would also be able to open parts of the platform to several other members of the automotive industry's 'ecosystem.' Content providers would be able to have agreements with Volvo and internet radio providers, road authorities, cities' governments, toll-road operators and others. The car would become a new hub for a number of connected services, by allowing the car to share internet access to other devices, inside and outside the vehicle. IoT technology would provide additional benefits, for example, automatic notification of crashes. Interaction between the car and the driver's smartphone, and apps, would be available from any distance. Drivers could unlock their cars, check the status of batteries in electric cars, find the location of the car, etc. Various sensors in the car would allow for continuous, remote diagnostics and interaction with various functions of the vehicle. Drivers would be able to download applications and interact with many new partners through the Connected Vehicle Cloud built on Ericsson's Service Enablement Platform. The new technical platforms would allow the emergence of new 'ecosystems' of actors in different sectors coming together as parts of the new interconnected infrastructure. Thus, one of the consequences of the growing importance of the connected car is the fact that previously weakly connected or unconnected business actors and 'industries' are drawn into closer collaboration.

³The case is described in more detail in Andersson and Mattsson (2015).

In order to meet the requirements of increased cooperation within and across different networks, various new alliances and cooperation patterns begin to emerge. In early 2014, several new partnerships and alliances connected to the car platform were announced.

Initial comments based on indications from the case are as follows: *Continuous, dynamic processes of intermediating*: Intermediation in the new digitalisation processes seems to be associated with dynamic network developments of highly intertwined disintermediation and reintermediation. The focal issue is conceptual and theoretical, and concerns understanding of intermediation as ‘a process of intermediating.’ The second observation is empirical and concerns the *important new role of technical platforms* (and associated devices) *as novel intermediaries*.

Intermediaries, Intermediation and Processes of Intermediating

As mentioned in the introduction, we draw on three research streams: Aldersonian functionalism in marketing, the business network approach in the IMP tradition and the socio-material aspects of markets (STS).

The Intermediaries and Intermediation Concepts

Firstly, according to *Alderson's functionalism*, the function of the market is to enable exchanges by which heterogeneous supply and heterogeneous demand match. This is achieved through a sorting process through many stages where intermediaries build and transform assortments of goods and services. Secondly, in line with the business network approach, the market functions as a dynamic network connecting directly and indirectly interdependent actors, activities and resources. Indirect interdependence makes the notion of intermediary and intermediation important. Thirdly, in STS-related studies, markets are performed and shaped in processes where devices of material and immaterial nature are important elements and may have intermediating roles. The process aims at stabilising the outcome of a change process and is affected by ambiguities that may create tensions and conflicts among involved actors.

From a theoretical and conceptual point of view, multiple scientific fields converge in the *intermediary* concept. Alderson's (1957, 1965) conceptualisation of sorting processes within markets is of major importance for understanding intermediaries and the formation of assortments. In advanced market economies, intermediary sellers and buyers intervene between the original sources of supply and the ultimate consumer or users. The number and character of these intermediaries is determined primarily by the requirements of sorting as well as the opportunity to affect economics by suitable assortment arrangements (Alderson 1957: 211).

In line with the *business network tradition*, also labelled industrial network or markets as networks (Håkansson et al. 2009; Johanson and Mattsson 1992), dynamic exchange relationships directly and indirectly connect activities, resources and actors. In a network perspective, all actors can be seen as intermediaries. Intermediating is thus of central importance for innovation, with a dialectic relation between change and stability. Interdependencies create situations where business networks become drivers of continuous change and repositioning of actors within, and thereby also the intermediary structure.

STS (e.g., Latour 1987) studies techniques in the making, not as end results. Agency is also permitted for non-humans. Callon (2008) conceives sequences of action that converge to artefacts and new technologies. Agency in these complex systems is highly distributed, as it is also in the business network approach. Devices used for actions and interactions are important for shaping of economic configurations (Muniesa 2007).

The business network approach to market studies highlights the role of intermediaries and intermediating which makes it suitable to understand the role of devices, which by their very nature have an interconnecting function. Also, the business network approach is concerned with economic organising in which devices and new technology have a central role. In functionalism, it is possible to perceive a device as an intermediary, where the function of 'sorting' is the central one (Alderson 1957). It can become a 'mediator' (Latour 2005) in this matching process (Alderson 1957), partly transforming, translating, modifying (maybe sometimes also distorting) the input, turning it into some form of output. Intermediators in the distribution literature always are, in Latour's sense, mediators.

The Role of Technical Platforms (and Devices) as New Intermediaries

New technical *platforms* get an important role as *intermediating* in networks, for example, linking the car and its user to a diverse set of actors delivering a new bundle of services. One actor will have the main control, or influence, over the new intermediary, and hence which set of actors or suppliers that will become connected to it are linked to new business modelling processes. The degree of standardisation and openness of the technical platforms functioning as intermediaries also affects the structure of the network. This includes what type of actors, which actors and how many would be connected to the technical platform. This also includes the degree to which different parts of the overall technical platform, serving different functions or activities, would be separated or interconnected. An object may intermediate between entities in different networks, thereby also stimulating connections between different industrial networks. Intermediating becomes of growing interest, for example, by highlighting how objects become connected via the web, thus of major concern as it is related to interdependency effects.

Intermediating as a Dynamic Network Process

The concept ‘intermediary’ is in mainstream marketing literature mostly used for actors intervening between production and consumption such as wholesalers and retailers. In a business network perspective, the concept has a wider meaning. All actors are intermediaries in the sense that they make other actors indirectly related to one another (Snehota and Gadde 2001). With reference to the so-called ‘ARA model’ (Activities, Resources, Actors model, see Håkansson and Snehota 1995), all activities and all resources may also be seen as intermediaries within a network activity pattern and resource constellation. Intermediaries intermediate in network processes and are engaged in material and immaterial transformation. *Intermediating* is thus a network process that also has technological attributes in terms of relationship substance and network effects (ibid.) that are of special interest in an IoT context. Hoholm and Håkansson

(2012) discuss how interaction in industrial networks is important for bridging gaps between specialised resources in different networks that need to be combined during an innovation process. Bridging thus can be interpreted both as a force for overlapping and as an aspect of intermediating. Service innovation processes might require, or stimulate, changes in intermediation. In addition, entry of new actors as intermediaries may also cause changes in intermediating technology.

The Transformative Role of Intermediating

Alderson (1965) argues that there is a continual compromise between past structure and present requirements. The distribution network can never reach a final stage of equilibrium. In this dynamic setting, the role of intermediaries, and the primary function of distribution, is to connect the ‘technology of production’ with the ‘technology of use.’ He also used the concept of *transvection* to describe the actions associated with distribution.⁴ Alderson describes two types of generic activities that are involved in a transvection: *transformation* and *sorting*. A transformation is a change in the physical form of a product or in its location in time and space. Hultén and Gadde (2007: 190) have commented on the variety of transvections:

Alderson and Martin (1965: 123) conclude that ‘every sale of an end-product has a transvection behind it,’ but there is considerable variety among transvections. This diversity occurs because of the different conditions for distribution among industries and companies, and also for the various business exchanges of one and the same company.

Hence, in every distribution system there are transvections with processes of transformation and sorting, altering the nature of the product. If this ‘product’ is a digital service, or a bundle of digital services, and if the distribution of the service(s) is associated with intermediating technical

⁴According to Alderson (1965), a transvection is ‘a single unit of action of the marketing system. This unit of action is consummated when an end-product is placed in the hands of the ultimate consumer, but the transvection comprises all prior action necessary to produce this final result, going all the way back to conglomerate resources’ (p. 92).

platforms linking a large variety of companies, we can expect this dynamic process to be associated with a specific type of transvection, including both transformation and sorting processes.

Distribution dynamics and the transformative aspects from a business network perspective have been discussed by Hultén and Mattsson (2000). They show how changes are initiated from all kinds of actors in a network and in all three network layers (ARA model): actors, resources and activities. This illustrates how activity interdependencies, resource control and variety in the web of actors, interplay with distribution dynamics. Snehota and Gadde (2001) explored the 'middleman' concept: in networks every actor will be in-between others, that is, everybody is a middleman, albeit their roles can vary greatly. They highlight three roles in which middlemen follow different business logic and perform widely different functions: the middleman as trader, as distributor and as provider. As noted:

For long time the need to pursue transfer efficiency in gap bridging has been in focus in analysis of distribution systems and the model of middleman as distributor became the dominant one. The shift in role towards the middleman as provider that we currently observe implies shifting the focus from transfer efficiency to co-ordinating effectiveness.... (ibid.: 79)

In another line of research, the role of intermediaries in innovation processes and the shaping of markets is in focus. Mele and Russo-Spena (2015: 43) state, for example, in their mapping and analysis of 'innomediaries' that:

Many of the activities performed in market shaping may be characterised as intermediation (Andersson et al. 2008) where the role of intermediaries (third-party agents) in innovation is to connect suppliers and customers, a topic that has not been addressed in market studies.

They refer, for example, to Diener and Piller (2010) and their observations on the intermediating role of software technology:

Diener and Piller (2010) distinguish between two main categories of mediating agents: software that is able to perform complex functions (scanning, collecting and structuring data) and human agents who are able to interact

with one another. In addressing the role of both components – human and IT – Verona et al. (2006) highlight the role of virtual knowledge brokers that take advantage of the Internet. These knowledge brokers occupy a virtual space and aim to create virtual bridges that connect a great number of actors across space and time, spanning structural holes in existing knowledge. (Mele and Russo-Spena 2015: 44)

Based on empirical cases, Mele and Russo-Spena (2015) conclude that ‘innomediaries are shaping market innovation through their agency and practices as they create new ways of developing, diffusing and using knowledge, and new ways to generate and promote innovation’ (p. 49). They observe four major practices among these innomediaries: (1) *Engaging* (connecting actors who seek new opportunities to innovate, soliciting talented and interested people to collaborate and identify opportunities, socialising market actors to create collective views, and expanding the variety of actors and broadening peripheral vision); (2) *Exploring* (generating fresh ideas and novel projects, articulating aims and ideas into concepts and solutions, and experimenting with alternative ideas and suggesting refinements in finding solutions); (3) *Exploiting* (discussing original ideas and extending them into new insights and opportunities, appropriating information and knowledge to have insights that accelerate innovation, and disseminating ideas and information about new products and projects); and (4) *Orchestrating* (framing roles, resources and rules among market actors, mobilising actors to maintain focus, energy and strong commitment to interactions, and strengthening the collective sense of co-creating market innovation).

Concluding Discussion and Suggestions for Further Research

In the concluding discussion we return to our focal conceptual issue, intermediation formulated in terms of processes of intermediating. In our comments we draw mainly on our previous theoretical discussion of three approaches to intermediation. We also comment on the

observation of the emerging role of technical platforms and suggest empirical research supporting conceptual development. The first two topics are focused primarily on intermediating during assorting processes, while the third takes a broader view on processes of intermediating and overlapping networks.

The Intermediation Concept: From Intermediation to Intermediating

On a conceptual level we suggested that we should develop an understanding of intermediation as ‘a process of intermediating.’ Alderson’s conceptualisation of heterogeneous markets, and the important role of technology as driver for continuous change, in combination with market systems as concerned with different processes of ‘assorting,’ leads us to a dynamic view of intermediation; that is, ‘intermediating,’ as a central characteristic of the functioning and development of markets. Processes of assorting are always associated with both transfers and transformations in which intermediaries of different types assume and receive different roles.

The business network approach develops a deeper understanding of actors’ ‘positioning’ processes in networks intermediating between others within. In some cases, these also act as intermediating bridging points between different networks, creating overlap (Mattsson 1998), sometimes referred to as processes of ‘converging industries.’ All actors in networks will have an intermediating role between others, and the continuous processes of ‘intermediating’ will be strongly associated with the shifting of ‘positions’ and ‘roles’ within the networks as actors combine or recombine resources, as well as reorganise activities.

The STS’s approach to intermediating, in line with Alderson’s reasoning, puts forward the idea that certain actors (or constellations) more or less just ‘transfer’ certain elements while others are ‘transformed’ and ‘translated.’ The importance of the material elements as part of the actor networks shaping these processes of intermediating provides us with an important input to our understanding of the dynamic (intermediating) role of, for example, technical platforms.

Further Conceptual Research

The three approaches combined lead us to a dynamic view of ‘intermediating’ rather than ‘intermediation.’ This—and against the empirical background of digitalisation, service innovation and the emerging role(s) of technical platforms—raises a number of conceptual questions and topics for future conceptual work as proposed below.

1. The intermediating agency of artefacts (platforms), their networking role and position, and processes of service assorting and innovation.
Firstly, we suggest conceptual work on how new technical platforms are awarded the role as intermediating actor assorting new, digital services, which in turn can be regarded as a ‘service innovation.’ Part of the dynamics of this intermediating role of the ‘elements’ is how different combinations will lead to different intermediating structures and hence, different opportunities to create new service assortments.
2. Platforms as intermediating boundary objects, processes of network overlapping and processes of assorting.
Secondly, we suggest future conceptual research which links intermediating to a wider industry dynamic perspective. The concept of ‘boundary objects,’ introduced by Star and Griesemer (1989), provides an interesting input to ideas on intermediating processes. ‘Boundary objects are objects which are both plastic enough to adapt to local needs and constraints of the several parties employing them, yet robust enough to maintain a common identity across sites. They are weakly structured in common use, and become strongly structured in individual-site use. They may be abstract or concrete’ (p. 393).
3. The intermediating role of technical platforms for industry and market dynamics
Firstly, how are (digital) service assortments, based on new technical platforms, created, adapted and changed in response to successive changes of the technical platforms? How are these processes connected to positioning and role changes of the firms providing the services? It can be anticipated from the case that technical platforms are only temporarily stabilised ‘entities’ or ‘intermediaries.’ A topic for future empirical research would be to emphasise the technical

platform and its actors ('platform leaders') in control of changing its constitution (a process of 'intermediating' change). A further aim would be to follow the resulting network processes whereby incumbent and/or new actors providing the assortment of digital services become constrained or helped in their processes of (re)positioning in the networks.

Secondly, the empirical case points to the important intermediating role of technical platforms in connecting networks of actors with different, sometimes very different, 'industry logics,' for example the telecom and the automotive industries. How do platforms drive 'industry convergence,' and how does overlapping during industry convergence cause shifts in, and adaptation of, the technical platforms? It was noted in the Connected Vehicle case that the creation of a single platform to handle a huge service assortment, proved to be difficult. Due to different logics, it was more 'practical' to represent it in terms of three subsystems: the driver-centric platform and network, the vehicle-connected platform and network and the 'driving environment' platform and network (road authorities, toll systems, etc.). Hence, processes of industry convergence seem to be associated with opposed processes of 'partition' and 'divergence' when it concerns the technical platform.

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9

Innovation Through Interaction for Bathroom Suppliers

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Introduction

Companies often build an innovation strategy that is mostly reliant on internal knowledge and resources. This can lead to failure to meet customer needs (von Hippel 1986). By interacting with customers, companies can obtain crucial information and have the opportunity to involve customers in innovation and product development processes (Füller and Matzler 2007; Hadjikhani and Bengtson 2004; Laursen 2011; von Hippel 2009).

Web 3.0 technology makes interaction on the internet possible (Nations 2011). Web 3.0 implies convergence in new technologies as well as rapidly

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changing consumer buying trends (Tasner 2010) and online usage. Research has shown that although companies use various techniques for customer interaction (Leonard and Rayport 1997; Morgan 1996), they face difficulties in using online tools. Recent research has focused on virtual customer integration for new product development (Chandra and Leenders 2012; Füller and Matzler 2007). In this chapter we investigate three small- to medium-sized companies and their use of a web platform provided by a company named Room328. This subsequently builds on a workshop presentation from 2013 (Anderson et al. 2013), with the following research question: Do companies realise the innovation potential of interaction on the Web 3.0 platform?

Literature on Customer Involvement

As early as 1955, Asch identified customer involvement as a major contributory factor to most companies. In the case of scientific instruments and equipment manufacturing firms, von Hippel (1976) claimed that it is always the user who identifies successful ideas; thus he stressed the importance of extending user participation in the product development process. The concept of customer involvement implies considering the voice of customers in product development. Research conducted by von Hippel (1976, 1977) and others (Meadows 1968; Robinson et al. 1967) investigated the concept of customer involvement, introducing the idea of a customer-centric innovation system, which considers customers as innovators (Thomke and von Hippel 2002).

The early literature in this field mainly considered a business-to-business approach. Von Hippel (1976) stressed that industrial goods projects that innovated on a perception of user needs were more likely to be successfully commercialised. However, this was only possible for companies with few customers, as the manufacturer was not able to consider a large variety of ideas and requirements. Von Hippel (1976) asserted the importance of a constant information flow. The nature of customer involvement implies listening to customers not only to match their current needs, but also with the purpose of innovation (Gemünden et al. 1992). Users are willing to innovate more than manufacturers and facilitate development of successfully commercialised products (Morrison et al. 2004) and services (Edvardsson et al. 2012).

Customer involvement for innovation purposes is embedded into the concept of user innovation, which emphasises that experience and pushing needs of users can encourage innovation (Chandra and Leenders 2012). User innovation studies conducted by von Hippel (1988) and Pavitt (1984) showed that users, both individuals and firms, develop important product and process innovation. According to von Hippel (1986: 791), lead users are 'users whose present strong needs will become general in a marketplace, months or years in the future.' Lead users experience the needs of the market earlier than the rest of the market, and thus generate valuable information about the market trend for manufacturers (Morrison et al. 2000; Olson and Bakke 2001). The lead user concept was tested and proved its efficiency in equipment development processes (Lüthje 2003); sports equipment, where Lüthje et al. (2002) claim the significance of users' input into innovation processes in terms of precise needs, reflection and cost efficiency; and computerised systems for libraries, where Morrison et al. (2000) found that innovation was likely to be concentrated among lead users.

The main tools used by marketers include surveys, focus groups, interviews, storytelling, diaries, experiments, etc. (Hoyer and MacInnis, 2001). Studies are conducted either by the manufacturer or by a marketing research company. They pose a number of questions, in particular concerning the reliability and accuracy of information, costs and time aspects. Consumer goods manufacturers find it difficult to identify lead users (von Hippel 2005). Information that reflects customer behaviour should not be stretched in time, otherwise a company would keep producing, marketing and selling products that customers have already discredited and are not willing to buy (Deshpande and Zaltman 1982).

By referring to and analysing sales numbers, marketers try to predict future market trends (Kohli and Jaworski 1990). Indeed, sales forecasting provides a company with accurate and reliable information about sales of existing products. However, it does not contribute to possible further product improvements, understanding new customers' needs and receptivity, or innovation processes in general (Kinnear and Taylor 1996).

Gruner and Homburg (2000) and von Hippel (1976) argued for the ability of companies to innovate through interaction with customers. Laursen and Salter (2006) and Lichtenthaler (2008) highlighted the contribution of close collaboration between firms, customers and sup-

pliers aimed at innovation process improvement. Customer-to-customer interaction enhances the idea generation process and involvement of valuable information (Wu and Fang 2010). Moreover, interaction effects are significant in cases where internal R&D efforts have a moderating influence on customer collaboration (Hadjikhani and Thilenius 2005; Laursen 2011).

Interaction between independent parties is considered a means of value creation and sharing (Forsström and Törnroos 2005). Interaction between individual significant actors facilitates exchange of ideas, technological solutions, etc. and enhances the innovation process in general (Hu and Hsu 2008). Interaction evolves over time through learning (Ford et al. 2008). However, the main research focus is in the field of industrial goods. Wikström (1996) argues that the consumer market has some limitations for investigations of buyer–seller interaction, and that interaction itself is not very important, as a company that enters the market can select a specific customer segment for a new product (ibid.).

However, not all methods and techniques enable interaction, and therefore there is a need for toolkits to enable customer interaction via the internet (von Hippel 2005). Development of internet technologies that enable customers to be involved in the innovation process (Füller and Matzler 2007; von Hippel 2005) and development of efficient toolkits (von Hippel and Katz 2002) create a large potential for interaction.

Room328 AB: A Web 3.0 Platform

Room328 AB (Room328) was founded in 2000 and provides a brand-independent Web 3.0 platform where users can design their bathroom with access to a worldwide database of products from different manufacturers and suppliers. The Room328 platform has two main functions. The first function is as a tool for users to design their bathroom with online 3D software. The users can select bathroom products from a database of approximately 30,000 products from 80 companies. Suppliers provide the Room328 platform with models, pictures and all the necessary information about their products. In the online design tool, users can set up the space (their bathroom) in 2D or in 3D. The Room328

software uses the input data to create accurate virtual 2D and 3D models of the space (bathroom) and allows the user to view the bathroom from different angles and perspectives. It also allows the user to furnish the bathroom by using the product database, which contains all common products that are used in bathroom design, from floor and wall materials to furniture and sanitary wares. When the user saves and stores the design in the Room328 database, it becomes visible to all other users of Room328. At the end of 2013, the database contained around 45,000 different bathroom designs. Information from the saved online designs can be sorted, organised and analysed by user location, brand, product family and time period up to the current day. This information can be sorted in various ways, for example, by most viewed products or by most used products in design projects (saved in user projects).

The second function of the Room328 software is to provide analytics and an interface for the suppliers and manufacturers of products and components that end users use in their design. The software maintains real-time statistics and can analyse how frequently each product is viewed and/or saved in a design project. The analytics is presented in chart form, where the number of page views and saved projects are presented within a preselected time period, brand and market. The analytics is dynamic, and changing any of the variables causes a new chart to appear. It also provides the information as a list of products from any preselected brand. A bathroom product supplier can also find out which products from competing brands are most popular.

Method

The case study involved three customers of Room328, that is, bathroom equipment suppliers, and included an interventional experiment (Anderson et al. 2013; Anderson and Danilovic 2013) as part of the research project (Sasinovskaya and Anderson 2011; Sasinovskaya and Anderson 2013). The customers were selected on the basis of having experience of the Room 328 platform and having an R&D department, performing design and production activities rather than only operating as resellers.

The selected customers were Hafa Bathroom Group AB, DuoBad AB and Tylö AB. These companies supply a wide range of bathroom products and have equal access to the information collected through Room328 analytics. In a first step, managers from the companies were interviewed. None of the companies used the existing Room328 platform for interaction with users. The intervention followed the interviews with an educational session outlining the possibilities of using the Room 328 platform as a Web 3.0 tool.

The intervention was designed as an informative presentation of Room328 software as a Web 3.0 platform, a demonstration and instruction in how this technology could be used, as well as a test for how the companies could use the platform for interaction with users and for innovation based on interaction. It aimed to provide sufficient knowledge about the importance and role of internet technologies in general and of Room328 analytics in particular. It facilitated visualisation of Web 3.0 semantic features embedded in Room328 analytics. The presentation included a few specific examples specially selected for each company in order to visually highlight the possibilities of Room328 analytics in terms of tracing customer information based on their actual bathroom designs and how it can be used for innovation and product development. Managers were asked to open an analytics program, select their company and the period they were interested in from the user interface. After the selected information was displayed, they were asked to point out advantages and disadvantages of the tool as well as what they would like to be improved.

Customer Involvement and Use of the Interactive Platform in Room328

DuoBad AB is a Swedish family-founded small-sized company, according to the small and medium-sized enterprises (SMEs) definition (European Union 2003). It supplies products for bathrooms with a large range of exclusive products in collaboration with other brands. The company operates partly as an importer and reseller but also designs and produces its own bathroom items. The company operates in the premium segment,

where it holds a leading position. DuoBad is a small company and the same managers have worked there since the company was founded. The company has a deep understanding of the segment, its market position and customer needs.

Market investigation and product development processes are performed in the R&D department. The company draws ideas from attending fairs, exhibitions and trade shows to get inspiration and also to follow trends set by market leaders. The R&D department makes decisions regarding product development. As an R&D manager at DuoBad put it, 'People there are very skilled when it comes to design', relying mainly on their own opinion of the product: 'You should like the product yourself'.

There is no organised and systematic interaction process with customers for innovation and product development at DuoBad: 'Yes, it is important to listen to customers but in a different way, and not for the [product] development, no' (R&D manager). The main interaction with customers is in after-sales service, in terms of customer perception of the product or additional requirements for installation. One of the main modes of interaction is the random process of customer feedback collection during fairs or exhibitions: '...at the fairs it is very important to [...] get impression from the customers' (Marketing Manager). The company conducts market research mainly to observe brand perception by customers.

DuoBad states that its design and development requires significant resources in terms of staff, finances and time. This is illustrated by the fact that only four series of products have been developed during its 11 years of company activity. DuoBad takes into consideration the market trends set by competitors and relies on internal knowledge and understanding in R&D processes. DuoBad develops complete product lines with a number of very specific items which are not expected to sell in large numbers to maintain the exclusive nature of the products and brand name.

DuoBad also relies on information from retailers, justifying this by stating that retailers are the ones who directly deal with end users and therefore have the best information and understanding of users' needs: 'They [retailers] meet end users every day' (Marketing Manager). DuoBad began cooperating with Room328 as soon as the latter was established.

Their main use of Room328 is for end customers and retailers to design their bathrooms and advertise the company: ‘... advantage of Room328 is [being] a community that could be used by end users to design and buy furniture,’ and brand: ‘Room328 is a marketing window for our products’ (Manager). Little attention is paid to the Room328 software as a platform and a source for innovation within DuoBad: ‘We are there because our retailers want us to stay on the platform’ (Manager).

In turn, DuoBad’s retailers only use Room328 to design bathrooms for end customers. DuoBad stressed the value of Room328 software for marketing and brand community. The company’s position in the premium segment means that the company is driven to not only deliver the product end customers want, but also add extra value to exclusive goods in terms of design and quality. Therefore, the Room 328 platform is used for marketing purposes only.

Hafa Bathroom Group (Hafa) is a Swedish ‘flat package’ bathroom product supplier. Hafa is a medium-sized company according to the European Union’s definition of SMEs (2003). The company offers ten different series of furniture and an additional 1500 bathroom items for the ‘complete bathroom’ (Hafa 2012). Hafa strives to deliver good quality and well-designed products at the ‘right’ price, thus positioning in the medium price segment. Currently, Hafa Bathroom Group is the largest company in this segment in Scandinavia. Being a one-stop supplier ensures fast delivery (less than 1 week) of purchases from a single central warehouse to the whole Nordic region.

The product development activities are concentrated in the Hafa R&D department. Decisions regarding innovation and new product and design are made by the product development council (PDC): ‘They [PDC] decide if the look is ok and what they want; and if it is not ok, then we go back to the designer, and if the product is “right” for the market’ (Product Manager). Hafa attempts to listen to customers’ needs through retailers and wholesalers since Hafa asserts and believes that they possess sufficient information about end users’ needs:

What they [customers] want, how should next bathroom look like [...] otherwise we do not have the right product for the market. (Product Manager)

They [sales people] have a good understanding of what customers want and what competitors are doing. (Product Manager)

The R&D department also gains inspiration from design seminars, fairs and exhibitions, and keeps track of market trends set by competitors: 'We look at competitors' designs and try to do something similar' (Product Manager). R&D shapes the scope of information: '[R&D] requests what information we would like to gain [through market investigation] and limits its contribution to innovation and product development processes' (Product Manager). Hafa considers Room328 mostly as a tool for end customers to design their bathroom and for Hafa to attract their attention: 'It [Room328] is more or less just a tool for customers to design' (Product Manager).

Another purpose is for advertising on the Room328 website and sharing the company's information and catalogues: '[W]e do a lot of advertising in the catalogue' (Product Manager). Hafa enhances customer service, and Room328 is mainly used as a customer-centred web-based design tool to increase customer satisfaction and advertising of the new products supplied by Hafa.

Tylö AB (Tylö) is a well-known company in the sauna industry. It is a medium-sized company according to the European Union's SMEs definition (European Union 2003). Exceptional focus on using high-quality materials and high-end products' delivery positions them in the premium segment. Tylö is a highly international operation, exporting to more than 90 countries worldwide, and has active sales agents in 55 countries (Tylö 2012).

In the interview, Tylö indicated that the company wants to be an innovative company and remain ahead of competitors. Tylö recognises the importance of listening to customers, and that before any product is developed, 'you have to ask customers in one way or the other so we can have the right product' (R&D manager). The company conducts marketing research to identify customer needs, demand and the general situation in the market. The company strives for improvement of existing products and development of better new products which match customers' needs in a more efficient way. Tylö distinguishes between two sources of information, distributors and marketing research conducted

by research companies: '[Interaction with customers] is done mostly through our distributors. They sell the products so they know what is sellable and not' (Sales Manager).

Tylö claims that distributors possess the most reliable information as they interact directly with end customers. Another source of market information is marketing surveys conducted by contracted research companies regarding, for example, steam products or control panels. The idea generation process is also enhanced through trade fairs and by attending exhibitions. Information about competitors and market trends remains of great importance for the company. Attempts are made to capture customer ideas regarding specific product lines, and due to the price and time aspect, marketing surveys are conducted rarely and for specific cases only.

At Tylö, the importance of customer involvement is explicitly stressed, but not with a purpose to innovate, but rather to identify current needs. Tylö uses Room328 for end customer design: 'Mostly end users [design] while sitting in their homes or with the architects' (Sales Manager). Room328 is a tool that increases customer satisfaction. In response to the question of whether the possibility to design was the only advantage of Room328, Tylö stated, 'yes, I would think so' (Sales Manager). This indicates the limitations of the Room328 platform usage by the company. It should be stressed that the managers who participated in the experiment were rather biased against Room328 initially. Tylö had already been using Room328 analytics with the aim of measuring interest in their products and the company in general. However, the company claims that Room328 has a number of weaknesses regarding sorting the information (distinguishing between users, resellers, e-shoppers, etc.). Therefore, the company found it difficult to value Room328 as a market channel and as a source for innovation and product development: 'Room328 did not give us the marketing we wanted' (Sales Manager).

In conclusion, the interviewed companies stressed the importance of customer involvement and of listening to customers in different ways. They all collected information from retailers and interacted with end customers at fairs and exhibitions. All the companies keep track of their competitors and try to follow determined market trends. In all three companies, there was a common pattern in the way they used Room328 as Web 3.0 technology, that is, mainly for design, sales and marketing. The analytics part

of the platform was not used and thus semantic features, which could alter and enhance the innovation process through interaction with customers, were not used. The reason for not interacting with customers through the Room328 technology appears to be lack of time or lack of understanding of its potential use for innovation and product development. It should be noted that the supplier of the Room328 platform did not emphasise these features and possibilities to any of the three companies in order to make them see, understand or explore these areas.

An Intervention to Inform Regarding the Interaction Potential of Web 3.0 Technology

The companies used Room328 with a purpose of attracting customers using the 3D online design tool, and not for analytics as part of the operating contract of the Room328 platform. Only Tylö had previously used and seen the analytics program. Why was the full potential of the technology not used? In order to create awareness of the potential of the analytics, we staged an intervention session, after which the managers recognised opportunities to develop the usage of the technology further, having seen the possibilities of involving analytics for enabling innovation in different ways. The product manager at Hafa saw advantages of analytics: 'If we work with this tool correctly we can identify trends [on the market] much earlier. It looks like a very good advantage [Room328] if we know how to use it.'

Managers were interested to see the distribution of products in different projects and the correlation between the number of page visits and products used in projects. It was apparent that the managers at Hafa were impressed by the capabilities of the technology, and that they originally did not understand how it could be used.

The managers at DuoBad also stressed the importance of the analytics: 'I think the analytics part 14 [of Room328] is very important.' The company saw a new technology that they were not aware of. Furthermore, DuoBad recognised that developing it within the company may influence the business and eventually lead to increasing turnover: 'I think our company can develop its usage of R328 much further.'

The managers at Tylö saw Room 328 as a technology of the future and thought it could make a contribution: ‘In the future we need something like this [Room328 technology]’ (R&D manager). They stated that this technology was likely to replace existing methods of identifying customer needs.

All the managers agreed that one of the biggest advantages of the analytics was the possibility to view which specific products were saved in each user’s design projects: ‘I think in the future this will be a really good engine to see what the market trends are’ (Sales Manager, Tylö). Thus, our interactive approach has created an innovative experience, and these managers are now aware of the possibilities that this technology enables.

Prototyping Innovation by Interaction

We propose that Web 3.0 technology could be an alternative to conventional market analysis. While market analysis is retrospective, the use of interactive Web 3.0 is more dynamic and oriented towards future desires and needs of customers. Many different actors in the supply chain can contribute through the interactive possibilities enabled by Web 3.0.

In addition, through the platform, users may get access to independent service providers that can add value through their expertise in operational setting up work. On a narrow scale, companies can interact continuously with customers by assimilating their ideas for innovative purposes and analysing the signals that the platform delivers. These signals can represent changes in market trends based on colours, materials and different product designs. The company can respond to the market through the product supply or refinement of products, depending on how the information is analysed and interpreted. This therefore enables shortening the iteration cycle and speeding up the company’s response to the market.

As analytics information is presented as a database and is easy to retrieve from where it is generated, the Room328 platform facilitates overcoming the issue of ‘sticky’ information (von Hippel 1994). It simplifies working with information as the information is organised and presented as a database in a convenient and accessible form.

Web 3.0 technology allows companies to examine how end users combine different products from different producers in a project. It may

	Phase 1	Phase 2	Phase 3
DuoBad	info from retailers and fairs enhancing in-house idea generation process	mainly for marketing and branding	managers realised further usage for interaction with customers
Hafa	info from retailers, fairs	customer design	managers find useful for market trends identification
Tylö	market research and real time sale number statistics	customer and distributors design	managers recognise a great potential in the upcoming years
<i>Conclusions</i>	companies rely on conventional marketing techniques and distribution chain	semantic features of Web 3.0 are not used	experiment showed opportunities for further Web 3.0 technology adoption

Fig. 9.1 Before (phase 1) and after (phase 2) use of the Room328 platform, and after (phase 3) intervention by researchers

provide clues to the company regarding why, for particular solutions, some users may select a part of their product line and combine it with part of a competitor's product line. This creates an opportunity for companies to react and direct the manufacturing process towards customer interests, which shortens the iteration cycle and enhances the interaction process. Thus, the company will find it easier to identify the leading edges of market trends as they are able to see which products generate the greatest interest and how they are combined with competitors' products in projects. The analytics can also be used to predict product demand and thus future market trends (Kohli and Jaworski 1990). Each product usage can be traced, and this information enables comparison of the popularity of different products over the same time period.

However, the new technology requires new ways of thinking and acting. Structurally, the Web 3.0 platform links all the stakeholders and facilitates value creation for all of them. It has potential for all the actors in the supply chain as they can assess and use information which articulates customers' behaviour.

Figure 9.1 shows that the use of the technology is currently limited to selection of existing products from module libraries without further modification of size and design, while it allows combination of different bathroom suppliers' products in a single project. Education and training as well as practical experience in using the analytical capacity is crucial

in order to enable actors to use the Web 3.0 tool. The technology creates possibilities, but the mindset and imagination of users limit the level at which this technology can be used. However, we would also like to draw attention to the ethical and moral aspects of using these interactive tools. All 2D and 3D models are stored and actors who use the software may not want their home, their private lives, their ideas and dreams to be exposed away from their understanding and control.

Conclusions and Implications

This study addresses the concept of prototyping innovation via an interventional experiment, which aims to outline barriers and possibilities of Web 3.0 technology adoption. We have shown that managers' reluctance towards adoption of this new technology is caused by lack of knowledge and understanding of its potential, and not by its shortcomings in this respect. Thus, we claim that an educating process facilitates technology adoption and expands the boundary of how Web 3.0 technology enables innovation as discussed using the concept of prototyping innovation (Anderson et al. 2013; Anderson and Danilovic 2013).

This new Web 3.0 software is a technology that impacts on business-to-business relations as well as on business-to-customer relations. Professional actors in the supply chain and related professionals can access crucial information about users, while the business-to-customer perspective enables these professionals to simultaneously access the same information to create solutions and innovation for users based on understanding and exploring their needs. Web 3.0 as a disruptive innovation compounds the process of technology adoption. First, though Web 3.0 technology is not mature enough for us to clearly observe and analyse its particular features, its future possibilities, considering its semantic features, are already fully formed (Sasinovskaya and Anderson 2011, 2013).

Supplying companies can enhance their innovation processes through involvement of sub-suppliers that not only execute manufacturing orders, but by accessing customer information, provide suggestions regarding design, material or technical solutions. To ensure a smooth technology adoption process, it is important to achieve mutual

understanding of the opportunities afforded by this technology by both bathroom suppliers and platform providers. Toolkits based on the technology have thus been recently launched to market and have yet to be further developed or even standardised. Web 3.0 platforms can be seen as an alternative or supplementary tool to conventional marketing research, and therefore call out for a new way of doing business. Since it can be challenging to change old processes or habits within companies, the Web 3.0 platform providers may have to focus on how they introduce and educate managers to use the new technology. Only when managers see the future and the benefits and understand how they can use it for innovation, can this Web 3.0 platform be a tool for interaction for innovation.

In order to develop the technology in an efficient way and standardise it, Web 3.0 providers need to cooperate with supplier companies. Mutual cooperation is a way to ensure development of an efficient platform which would enable supplier companies to create innovation. Platform providers should be able not only to develop efficient software but also to understand how the platform creates value for its customer companies. For this purpose, supplier companies should make clear to platform providers what information they expect to receive and how it should be organised. For example, during our intervention experiment, all the companies explicitly stressed improvements or further developments they would like to see in order to proceed with adoption of the Room328 analytics. The study points to innovation being a result of interaction among many of the actors within a supply chain.

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10

Integration of Information Technology in Business Relationships: Implications for the Extended Network

Cecilia Lindh and Peter Ekman

Introduction

In this chapter we focus on information technology (IT) in industrial business networks, suggesting that it constitutes a complex resource which can be used in a variety of ways and in multiple business situations. In this setting, the business relationship provides a powerful analytical tool which offers insights on how the integration of IT affects business relationships and, furthermore, what its role in the business network may be. Fundamentally, firms integrate IT in their operations *as well as* in their business relationships with the objective to increase information exchange efficiency.

The business relationship in an industrial setting is founded on continuous and various business exchanges that entail the development of behavioural elements such as commitment, adaptation as well as cooperation from both involved parties (Johanson 1989; Medlin

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P. Thilenius et al. (eds.), *Extending the Business Network Approach*,
DOI 10.1057/978-1-137-53765-2_10

177

2004). The integration of IT in such relationships mirrors exchanges and behaviour, and is a time-consuming process, thereby reflecting the complexity of business relationships (Cunningham and Homse 1986; Hansen 2009; Ritter and Walter 2012). To support the exchanges, different technological solutions are used for a variety of purposes, with the functions of the technologies often reflecting business activities. Firms implementing enterprise resource planning (ERP) systems, that is, company-wide information systems that handle most business transactions, have to commit considerable resources. For example, there are costs associated with adapting the system to current business activities, training the staff and connecting to business partners (Ekman 2015). Thus, an integrated ERP system cannot solely be perceived as technically complex due to its inherent functions. Due to the fact that IT, such as ERP systems, mirrors the business relationship—including its activities and commitment or cooperation required—it is relevant to discuss IT's impact not only on the firms' business relationships, but also on the wider industrial setting, that is, the business network. Although the integration of IT occurs within business relationships, it spreads as firms learning from IT integration in one relationship can integrate such solutions in others. The mechanism is the well-known network effect that learning in one relationship distributes to others (Ekman and Thilenius 2011; Hadjikhani and Thilenius 2009), thus implying that IT integration causes effects within the extended business network.

In this chapter a model is developed that shows the implications of IT integration within business relationships. Research demonstrates that IT in the business relationships is *integrated* and therefore indispensable (Baraldi and Waluszewski 2005; Ekman 2006; Lindh 2006). IT is a heterogeneous resource, which requires other resources in order to be used and become a productive resource itself. The *aim* of this chapter is to analyse the integration of IT by exemplifying and explaining with empirical data relevant contemporary information technologies within companies' business relationships. This will lead us to formulate the core questions needed to be asked when commencing the understanding of how the study of IT integration may extend the business network approach.

Theoretical Background

The fundamental of the business relationship approach is that a supplier and a customer are engaged in joint problem solving (Hagberg-Andersson and Grønhaug 2010). In business relationships the elements of exchanges and behaviour are central. The exchanges concern exchange in terms of products, services and information, whereas the behaviour concerns less tangible aspects, which have implications for mutuality and long-term orientation (Hadjikhani and LaPlaca 2013; Hadjikhani et al. 2012). Implications may include the mutual commitments of recourses in that relationship, yet also involve the extent to which the parties cooperate or adapt to make the relationship efficient (Anderson and Weitz 1992; Hallén et al. 1991; Johanson and Vahlne 2003; Morgan and Hunt 1994). In many business relationships, IT has become a part of the way the parties exchange information and that has changed the behavioural elements, such as adaptation, commitment and cooperation in the relationships.

Depending on the business software such as CAD/CAM to design and create manufacturing instructions, ERP systems to support operations including finances, order management, manufacturing and logistics may be needed. In other businesses, the display and analysis of large volumes of data for business intelligence (BI) systems are needed. Companies also use what is referred to as office automation, that is, software for regular clerical work, such as writing, calculation, preparing presentations and email systems. The latter is a way for co-workers to communicate rapidly and efficiently, within and between companies. However, some data transfer between companies must be handled in a structured, secure way (e.g., order and logistic information), which can be EDI or XML solutions.

The outcome of the different technologies in a business relationship is a result of the technology itself, the user's preferences as well as the people interacting with the user, including customers and suppliers (Lamb and Kling 2003; Orlikowski and Iacono 2000). One has to incorporate the setting of multiple users' interaction as a means to understand the effects of the technologies. Although there are many different technical solutions, they all have the commonality of purpose to improve the transfer and management of information. The efficient and effective use of IT

in business relationships concerns the implementation, as well as long-term maintenance, of the technology. IT integration is about the difference that the IT makes for the business, that is, its importance for the functions that it performs as well as its impact on the business partners' behaviour.

Model and Method

The analysis aims to demonstrate how and why IT is implemented in business relationships and also how business relationships are affected by IT. The concepts that are discussed in this chapter are information exchange, commitment, adaptation and cooperation. The concepts were initially empirically grounded through interview results and later tested in a larger sample. The model in Fig. 10.1 shows the hypothesised relationship effects on IT integration.

For the analysis of the suggested concepts we use two sets of data. Firstly, a qualitative (case) study of empirical scenarios illustrates how interaction is affected by IT and how the presented concepts relate to the phenomenon of IT integration in business relationships. Secondly, a

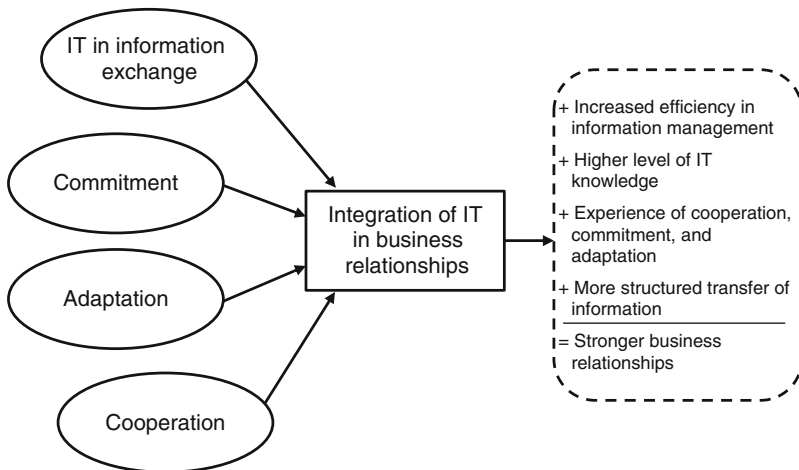


Fig. 10.1 Elements leading to IT integration within a business relationship

quantitative study presents results from a larger survey, showing the presence of the described elements.

Initially different information systems and applications of IT are described through empirical cases in order to show IT's role in business situations. The cases are fully described in Ekman (2004, 2006) and offer a deeper view of IT integration within business relationships. IT in actual business situations is outlined in relation to their customers, suppliers and partners at the following companies: ABB Robotics, Volvo Wheel Loaders (Volvo WL, a part of Volvo Construction Equipment) and Sandvik. The empirical examples are drawn from three case studies covering 13 companies, spanning 100 interviews during 2001–2006. The study also held numerous observations to get an insight as to how the companies' employees used IT in their everyday work. The examples highlight information exchange within the business relationships, as well as how IT concerns adaptation, commitment and cooperation.

The lessons from the qualitative study are contrasted with the second data set (the survey) as a means to reach a general conclusion. The quantitative empirical data represent 353 business relationships in the Swedish industrial market. The sample contains a wide range of companies selling industrial goods (9 %), components (22 %), light and heavy equipment (14 %), B2B services (34 %) and B2B end-user products (21 %). The duration of the business relationships in the sample is 13 years on average, and the longest relationship is 90 years. The survey and a more comprehensive analysis are described in Lindh (2006). In this chapter, a selection of survey questions are analysed to discuss the extent of integration descriptively.

To highlight the specific function of IT in the information exchange, questions regarding the extent to which IT is used for different purposes (technical information, information on products or production coordination), as well as the impact of IT for the efficiency of the information exchange are analysed. These initial questions pertaining to information exchange are central to the integration of IT, as is the analysis of the subsequent behavioural development. Commencing with commitment, different questions concerning the involved resources for IT integration are addressed. These concern whether increased use of IT would be advantageous, whether IT has benefitted the work of common projects for product development, the degree of investment by involved parties

and whether IT has increased this. To capture the dimension of adaptation as an aspect of integration, we asked if there is use of IT in common with that of the customer, followed by questions on the extent of actual adaptations which the parties have made within the relationship, relating to the use of IT.

The expected changes resulting from IT integration correspond to the development of the business relationship structure, as well as to more obvious aspects, such as the perceived knowledge-level change regarding IT in the relationship. Consequently, questions were asked to obtain a clearer picture of such changes, followed by those on the pace of integration. Theory has suggested that the complexity of a business relationship is reflected within its integration of IT, thus motivating the assumption that it occurs incrementally. Finally, the element of cooperation as an integral part of the relationship, as well as a catalyst for IT integration, is analysed. In order to achieve the multifaceted picture of cooperation that the theory and case study suggest, the questions are widespread. Inquiries range from measuring the level of agreement on IT in the relationships, to those of more tangible aspects, such as the access to customer information and IT's subsequent role, or the degree to which IT is used for cooperative planned-production in any given context.

In combination, the two different data sets (case study and survey) exemplify the intricacy of IT integration in business relationships. Information exchange is a central theme of the analysis, as the different forms of IT are implemented to improve this exchange. The concepts of commitment, adaptation and cooperation are also highly related to the integration of IT as noted in the empirical illustration. In the analysis, data from both sets, relating to each concept from the model, are commented on (Fig. 10.1).

Results and Discussion

The starting point of analysis is information exchange, which is related to, and affects the behaviour of, the business relationship. In this section the information exchange, as well as the behavioural elements (commitment, adaptation and cooperation), is analysed.

Information Exchange, Commitment and Change

A case scenario from ABB Robotics, one of the world's major suppliers of industrial robots, provides insight on the integration of IT in business relationships. ABB Robotics offers a variety of robots for different environments. Robots are used for either monotonous, decision-demanding or dangerous tasks, and a robot needs to be equipped with welding, painting or material handling tools. Until 2004, ABB Robotics had used regular MS Excel files to handle different robot configurations and these spreadsheets could span from a few pages for standard robots, to 16 pages for more customised ones. In essence, it was specifications written on sheets, and although somewhat organised by MS Excel functions, they did not carry any additional parameters, for example, ones that would hinder bad or impossible product combinations, or the ability to make it easier for the customers and partners to design their own robot packages. Their ability to improve information exchange on the products was thus limited. Spreadsheets were offered to ABB's partner companies, such as Specma Automation, who designed manufacturing cells holding robots. However, the engineers at Specma Automation were reluctant to use the spreadsheets and joked: 'then we take away the [ABB Robotics] salesman's job.' The real reason was the inherent risk in using MS Excel—it was impossible to include a function that checked for unsuitable combinations. In conclusion, the ambition to reduce the salesmen's job in the process of exchanging information regarding the products was not reached and Specma Automation's staff demanded more qualified support. However, ABB Robotics reacted to this problem and developed a web-based configuration that was easier to use and performed the necessary controls, ultimately becoming a better support for ABB Robotics staff, as well as their partners.

Analysing the case in terms of business relationships, it becomes clear that the degree of commitment that the MS Excel sheets offered was too low to maintain the information exchange within the relationship on the appropriate level needed to continue with at least the quality they had had earlier. Using regular office automation software meant too much manual labour instead of the desired increase in efficiency of information exchange. The situation at ABB Robotics demonstrates a company that

strived to increase the efficiency within their information exchanges and therefore enhance their business relationship commitment level by developing a web-based product configuration, replacing the spreadsheets. The case is illustrative in the sense that companies have an inclination to ensure their business exchanges run smoothly which means that when the right technological solution is found (for a business situation, given its purpose and complexity), the efficiency increases. An outcome for the business relationship as a whole is consequently increased commitment and efficiency within information exchange. As a means to evaluate the general validity of such a claim, empirical data on commitment and efficiency in information exchange from the survey is analysed.

The concepts of information exchange and commitment with regard to IT, as well as dedication to the business relationship, were analysed with data from the survey. Among the 353 analysed business relationships, as much as 81 % use IT, to some extent, for exchange of technical information, 82 % for information on products and up to 64 % for production coordination. The trend also points towards increased use, as 83 % of the observations show that it is advantageous to increase the use of IT in the future. This gives a clear implication that most companies are moving towards elevated commitment in IT use with their counterparts, and that this involves many forms of information exchange. IT is not used for exchange of product and production information alone; in 37 % of the measured business relationships, the partners have a cooperative product development, and 26 % think that the use of IT has made this work easier. In addition, 49 % have invested considerably in the business relationship, indicating high levels of commitment, with 24 % believing that the use of IT strengthens that business relationship commitment.

Given the extensive use of IT in business relationships, and that IT comes with different forms of logic and functions, it will cause changes such as that of ABB Robotics where information exchange (finally) became more efficient with IT. The answers to the survey questions on the changes caused by IT indicate that those concerning information management efficiency had increased in 53 % of the observations. It is also worth mentioning that the survey encompasses many business relationships, displaying varying degrees of IT use; therefore, the fact that 53 % have indicated increased information management efficiency is a fairly strong implication.

Adaptation and the Pace of IT Change

Payments and invoicing are typical tasks where IT supports the exchange of information between buyer and seller. In this context, different forms of adaptations—including those made to the forms of IT the partners utilise—become relevant. There may also be technological diffusion between companies, and hence, the pace at which IT spreads through the business relationships is of value. To exemplify this, an illustrative case presenting Volvo WL and their migration from a legacy system to an ERP system by SAP is explored. The old system was designed and structured according to traditional assembly logic, and the studied Arvika plant had almost 6000 ‘articles’ in their system. Volvo WL had used the legacy system for a variety of purposes. The system was connected to a number of sub-systems with rather specific tasks, for example, a separate system for the product development and CAD drawings, a marketing and sales system, a machine information system, an invoice system, and so forth. The SAP system could replace all these legacy systems, but the change had to be made stepwise for several reasons. One obvious reason was that the internal routines needed adaptation to a more modern SAP system, as the legacy system had connections to their dealers’ Customer Relationship Management (CRM) systems. However, there was a window of opportunity since one of the larger dealers, Swecon, intended to replace their CRM system. Both Volvo WL and Swecon were fully engaged in discussions about how the future interconnections would function and how each partner had to incorporate their own needs. Volvo WL had different sales organisations worldwide with varying levels of IT maturity and infrastructure with Volvo WL’s ERP system requiring connection to different IT operations. Swecon, on the other hand, equipped most of Volvo’s wheel loaders into ‘Swecon machines.’ A part of this equipment came from third-party suppliers as Swecon’s CRM system could only be partly integrated with Volvo WL’s upcoming SAP system. Furthermore, Volvo WL’s new SAP system also required accommodation with a variety of supplier connections. At the time of the study, some suppliers had fully integrated connections (such as EDI), but other suppliers, with less well-developed IT, used a web-based third-party solution (called Edionet) to translate the EDI codes

to regular web-texts. The migration to a new SAP system did not only alter Volvo WL's internal routines but also affected inter-organisational digitised connections.

The case shows that adaptation takes place when IT is used in business relationships and suggests a process, based on collaboration, in which the changes occur stepwise and are achieved through business partners' cooperation. The analysis of the survey's questions on adaptation supports the findings of alteration and collaboration. Survey data show that in 49 % of the business relationships, an IT solution has been implemented together with (or is shared in) the business relationship. Among those surveyed, 46 % have, made adaptations (by both parties) regarding the use of IT in the business relationship. The analysis also shows that the technology is transferred from one business relationship to another and then adaptations are required as a means to get efficient IT use within that business relationship. Seventy-seven per cent of the respondents have also described that the use of IT has increased gradually in small steps. Thus, the empirical result indicates that the integration of IT in the business relationships is an incremental process involving adaptation. The results and analysis also pinpoint that cooperation is an important aspect of integration, and this is further elaborated in the next section.

Cooperation in a Mutual Relationship

The third case illustration follows a salesman at Kanthal AB, a former division within the Swedish steel industry Sandvik AB. Kanthal AB develops and manufactures different heating elements and wires to be used in industrial equipment, as well as in everyday products. The salesman in the case study sold the products by weight and priced them based upon how much the customer bought over a period of time. Kanthal AB was an early user of BI tools and the salesman had QlickView, a combined data warehouse and analytical tool, installed on his laptop. QlickView allowed him to group any business data to obtain a good overview of different customers, customer segments, products and so forth. The tool was initially used for internal purposes but also for fieldwork. This was a great support and he stated:

How can you judge a customer? If they have not paid well last year – what kind of conditions shall they have next year? It becomes a matter of sense, so there are many customers that pass through that should not pass through.

After the implementation of QlickView, the salesman used to download the latest data before visiting a customer and then they could look at the figures together.

Often the customer states that he wants a quotation for, let's say, 100 kilogram per year but then they end up buying 50 kilograms... When I use QlickView I [can see the former years' purchases and] say 'you get the price for 50 kilograms but if you buy 100 kilograms I will adjust the price accordingly.'

Thus, QlickView helps both Sandvik AB and the customers in getting an overview of their mutual business.

In the case of IT integration, there are several ways in which the cooperative behaviour is demonstrated, starting with the decision to implement IT by the parties, together in agreement. Following survey results, 49 % state they have a level of agreement on how IT is to be used in the relationship. Furthermore, data on accessibility of information from the customer demonstrates an atmosphere of cooperation, as 64 % agree that they easily get information from the customer and 45 % believe that the use of information technology has increased information access. An implication is that the IT in business is integrated in agreement involving both parties. It is a process of adaptation and negotiation, rather than a strategic decision by one part. Furthermore, the role of IT when integrated is not solely that it enhances information exchange; it often serves as an agent to improve cooperation and thereby strengthen the business relationship. Forty-two per cent of the observations show that planning for production is a common effort between the counterparts, and 26 % show that the use of information technology makes production planning easier. The findings that IT enhances information exchanges and strengthens the business relationship demonstrate that it is not just a commodity put into business; it is a part of the business relationship and integrated into many of its elements.

Conclusions

The results, based on two complementary data sets, manifest the presence and degree of concepts in everyday business, thus supporting the idea that use of IT involves many aspects of information exchange and impacts on behavioural elements, such as adaptation, cooperation and commitment. We describe this phenomenon as *integration* of IT. In this context the partners' commitment, as well as their inclination to make adaptations and cooperate, becomes a vital means to integrate the IT for a stronger and more efficient business relationship. The short case illustrations demonstrated different IT solutions in a variety of business relationship situations. The character of the technological integration appears to be mutual and develops incrementally. These results support this chapter's initial suggestion—that IT is a resource that requires other resources in order to function purposefully—and thus, must be the starting point for studies of IT in industrial business networks.

The integration of IT is a time-consuming process involving many people who have to learn how to use it in alignment with their partners in order to be successful. It is a considerable investment to implement IT, to make information exchanges more efficient and thereby the business more profitable. Based on our findings, there seems to be symmetry between the cost involved in business relationship development and the technology per se. Logically, this also has bearing on the business relationship strength. This indicates that IT integration increases business relationship strength; if the integration of IT is effective and the information exchange becomes more efficient, it is reasonable to assume that IT also replaces other ways of interacting within the business relationship. As such, changed interaction patterns as a consequence of IT integration is an issue for future research, specifically as changed interaction patterns potentially hold both strengthening and weakening effects.

Furthermore, the effects of IT integration may lead to increased interdependence, as the IT investments interlock the two parties of the

relationships, both by technical and behavioural aspects (commitment), together strengthening the business relationship. The integration of IT increases the partners' knowledge on IT, which means that it can be transferred through the connected relationships. Given that IT becomes a change agent in the business relationship, and that it also affects the business network, it is an issue that requires further study. On one hand, we can expect IT integration to cause interlocking effects in the network—that is, the strengthened relationships make it increasingly difficult for new parties to enter. On the other hand, IT is often integrated as a standardised solution (the 'so called' commercial of the shelf software) implicating that actors outside a network who aspire to enter have a lowered threshold given that they can acquire the same IT that is used within. Thus, it is plausible that standardised IT in fact makes the network more loosely coupled, even if it increases strength on a relationship level. Our line of reasoning highlights the importance of further research on IT integration beyond the adjacent relationships and in the extended network.

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11

Information System Providers in Business-Relationship Triads

Cecilia Erixon and Peter Thilenius

Introduction

Firms have become highly dependent on their use of information systems for daily business activities (Nakata et al. 2010). To function efficiently and provide necessary support to the firm's business, the management of a multitude of information systems involves continuous technical updates, as well as feature additions, adapting the system to the firm's different business situations (Brady et al. 2008; Ekman 2015; Ekman et al. 2015). Information systems generally become more standardised, yet the high expertise needed for maintenance and development of them entails that suppliers of information systems are increasingly specialised on particular systems. Furthermore, the growing number of specialised information systems, and the increasing use in business, make their operational management time-consuming, requiring high degrees

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of specialised knowledge. As a consequence, firms chose to move the management of information systems to external parties providing the systems (IS-providers). This phenomenon has been described as information system outsourcing, with research on the topic mainly placing attention to the strategic process of management decisions on when to outsource and to whom (Lacity and Hirschheim 2012; Rivard and Aubert 2015). Outsourcing effectively means that the firm, not only for internal needs, but also for their ongoing business undertakings in marketing, sales and purchasing, relies heavily on IS-providers for business performance (Heckman 1999). Due to increasing numbers of information systems and information system providers (IS-providers), firms can no longer rely on one single IS-provider but nowadays have a complex arrangement involving multiple IS-providers for the diverse information systems utilised in business (Gallivan and Oh 1999).

The firm's information system outsourcing thus forms a situation where the business with customers and suppliers is contingent on several IS-providers. Resembling a triad (cf., Simmel 1908 in Wolff 1950), the understanding of the situations where three parties—a supplier, a customer and an IS-provider—are involved in performing business operations, calls for a view on how the business of a supplier and its customer is affected by the inclusion of a third-party, the IS-provider. The phenomena of triads have been approached before in the fields of service management, operations management and supply chain management, and in industrial marketing following the business network approach (see Wynstra et al. 2015 for an overview).

Research has shown that information technology used in industrial marketing and/or sales as well as purchasing becomes integrated over time in the firm's business relationships (Lindh 2006), thereby affecting the overall performance (Sánchez-Rodríguez and Martínez-Lorente 2011). The integration of information technology means that a large share of the exchanges taking place in the business relationship of a supplier and a customer are facilitated by, and thus dependent on, a diverse set of outsourced information systems, operated by various third-party IS-providers. Research within the business relationship perspective has, thus far, approached this situation from a dyadic point of view, highlighting the characteristics of the relationships of IS-providers and their customers (Kern and Willcocks 2000) or the effects on the business rela-

tionship of those customers (Ekman et al. 2015; Lindh 2006). In this chapter, the phenomena of the three parties is explored as a business-relationship triad (Havila et al. 2004) where parts of the exchange between a supplier and a customer is contingent upon, and effectuated by, a third party IS-provider.

The chapter starts by outlining earlier research on business relationships and the role of IS-providers, then discussing business-relationship triads. Empirically the phenomenon is illustrated by one firm's customer relationship and the impact of four IS-providers as well as the information systems used. The chapter ends with a discussion and some concluding remarks regarding the contribution of extending the business network approach by viewing the IS-provider and information systems as a business-relationship triad.

Theoretical Background

The business network approach is founded on the notion that business relationships are the inevitable result of repeated exchanges that occur due to the marketing/purchasing activities of two firms. Over time, the exchanges bring directed behaviour and the business relationship becomes an organised structure which handles the business more efficiently. Furthermore, the repeated exchanges mean that the business relationship becomes unique, as well as long-term orientated. Hence, the business relationship, overtime, will be a resource that is difficult to replace. The exchanges are not only related to economic or product/service issues, they can also be based upon information requirements or a social, interpersonal characteristic. The business relationship will thereby hold different behavioural aspects that can, for example, be manifested as adaptations, commitment activities, communication, cooperation, development of interdependences and levels of trust (Hallén et al. 1991; Morgan and Hunt 1994).

Generally, business relationships are studied from a dyadic perspective (Holma 2010) and research has contributed to knowledge about how to analyse such, in addition to their characteristics. However, business relationships do not exist in isolation; they are connected indirectly or directly to other relationships in a network (Blankenburg Holm 1996; Havila 1996).

The fundamental notion behind connected relationships is often attributed to Cook and Emerson (1978: 725) where it is stated that:

Two exchange relations are connected to the degree that exchange in one relation is contingent upon exchange (or non-exchange) in the other relation.

The connections of one focal business relationship with others in the network can be numerous, as well as supporting or disturbing a company's other business relationships (Ritter 2000). Earlier research addresses that not only business parties, for example, customers and suppliers, are of interest to understand the business network, but also non-business actors and ancillaries (Anderson et al. 1994; Hadjikhani and Thilenius 2009). Ancillaries are connected actors that are not participating per se in the marketing or purchasing, but influence or affect firm's business relationships. The IS-provider can to some extent be viewed as an ancillary; it does not participate actively in the firm's production or business, but their products, the information systems, are used to support the exchanges, and therefore become integrated parts of the firm's business relationships.

The information systems used by a firm are de facto operated and managed by the IS-providers, and it is therefore unavoidable for the firm to become dependent on them. Studies have thus far addressed firms' outsourcing of information systems using a business relationship perspective (Gottschalk and Solli-Sæther 2006; Heckman 1999; Kern 1997; Kern and Willcocks 2000, 2001, 2002; Lacity et al. 2009; Willcocks et al. 2004), as well as the use of information systems in business relationships (Damanpour and Damanpour 2001; Ekman and Thilenius 2006; Leek and Turnbull 2004; Leek et al. 2003; Lindh 2006). This research provides important insights for the understanding of business relationships and the information systems used within them, albeit, with few exceptions (cf., Erixon 2012), split into two perspectives: (1) with focus on the dyadic relationship with the IS-provider, or (2) with focus on the information systems used in the dyadic business relationship with customers or suppliers. In this chapter, the split between the two perspectives is proposed to be overcome by using a business-relationship triad view (Havila 1996; Havila et al. 2004).

IS-Providers in Business Relationship Triads

The IS-provider could be viewed as an ancillary intermediary of the information exchange in the business relationship between the supplier and customer, but ‘...the impact of the intermediary on the [dyadic] business relationship is usually not treated explicitly’ (Havila et al. 2004: 173). This lack of explicit attention is common in outsourcing, that is, the impact on the business relationship of moving the information systems to a third party is neglected. However, this is precisely the main focus of this chapter. In the present situation three firms—a supplier, a customer and an IS-provider—use information systems for exchanges to ‘... interact on successive occasions [...] come together repeatedly or [...] be in communication often, conversing, exchanging products, and so on’ (Thibaut and Kelley 1959: 191); thus displaying the characteristics of a triad, a business-relationship triad (Havila et al. 2004). In Fig. 11.1 the three parties with four different views on the situation are depicted. Figure 11.1a illustrates the situation of relationships studied separately,

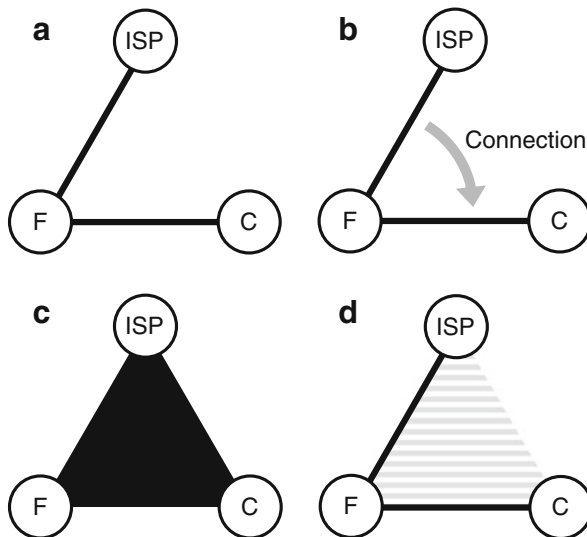


Fig. 11.1 Four firm (*F*)–Customer (*C*)–IS-provider (*ISP*) views: a) separated, b) connected, c) strength and d) continuity

while (b) highlights the connection between the two relationships. Figure 11.1 further illustrates the business-relationship triad in terms of strength (c) and continuity (d) which will be further elaborated upon.

In a business-relationship triad view, the main attention is not on the specific connections between the three parties. Rather, the emphasis is on how the three relate to each other in a group perspective. In the current setting, the extent to which exchange in the business-relationship triad involves the third party, the IS-provider, varies. The rationale for the variation is that some information systems are used on a daily basis, such as enterprise systems or intranets, whereas others are used occasionally, for example decision support or project management. The intensity of the exchanges involving the IS-provider can be understood as the strength of the business-relationship triad; bearing in mind, that intensity may also be mirrored through the non-exchange effects on the triad. The strength of the business-relationship triad (see Fig. 11.1c) may impact on one or more behavioural aspects, such as trust or commitment (Havila et al. 2004).

Information systems, their development and use, are often evolving in a project-like manner. During the projects the information systems have intermittent periods where business is hindered, while there are also periods when it is enhanced due to improved and/or expanded functionality. Continuity is often seen as an indication of stability (Corsaro and Snehota 2012) although business networks are not necessarily stable and business relationships do not automatically last (Kamp 2005). Business relationships may be interrupted, have periods of little or no business exchange and be discontinuous in character (Hadjikhani 1996; Hadjikhani et al. 2012). If the information system usage is uninterrupted the business-relationship triad is more continuous, while if it is affected at certain occasions it is more discontinuous (see Fig. 11.1d). Researchers such as Coughlan et al. (2003) and Easton and Araujo (1992), express the importance of continuity and discontinuity when studying business relationships. Continuity/discontinuity can allow for further understanding of the business-relationship triad as high continuity implies a stable, 'closed' triad, while high discontinuity can be associated with an intermittently 'open' triad. Thus, the business-relationship triad of a supplier-customer-IS-provider can be understood in the terms of its strength and continuity.

Method

To illustrate the ‘supplier–customer–IS-provider’ business-relationship triad, information from a case study with multiple interviews has been used (Erixon 2012). Case studies have been argued to be an especially appropriate research approach when studying business relationships and their embeddedness in networks (Dubois and Araujo 2007; Easton 1995). This study has been structured on how the IS-providers of a focal company’s information systems impact one of its customer relationships, based on 22 interviews and data from non-intervening observations of information system use. Archival material and business documents were reviewed as a complement to the findings from the interviews. The interviews were guided by a semi-structured protocol and the typical respondents were the CEO or others in managerial positions. Each interview lasted between 45 and 120 min. To promote openness, all interviewees were assured anonymity. The interviews were recorded, transcribed and then posted to the interviewees for validation.

All firms in the study are anonymous and given alias names. The focal firm, referred to as Automata, is in the automation and process industry while the customer, Pulper, operates in the pulp and paper industry. The customer in this study was chosen by Automata with the criteria that it needed to be a long-lasting and important customer. Automata have over the years sold automation products to Pulper, which have been incorporated into Pulper’s production system. Automata and Pulper are both well-established multinational companies with operations in several facilities in a number of countries. The business relationship of Automata and its customer Pulper is studied concerning four different IS-providers: one for the enterprise resource planning (ERP) system (Esystems), another for a decision support system (Decidor), the telephony (Phonia) and ultimately for email and the information system infrastructure (Infrate).

Automata was asked questions concerning their information system usage with customers in general as well as on the business relationships with Pulper and the IS-providers. The business relationship in general was focussed upon when interviewing Automata’s customer Pulper, specifically the customer’s view on the information systems used in their business with their supplier. The IS-provider’s relationships with Automata

were in focus when interviewing IS-provider representatives, as was the information system they maintained and managed for Automata. The analysis of the collected data was made in two steps. Initially, the business of Automata–Pulper and Automata–IS-providers were analysed as dyadic business relationships with focus on the business activities in terms of exchange and behavioural aspects, before moving on to the analysis of the four business-relationship triads.

Four IS-Providers and a Firm's Customer

In this empirical illustration the information systems provided by four IS-providers are described with focus on Automata and its important customer Pulper. The communication relating to the ongoing business activities of Automata and Pulper is to a varying extent achieved through the use of different information systems.

Esystems and the ERP System

Automata uses Esystems' ERP system, a cross-functional and company-wide information system supporting a wide range of business activities on a daily basis when dealing with Pulper. The ERP system is crucial in supporting Automata's various business functions, for example, production planning, manufacturing and project management, yet it is also important for business activities with Pulper, such as ordering and invoicing. The ERP system is Automata's main information system and contains data regarding sales, production cost, maintenance cost and various material stocks. This allows Automata to track, plan and analyse the business with Pulper. Esystems has stationed personnel with specialist competence at Automata where they work together with Automata's staff. The business functions handled in the ERP system allow Automata to feel confident in maintaining high delivery quality to Pulper. The business of Automata and Pulper is well established, and Esystems have adapted systems in order for direct transactions to be made. Esystems' ERP system is integrated with other systems regarding the supply of material to Automata's production and tracks all needed for the products sold to

Pulper. Through the ERP system, units within Automata share various information regarding their business. However, the information can be also used in communication with Pulper. Automata and Pulper have conducted business since the 1980s, and the ERP system is important when Automata has larger deliveries to Pulper, as it forces Pulper to completely halt production, which needs to be planned months ahead of time. If Automata fails to deliver as planned, it would have severe economic consequences for Pulper (and most likely for Automata). Esystems' ERP system is the most used and most critical for Automata in its business with Pulper as a manager at Automata explains:

The [ERP] system is a supporting factor for us. Without the organising [of the ERP system] the entire business would stop. Without [ERP] systems we wouldn't be able to be as efficient as our customers expect and they wouldn't want to have anything to do with us. We wouldn't be able to be competitive and we wouldn't exist as company if we did not use it [the ERP system].

Decidor and Qlikview

Pulper has expressed that high-delivery quality is one of the most important aspects in their choice of a supplier. Decidor, the provider of Qlikview, a decision support system used primarily internally by Automata, was chosen in order to ensure successful 'quality' business with Pulper. Decidor maintained that Qlikview would help Automata to track and manage all deliveries to Pulper by using data over time for prognoses. Qlikview's user-friendly interface, with graphs and diagrams, makes it easier to foresee if delivery performance will decrease. Automata can then evaluate what has happened and how to enhance quality to be proactive in keeping their customer Pulper satisfied. Decidor's system allows Automata to manage and maintain a high delivery value, and the information can be used dealing with Pulper as one manager at Automata stated:

The Qlikview presentations with the graphs and diagrams help you to get an overview of different data. This makes it much easier to illustrate data to Pulper. For instance at one time they 'felt' that the delivery performance from us had gone down and by using Qlikview we could easily show them that wasn't the case.

Phonia and the IP-Telephony

Automata is highly dependent on the use of the telephones in their daily dealings with Pulper. The telephones run on an IP-telephone system operated by Phonia. All employees use smartphones and can access the intranet, check email, place orders in the ERP systems or search Qlikview using them. Naturally, the IP-telephone system is frequently used to communicate with all business partners, but for contact with Pulper, the telephone is stressed as extra important. One manager in Pulper's procurement and project management expressed the importance of telephone usage:

A phone call shows higher involvement from the other party since it is so easy to send emails everywhere. A phone call indicates a deeper engagement concerning the errand at hand.

However, even if the telephones are important in the day-to-day business, they are only used to mainly 'grease the wheels of business'. All important business information is in the ERP system. The impact of the IP-telephony system on the business only becomes an issue when it malfunctions. During failure, even if it is only a matter of hours, the possibilities for maintaining communication with Pulper and other customers are disturbed. An account manager at Automata stresses:

If for example the telephones do not work, there would be severe difficulties regarding our customer relationships. It is primarily telephone and emails that are the most important IT tools for information exchange... at one time we almost missed an order due to the fact that our phones didn't work.

Infrate, the Email, the Intranet and All Machines

Emails are extensively used in Automata's communication internally as well as in contact with all customers and suppliers. The contact with Pulper is no exception, and the email system provides support for sending and receiving both formal and informal messages, often in combination with plans, technical drawings, spreadsheets and pictures, sent back and forth between engineers, marketers and managers. Automata has intense

contact with Infrate, operator of the email system, to ensure that the email system is functional which Automata considers to be as important as the telephone contact with Pulper. The email system is linked to Automata's intranet, which Infrate also operates and maintains. Automata's employees use the intranet to share necessary information for internal purposes. Such information-sharing involves providing product information, production schemes, diverse arrays of forms, as well as employee information. An account manager at Automata explains:

We have high levels of mail correspondence with all of our customers to exchange information regarding products, projects etc. We also take decisions through email correspondence. We are dependent on the use of email.

Infrate actually operates and maintains Automata's overall information system infrastructure, that is, the hardware necessary to access any of the systems, and has personnel stationed there. A functioning information system infrastructure is a precondition for accessing all the others that Automata uses. Notwithstanding, even if Infrate is in frequent contact with Automata, the hardware infrastructure is rarely an issue impacting on the dealings with Pulper as that communication is all about business.

Analysis

The empirical illustrations above outlined the business of four IS-providers and one firm's customer. The first illustration concerned Esystems (and the ERP system) which Automata communicates with on a daily basis and have their personnel stationed at Automata. All Automata's core business exchanges (product and monetary) in the dyad with Pulper are contingent on the ERP system of Esystems, which provides indications of high strength in the business-relationship triad of Automata–Esystems–Pulper. Esystems has personnel based at Automata and the ERP system is integrated in both the production and monetary exchanges with all Automata's customers. For these exchanges to function uninterrupted, the system must always be operational, meaning that, apart from strength, the business-relationship triad also can be characterised by continuity. Automata's use of Qlikview in the

business with Pulper is an essential exchange support in the relationship as it manages Automata's delivery performances, even though Automata does rely more on other IS-providers with Pulper. The system only allows Automata to illustrate their delivery performance, whereas systems handling other aspects, such as production and actual delivery, are of higher importance, thus making the business-relationship triad of Automata–Decidor–Pulper appear weaker. The illustration reveals the intricacy of business-relationship triads; the information exchanged by Automata in the dyad with Decidor maintains their ability to monitor the delivery performance to all customers and indirectly facilitates the possibility for Automata to display their commitment to Pulper by exchanging information corroborating their efforts in maintaining a high delivery performance. The commitment activities shown by Automata may in turn engender trust in the dyad with Pulper, thereby strengthening the business-relationship triad. However, the dyad with Pulper is fundamentally based on the deliveries per se, rather than the information regarding them. This is why the business-relationship triad with Decidor *is* weaker. Furthermore, the commitment activities are not continuous as the provision of significant information, emanating in the use of such decision information system only occurring occasionally. Despite the discontinuity, this business-relationship triad is essential for maintaining the business of Automata and Pulper.

The business Automata has with Pulper is not hinged on the telephone, that is, Phonia's IP-telephony system is there and used, however not in a crucial way. The day-to-day business situation of Automata–Pulper can be managed by the use of other systems, rendering this business-relationship triad weak. Even if the telephony system is frequently used for a variety of purposes, including access to other systems, the main purpose of the communication is to 'smoothen' the business with the occasional rise of importance when acute issues are solved by emergency calls. This discontinuous character of the business-relationship triad becomes evident when the IP-telephony system malfunctions as stated. The subtext is that existence of strong functioning triadic relationships is important, regardless of them being continuous or discontinuous. At a system failure, the communication and exchanges are instantly disturbed by the impact of the temporary IS-provider's interruption. Thus, the business-relationship triad is obvious, albeit occasional and short term in nature.

Email is another system less complex in use, but when employed in the business-relationship triad, it supports all ad hoc communication regarding product features, planning and other issues needing to be resolved. Its role is vital for the long-term cooperation between Automata and Pulper and in extension, the third party Infrate (the system provider), thereby strengthening the business-relationship triad. The use of email is though, despite the frequent use, only crucial at certain occasions when important issues need to be handled by Automata and Pulper, indicating lesser continuity in the business-relationship triad of Automata–Infrate–Pulper.

The analysis has highlighted differences in the business-relationship triads due to varying strength and continuity. Interestingly, the business-relationship triads displayed more complex patterns than can be explained by connecting the two dyadic business relationships. For example, the email system of Infrate and the ERP system of Esystems are both used on a daily basis and both engender continuity in the business-relationship triad. The email system supports communication with Pulper and is used to send information regarding projects, products and management issues, while the ERP system is extensively used for production planning, ordering and invoicing. Infrate is, through the infrastructure, crucial for keeping all information systems up and running, especially since they are linked to Automata's intranet and to the IP-telephony system, which both are important for the personnel's day-to-day problem solving in the contacts with Pulper (and also so regarding Infrate, Decidor and Esystems). This line of argument demonstrates that business exchange involving three parties is better understood as business-relationship triads, rather than one focal business relationship and a few connected relationships. Furthermore, the examples show a situation in which the integration of outsourced computer-based systems elevates the importance of studying connections from a triadic point of view.

Conclusions and Managerial Implications

This chapter has contributed to the extension of the business network approach by highlighting the importance of studying outsourcing of information systems to external third parties, IS-providers, as business-relationship

triads. In prior research, a firm's IS-provider relationships and business relationships have been studied separately and are most likely also managed separately by the firm. Taking a more comprehensive view on externalisation of information systems, as presented in this chapter, may help the complex managerial situation because the information systems are integrated in the business relationship.

At first glance, you would, perhaps, not think that an IS-provider of an internally used decision support system could influence a customer relationship of a firm as the empirical example has highlighted in this chapter. Therefore, a deeper understanding of the impact is important, which implies that the business relationship involves more than two parties. Depending on how IS-providers and the information systems are used, the business relationship is thereby better understood as a triad rather than two dyads. By ascertaining the strength and continuity of the business-relationship triads involving the use of information systems, the firm can identify how and in what ways different IS-providers have a major impact on their business with customers and suppliers. The indication is on a complex managerial situation which ascertains that IS-providers are crucial for the firm's business in both short-term and long-term perspective.

The empirical illustration shows that the influence the IS-providers have on the firm's exchanges with its customer is essential in the business-relationship triad. In the empirical illustration, the IS-providers and their relevance for the focal firms' business stability of operations is evident. The implication of the business-relationship triad strength is that IS-providers are not just connected to business relationships in the traditional sense; they are part of the business relationship. In some cases the triad is weak while in others strong, indicating that the effect on behavioural aspects of the business relationship, such as trust or commitment, of the third-party IS-provider varies. The stability of the focal firm's business stability is also affected by the continuity of the business-relationship triad. In some instances the business-relationship triad is continuous indicating a more closed structure resembling a unitary triad (cf., Havila 1996). In other instances, latency or disruptions in impact of the IS-provider generate discontinuities opening the business-relationship triad to aspects such as distrust (Hadjikhani and Thilenius 2006).

Apart from the viability of characterising business-relationship triads by the strength and continuity/discontinuity, the analysis made it apparent that the IS-providers are interlinked. This implies that approaching the situation not only as business-relationship triads but also as complex sets of multiple interlinked triads might provide further insights. In this, when the IS-providers are seen as parties in business-relationship triads and not just suppliers of outsourced information systems, the intricacy of the situation becomes even more apparent and interesting. The observation hints that the business-relationship triad studied in this chapter might be the hidden link that extends the business network approach into the network structures of new technologies.

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12

A Search and Deliberation Framework for Understanding Consumers' Foreign Online Purchasing

Aswo Safari and Mohammad Yamin

Introduction

Information technology (IT) as an international marketing tool has been acknowledged in several studies (Beccera et al. 2013; Chang and Chen 2008; Jarvenpaa et al. 2000; Mukherjee and Nath 2007; Safari et al. 2013), and the internet as an alternative path for firm internationalisation has been explored recently (Kim 2003; Lim et al. 2004; Pezderka and Sinkovics 2011; Sinkovics et al. 2013; Yamin and Sinkovics 2006). Similarly, consumers' domestic online purchasing behaviour has been investigated extensively in the last two decades (e.g., Beldad et al. 2010; Jarvenpaa et al. 2000; Mukherjee and Nath; 2007; Sabiote et al. 2012). These studies have been aimed at understanding the relationship between consumers and retailers on the internet, usually where both parties are physically located within the same country. International business and

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marketing scholars have also extensively studied the phenomenon of firm online internationalisation, that is, 'the conduct of business transactions across national boundaries, where the "crossing" of national boundaries takes place in the virtual rather than the real or spatial domain' (Yamin and Sinkovics 2006: 340). The literature on online or internet internationalisation has usually assumed that the 'active' party is the firm as seller or vendor. The possibility of consumers actively using the internet to find and transact with vendors located in foreign markets has not been extensively studied except in a few cases (e.g., Hadjikhani et al. 2011; Safari 2012). However, this is an interesting and important phenomenon that merits careful study. It is interesting because it is a phenomenon that could not exist prior to the establishment and routine access to the internet as a search and transaction medium, and it is important because this phenomenon has the potential to change the development of the global economy. Through its website, a retailer potentially has access to the whole world as prospective customers. This notion means that small firms have the potential to transform into large multinational firms. However, most customers still make their online purchases from domestic online retailers based on the notion that foreign online purchasing is risky and complicated. This raises important issues that need to be explored in order to understand consumer risk perception in this context. New theoretical tools are needed for this purpose.

First of all, it is important to distinguish between domestic and foreign online purchasing. What differentiates foreign online purchasing from domestic online purchasing is that: (1) the retailer and the consumer are physically located in different countries; (2) the retailer is subject to rules and regulations that are usually unfamiliar to the consumer; (3) in most cases there is a language barrier between the consumer and the retailer; (4) the vendor does not have an 'active' online presence in the consumer's home market (Yamin and Sinkovics 2006); and (5) product returns are more complex and problematic due to the limited internet engagement by the vendor. Not all online purchasing from foreign retailers is affected by these five factors. In particular, if the foreign retailer has an active online presence in the consumers' home market (e.g., Swedish consumers' purchases from Amazon.com), then there may be no problems relating to product returns. Specifically, there may be additional risks for the

online consumer due to the lack of an active online internationalisation approach by the retailer. In this chapter, we explore in some detail foreign online purchasing by consumers and how they deal with risk when purchasing from different types of foreign online retailers.

The risk to the consumer associated with purchasing from a foreign online vendor is partly related to the consumer's perceived psychic distance towards the vendor's country of residence (Edwards et al. 2009), and partly related towards the vendor as a business unit. The framework introduced by Rangan (2000) is helpful in exploring the risk associated with foreign online vendors. Rangan argues that there are two aspects to transactions: search and deliberation. Search relates to the buyer's search cost in identifying a beneficial exchange partner, while deliberation relates to the buyer's judgement of the quality of the seller and whether the seller is a suitable exchange partner or not. Social networks exert an influence on economic actions when search and deliberation are problematic for identifying new beneficial exchange partners (ibid.). The internet has radically increased the scope and ease of 'search': through the internet consumers can find new opportunities anywhere in the world and can engage in exchange relationships with retailer wherever they are based (Mukherjee and Nath 2007). What is interesting here is that search and identification of new exchange partners are not themselves problematic but rather that deliberation affects consumers' perceived risk when engaging in relationships with these foreign online vendors. In other words, the internet has solved the problem of search but deliberation remains problematic. Further, in this chapter the focus is on consumers' purchasing behaviour towards two different types of foreign online retailers/vendors: those engaged in partial online internationalisation and those with default online internationalisation. The aim is to understand key features of consumer purchasing from partial and default online internationalisation retailers and provide a conceptual framework for examining how risk varies when engaging in exchange relationships with these two types of foreign online vendors.

Although most online purchases are still domestic, the development of information technology and the internet specifically has recently led to an increase in consumers purchasing from foreign online vendors. This supports our desire to understand how these consumers interact with foreign online vendors and how they deal with risk perceptions.

The understanding has relevance for both theory and practice. It is beneficial for practitioners to establish how consumers behave when purchasing from foreign online vendors in order to allocate their marketing efforts more efficiently. From a theoretical point of view, it is important to discuss key features regarding risks in this context and how consumers cope with risks when purchasing from partial and default international online retailers. Thus, this chapter is structured as follows: first we discuss the search and deliberation framework; this is followed by a discussion of three types of foreign online vendors; then we integrate the search and deliberation framework with the firm and consumer online debate; and finally we suggest a conceptual framework and put forward propositions for further research.

Search and Deliberation

The search and deliberation framework addresses the two competitive theories of economic exchange, namely price (Hayek 1945) and networks (Granovetter 1985). While Hayek focuses on explaining economic actions based on price mechanisms, Granovetter's article focuses on non-economic objectives and their impacts on economic actions. Rangan (2000) acknowledges the importance of price and its influence on economic actions, but also argues that buyers and sellers always seek beneficial potential exchange partners. However it is not always possible to identify (or find) them or deliberate regarding potential exchange partners. Rangan states that social networks can play an important role here. He argues that social networks are important in economic action decisions, and it is when search and deliberation are problematic that social networks can play a role and influence economic action outcomes.

Rangan (2000) begins with the price mechanism as the point of departure, and acknowledges that price always matters, meaning that actors prefer a lower price if they can identify an exchange partner who offers a lower price and whose quality they can judge. However, this is not always possible, and thus actors continue to conduct business with already known and trusted exchange partners. However, if focal actors are able to search and deliberate other potential exchange partners they

do; this is sometimes called switching cost (Safari 2014), and hence the process of search and deliberation starts. 'Search refers to acts involved in identifying potential exchange partners...' according to Rangan (2000: 814). Search occurs when a business actor's perceived response to a need or opportunity for exchange lies beyond familiar and known exchange partners. This can happen even if the actor is satisfied with the current exchange partners. Search is problematic for actors if they cannot by themselves, or through market mechanisms, identify potential exchange partners' cost effectively (Rangan 2000). Nevertheless search has a cost, whether conducted independently or via market mechanisms. Search costs may involve: '(1) the costs of address compilation and selection of transmission mechanism, (2) the costs of signal encoding and decoding, and (3) the pure costs of messenger transport and telecommunication' (Rangan 2000: 817).

These costs increase with the spatial dispersion of potential exchange partners. However, if the focal actor has access to social networks, the search can be cost effective and less problematic. Social networks thus influence economic actions by identifying additional potential exchange partners. The search has also been discussed in online purchasing literature (Mukherjee and Nath 2007). A search is initiated as a response to a need or to an opportunity for exchange, which is perceived (say by the consumer) to lie beyond known exchange partners (Rangan 2000). Although the problem of search is considered to be problematic in traditional market spaces, the internet facilitates searching and finding exchange partners (Edwards et al. 2009; Harrison-Walker 2002). However, even though the internet has reduced the problem of search, the deliberation issue still remains.

Deliberation refers to an appraisal of whether the new partner will act in an honest way. Deliberation of new exchange partners is initiated when the exchange partners are attractive but unknown to the focal actor. Deliberation is not problematic if the actors are certain about the quality of goods that are to be exchanged and how the exchange partners will discharge mutual commitments. In this case, deliberation is not problematic and the price mechanism determines economic actions (Rangan 2000). When this certainty is absent, there is a potential downside in that the wrong decision regarding the new potential exchange partner can be costly.

Rangan (2000) outlines four aspects for when deliberation is problematic: (1) insurability, referring to low cost transfer of downside risks; (2) deterability, the existence of a cost effective deterrent to an exchange partner going back on the offer—that is, eliciting a ‘hostage’; (3) predictability, the possibility for the focal actor to examine the past behaviour of the potential exchange partner—that is, their reputation may predict their future behaviour; and (4) internalisability, whether the focal actor can internalise the exchange (trade with oneself, make rather than buy from others), reducing anticipated losses related to production to zero or close to zero. These aspects mitigate the deliberation issue and reduce the need for social networks, enabling efficient exchanges to occur. In consumer foreign online purchasing, deliberation of potential exchange partners is problematic, especially when the consumer deals with exchange partners who are unfamiliar, do not offer accurate information, offer information in a language that the consumer is not familiar with, or operate under rules and regulations that the consumer has limited knowledge of (Mukherjee and Nath 2007; Safari 2012). Furthermore, in the e-commerce literature, it has been argued that consumers may prefer to purchase from foreign online retailers who actively target consumers from their country (Safari et al. 2013; Yamin and Sinkovics 2006). These retailers commit resources in the form of setting up a website in the consumers’ language, having a physical presence in the consumers’ home market, and providing customer support in the consumers’ language (Yamin and Sinkovics 2006). Thus partial and default online internationalisation retailers may present difficulties for the consumer to find them and deliberate their trustworthiness (Hadjikhani et al. 2011; Rangan 2000; Safari 2012, 2014). These difficulties are mitigated through social networks (Rangan 2000; Safari and Thilenius 2013), which therefore influence economic actions.

Consumer Purchases from Three Types of Foreign Online Vendors

According to Yamin and Sinkovics (2006) there are three paths an online retailer can choose from when targeting foreign consumers on the internet: active, partial and default online internationalisation.

Active Online Internationalisation

Active online internationalisation includes firms that have a website that target a specific market in the language of the target market and quote prices in the target market's currency and, in some cases, have customer support in the target market provided by staff that speak the language of the target market (Pezderka and Sinkovics 2011; Sinkovics et al. 2013; Yamin and Sinkovics 2006). Consumers' perceived risks are expected to be low towards firms with active online internationalisation. This is because these active international online firms (1) usually have a physical presence in the consumers' home market; (2) have staff who speak the consumers' language; (3) are large and known brands and the consumer usually has more knowledge about them (Hadjikhani et al. 2011). In other words, these firms have a high level of online and offline resource commitment, which reduces consumers' perceived risk in purchasing from them. Consumers' perceived risk towards these firms is similar to that towards domestic online retailers.

Partial Online Internationalisation

Partial online internationalisation includes firms that can be reached by consumers all around the world, such as those that use intermediaries such as eBay or price comparison websites. This type of online internationalisation may also be used by firms that have active online internationalisation in order to reach more consumers via the internet. In this chapter, we distinguish between these two for the sake of transparency. These firms with partial online internationalisation have lower online resource commitments, leading to higher consumer-perceived risk (Safari 2014). However consumers' perceived risk towards these firms may be moderated by the intermediary actor (Rangan 2000).

Default Online Internationalisation

Default online internationalisation includes all firms that have a website from which international consumers can order products and services

(Harrison-Walker 2002). These firms (1) do not actively search for consumers outside their country of residence; (2) do not work with an intermediary to reach consumers (Beccera et al. 2013; Jarvenpaa et al. 2000; Yamin and Sinkovics 2006) and (3) have a website designed for domestic consumers. This category of foreign consumer purchase could not take place without the internet. In this context the internet is not a parallel or alternative to offline purchasing, but is the only practical medium through which the purchase is possible. The website may or may not have a transaction enabling facility. Even if it does, transactions may be in the local currency and may only allow local/domestic dispatch/delivery and returns. Foreign purchasers face significant but not necessarily insurmountable obstacles in effecting purchases. Thus international consumers can order products from the website only if the retailer is willing to sell to them and if the consumers can understand the retailer's language (Sinkovics et al. 2013). In other words, these firms have low online and offline resource commitment towards foreign consumers, which increase the consumers' perceived risk towards these online retailers (Safari et al. 2013). The consumers' knowledge about these firms is limited and therefore they experience difficulties in finding them and deliberating their trustworthiness (Hadjikhani et al. 2011). The level of consumer-perceived risk is expected to be higher than in the case of active and partial international online retailers.

The focus is on understanding consumers' foreign online purchasing from partial and default online internationalisation vendors. The reason is that consumers' perceived risk in engaging in business transactions with active online internationalisation retailers is limited or at least at the same level as with known domestic online brands. This can be explained by consumer deliberation of the retailer, which has been reached through a long relationship history between the consumer and the retailer (Safari 2014).

Consumer Foreign Online Purchasing— A Search and Deliberation Framework

The consumer online purchasing literature strongly indicates that consumers have concerns regarding search and deliberation when engaging in business transactions with online retailers. As stated above, the aim is

to develop a search and deliberation framework for consumers' foreign online purchasing from default and partial online internationalisation vendors.

The search and deliberation discussion by Rangan (2000) clearly states that when dealing with new exchange partners one first has to find the new exchange partner and then judge the quality of the exchange partner. The consumer online purchasing literature has clearly shown that factors related to the retailer's country of origin, the retailer's website and the retailer itself, all affect the deliberation of the potential exchange partner (Beccera et al. 2013; Beldad et al. 2010; Eastlick et al. 2006; Jarvenpaa et al. 2000; Mukherjee and Nath 2007; Safari 2012; Safari et al. 2013). Accuracy of information regarding the product, delivery time, and product returns are of utmost importance when engaging in business transactions with foreign online retailers, and thus some retailers are more committed to online internationalisation than others (Mukherjee and Nath 2007; Safari 2012; Safari et al. 2013; Yamin and Sinkovics 2006). In the context of consumer foreign online purchasing, consumers should find firms with partial online internationalisation more easily than those with default internationalisation. However, due to the development of the internet, consumers can also find default online internationalisation retailers more easily than before (Edwards et al. 2009; Safari 2014).

However, once the consumer has found the retailer, they have to judge their quality, that is, deliberate. Rangan (2000) states that it is here that the buyer's social network can influence her deliberation of the retailer. When deliberating between default and partial online internationalisation retailers, it is logical to assume that the consumer deliberation process of partial online internationalisation retailers is easier because of their greater commitment to attracting foreign consumers (Edwards et al. 2009; Safari 2012; Sinkovics et al. 2013; Yamin and Sinkovics 2006). Thus the consumer-perceived risk in engaging in business transactions with default online internationalisation retailers is higher. Therefore social networks, whether family members, friends or online networks and consumer reviews probably influence consumer deliberation and reduce perceived risk of partial and default internationalisation retailers. However, since the default online internationalisation retailers' commitment to attracting foreign consumers is low, the effect of social and online networks

on deliberation of default online internationalisation retailers is much more significant than it is in the case of partial online internationalisation retailers. We integrate the literature on search and deliberation (Rangan 2000), firm online internationalisation (Pezderka and Sinkovics 2011; Sinkovics et al. 2013; Yamin and Sinkovics 2006) and consumer online purchasing and present some propositions for understanding consumers' foreign online purchasing.

Discussion and Propositions

In this chapter, consumers' purchasing behaviour towards different types of foreign online retailers is considered. The discussion above suggests that consumers' retailer knowledge is a strong influence on foreign online purchasing. Nevertheless, their knowledge about foreign online retailers is dependent on whether the retailer is a partial or default online internationalisation retailer. Partial online internationalisation retailers commit more resources to enticing consumers to purchase from them. Therefore they are more known by consumers, not just because they have more advanced websites, but also because it is easier for consumers to find them. Consumers can find partial online internationalisation retailers through price comparison websites or friends and family members. Default online internationalisation retailers' level of commitment to targeting foreign consumers is low and it is more difficult for consumers to find them. Rangan (2000) suggests that buyers always want to interact with new beneficial exchange partners, but search and deliberation of retailers is usually problematic. Hence we put forward the following proposition:

Proposition 1 Consumers' search cost/difficulty is higher towards default online internationalisation retailers than towards partial online internationalisation retailers.

In the previous section, we argued that it is easier for consumers to find partial online internationalisation retailers than default online internationalisation retailers. Nevertheless, finding a retailer is not sufficient for the consumer to decide to conduct an actual purchase from them.

Once the retailer is found, the consumer has to judge their quality (Safari et al. 2013), or as Rangan (2000) says, deliberation is much trickier than the search for a new beneficial exchange partner. Consumers have more knowledge about partial online internationalisation retailers than default online internationalisation retailers because of the retailers' commitment to enticing the consumer to find and purchase from them, in line with the findings of Mukherjee and Nath (2007) and Hadjikhani et al. (2011) that consumers' knowledge of a retailer increases their trust towards the retailer. Nevertheless the deliberation of less active online internationalisation retailers is trickier. Not only is a default online internationalisation retailer difficult for the consumer to find, but also judgement of their quality and credibility is more problematic. In other words, the retailer's resource commitment to online internationalisation is highly related to the consumer's judgement of the retailer. Therefore, we put forward the following proposition:

Proposition 2 The lower the retailer's commitment to online internationalisation, the more problematic is the deliberation for the consumer.

The online purchasing literature strongly suggests that risk is fundamental in domestic and cross-border online purchasing (Jarvenpaa et al. 2000; Mukherjee and Nath 2007; Safari 2012). Nevertheless, the risk is highly relevant in the context of consumer foreign online purchasing (Beldad et al. 2010; Jarvenpaa et al. 2000; Lim et al. 2004; Safari 2012; Safari et al. 2013). The perceived risk is related to available information and experience with the foreign online retailer. In other words, the more a consumer knows about a retailer, the lower his or her perceived risk. This is in line with Hadjikhani et al. (2011) who argue that retailer knowledge reduces the consumer risk in engaging in online exchange. However, it is reasonable to argue that the more a retailer commits its resources to actively reaching consumers in other countries the easier it is for the consumer to find the retailer. In foreign online purchasing, consumers take into consideration three aspects, which affect their perception of risk. These three types of risks are retailer risk, website risk and, in some cases, perceived risk towards the retailer's country of origin. Each of these risk factors affects consumers' concerns regarding financial loss

and information privacy. Harrison-Walker (2002) suggests that financial and product malfunction are two major risk considerations for consumers who decide to interact with and engage in a business transaction with a foreign online retailer. The risk to the consumer is either financial, in which the consumer loses their money, or the product malfunctions, causing difficulties in returning the product to the retailer. Therefore, we put forward the following propositions:

Proposition 3a The lower the retailer's commitment to online internationalisation the higher is the consumer financial risk.

Proposition 3b The lower the retailer's commitment to online internationalisation, the higher is the consumer-perceived product malfunction risk.

Previous sections discuss search and deliberation, which are highly dependent on the retailer's commitment to online internationalisation, consistent with Rangan (2000). We also elaborated that the consumer is concerned with different types of risk when deciding to interact with foreign online retailers. Nevertheless, in the case of interaction with partial online internationalisation retailers the consumer sometimes finds the retailer through price comparison websites, friends and family members, or consumer reviewers (Safari 2014). Alternatively, in a case where consumers purchased from default online internationalisation retailers, the purchases were mainly enabled by service firms such as PayPal and Payson (Safari et al. 2013). Further, it is suggested in the literature that third parties such as family members and friends (Beldad et al. 2010), consumer reviewers (Hadjikhani and Seyed Mohammad 1998; Mukherjee and Nath 2007) or service firms (Safari 2012) influence consumer trust in the retailer. However, we argue that the consumer needs to judge the credibility of such connections (family members, friends, online consumer reviewers, service firms, etc.) in order to judge the retailers trustworthiness. Hence, we put forward the following proposition:

Proposition 4 The higher the consumer's trust in their connection's expertise in the foreign online retailer the more the connection influences the decision to purchase from the foreign online retailer.

The literature suggests (Beldad et al. 2010; Safari 2012) that consumer characteristics are highly related to risk taking. Although consumers perceive a high level of risk when purchasing from default online internationalisation retailers, in many cases they take this risk to purchase from these retailers. This decision is mainly dependent on two factors. The first was alluded to in the previous section: retailers' cooperation with a trusted third party such as PayPal reduces financial risk. The other factor is that the consumer may not be able to source the product from a trusted online retailer. Such products may be specific to one country and only available from a few foreign online retailers. The more a consumer wants a product, the more she must be willing to interact with foreign online retailers even if the retailer does not use a trusted third party or is difficult to deliberate. Therefore we put forward the following proposition:

Proposition 5 The higher the consumer's desire for a product that can only be bought from foreign online retailers the more risk the consumer is willing to take in purchasing from these retailers.

Future Research and Limitations

The aim of this chapter has been to understand key features of consumer purchasing from partial and default online internationalisation retailers. Based on international exchange literature and online internationalisation literature, a framework has been developed and several propositions regarding consumers' search, deliberation and risk coping in the context of their foreign online purchasing put forward. There are also important notions for practitioners. Firms that are active in their online internationalisation strategy and target consumers from a specific country find it easier to gain the trust of these consumers and hence facilitate the consumers' deliberation. However, empirical research is needed to test the framework. This empirical research will also increase our knowledge regarding consumers' foreign online purchasing. This chapter also contributes by extending the business network approach (Hadjikhani and Bengtson 2006) by showing that

consumers are also part of the business network. The consumers have their own consumer business networks and are affected by their surrounding environment just like the retailers.

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13

Found in Translation? On the Transfer of Technological Knowledge from Science to Industry

Anna Bengtson and Susanne Åberg

Introduction

In this chapter the business network view will be extended by the introduction of an actor with a purpose other than that of business orientation—the scientific organisation. The main purpose of a scientific organisation is the production of knowledge. Few, if any, are questioning the role of science as such, but there is a large debate over the usefulness of science in industry and how this utility can be increased by improved transfer mechanisms. The debate is often unclear concerning what knowledge should be transferred, but in the case of the focal actor, the European Organization for Nuclear Research—CERN—the discussion revolves around the transfer of different kinds of technological knowledge. Thus, in this chapter, we analyse how technological knowledge is transferred from science to industry, and some of the difficulties involved in this task.

Technological knowledge is often considered to be universal in character, that is, possible to transfer to and understand in a new contextual

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setting provided that the receiving person, or organisation, has a certain technological expertise. Given this, the transfer of technological knowledge from science to a business network, for instance, should not be affected by interfering aspects such as language or cultural difference. However, numerous studies on the topic have shown that it is not easy in practice as knowledge is often 'sticky' and difficult to spread (Szulanski 2000; Tsai 2001; von Hippel 1994). In fact, in many instances 'what is described as context-free or disembedded knowledge is not context-free at all. Knowledge *claimed* as universal [...] is actually embedded, albeit in unacknowledged ways' (Mosse 2014: 518). Studies also show that when technological knowledge is transferred, it is almost inevitably changed, or translated, into something different from the original form (Bengtson 2003; Bengtson and Håkansson 2006; Latour 1986, 1987; Liyanage et al. 2009). However, as stated by Liyanage et al. (2009: 119), 'the mechanism by which knowledge is transferred needs to be further understood and developed'. Within the knowledge transfer literature, some researchers have developed the concept of knowledge translation (see e.g., Carlile 2004; Major and Cordey-Hayes 2000; Savory 2006). According to Major and Cordey-Hayes (2000: 416), 'knowledge translation is both the movement (or transfer) of knowledge from one place to another, and the altering of that knowledge into an understandable form'. Theories dealing with the aspect of translation are, hence, one way to discuss and analyse transfer in order to better understand the mechanisms behind it. The question raised in this chapter is, therefore, can a technology be coded, understood and evaluated *as such*, in order to see its potential use in another setting; that is, is technological knowledge universal enough to be transferred from science to industry, and if so how does such transfer come about? Our reasoning will be illustrated using what can be perceived as a great source of knowledge, CERN, and transfer of technological knowledge from this organisation to industry.

The chapter has the following disposition: We start by an introduction to earlier business research on science and its usefulness to industry. Thereafter, we discuss the phenomenon of knowledge transfer and comment on how it has been dealt with in research in general and more specifically, business network research, subsequently followed by a presentation of the translation concept. We then discuss the methodological

underpinnings of the study, describing the data that have been collected concerning both transfer of technological knowledge from CERN to industry and knowledge intense interaction between CERN and industry. After the case has been presented and analysed, the chapter terminates with a discussion on the conclusions drawn from the study, as well as what the implications of these are for research and practitioners alike.

The Use of Knowledge from Science in Industry

The question of how research facilities (or ‘science’) interact with industry is not a new one. Nevertheless, there is still further need for discussion on when and how science can be of use for industry. According to some researchers, science and industry are very different, and the benefits that industry *may* gain from science are not straightforward. For instance, Langrish (1974: 616) states that:

The relationship between university research and industry may well be a function of the degree of development of the area concerned. Once a new area has been established, the aim of science is to understand; the aim of technology is to make it work, and industry has been very successful at making things work without too much reliance on understanding. Industry makes use of the trained manpower supplied by universities. It also uses new techniques such as chromatography, developed in universities. But the new products and processes of industry seem to depend on a combination of existing technological concepts, economic pressures and empirical research with scientific understanding not being very relevant.

According to the above quote, ‘science’ and ‘industry’ seem to be quite different creatures. The text, however, was originally written as an argument against the increased belief in society that ‘more science’ would inevitably lead to more innovations in industry; an argument commonly used even today. Thus, the question of how research interacts with industry has been mulled over for some time, and it has also been the subject of studies within the industrial network tradition. For example, in

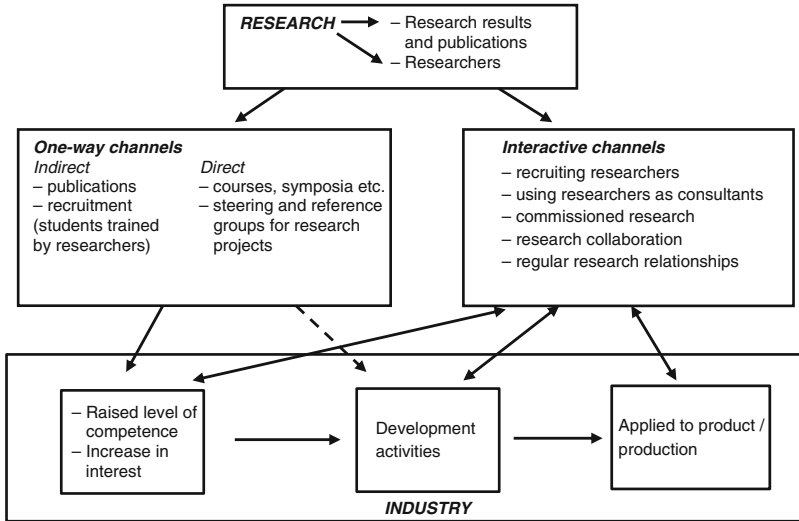


Fig. 13.1 Knowledge transmission channels and effects (Adapted from Håkansson 1989: 145)

a research report dating back to 1983, the transmission of knowledge between research and industrial worlds was studied (Håkansson 1989). The situation is summarised in Fig. 13.1, showing both one-way and interactive channels.

In the figure, research is claimed to lead to results as well as competent researchers, which can both be used in one- or two-way channels in relation to industry. The researchers divide the one-way channels into indirect ones, such as publications and recruitment, and direct ones, such as being involved in courses and meetings. The one-way channels are claimed to result in raised levels of competence or increase of industry interest, as well as some developmental activity, whereas the interactive channels are more likely to result in development and application in products, or production (Håkansson 1989).

Transfer of Knowledge

In studying knowledge-related matters from a network perspective (cf., Ford 1998; Håkansson and Snehota 1995), technological knowledge

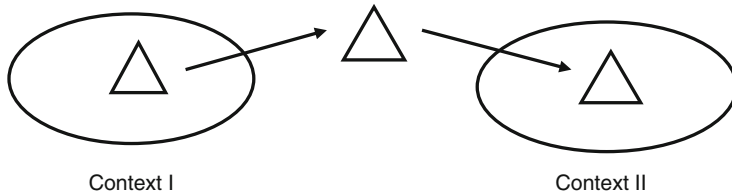


Fig. 13.2 'Unproblematic transfer' of technological knowledge

can be seen as integral, where individual and/or collective knowledge of both a tacit and explicit nature highlight how resources can be combined in order to create value. According to Belussi and Pilotti (2002), many researchers claim that more and more knowledge is made explicit, that is, codified, in society today. This leads to a situation when the scope of what can be codified is continually expanding, and when 'the codification of knowledge is central to the modern process of dissemination, transfer and retention of knowledge' (Belussi and Pilotti 2000: 4).¹ A common belief is that these solutions will be easy to transfer, and that the knowledge will in no way change en route from one place to another; knowledge is perceived as given. During these circumstances, any 'piece of knowledge' (symbolised by the triangle in Fig. 13.2) can be easily extracted from the original context and moved to a new one without any change of content or meaning. Figure 13.2 shows this unproblematic transfer of technological knowledge.

If the codification is unproblematic, so should the transfer of knowledge be. However, research dating from the 1960s until the contemporary investigations all indicate that people prefer to turn to others for information rather than to impersonal sources such as documents, databases (Allen 1977; Pelz and Andrews 1966), organisational intranet or the Internet (Cross and Sproull 2004). This indicates that interaction and relationships serve a purpose for transfer of technological knowledge of a codified nature. In this chapter we question what is being codified. Is it the same knowledge as was intended, just parts of it or something completely different? We also study what happens during the codification and ask whether there are tacit elements in codified knowledge. There

¹Opposite to this, tacit knowledge is a subjective knowledge linked to the abilities that an individual possesses on the basis of practical experience (Belussi and Pilotti 2002).

are researchers arguing that it is difficult to separate tacit knowledge from 'codifiable' knowledge (Muller-Merbach 2007), but also that there are always tacit elements in what is believed to be codified knowledge (Jasimuddin et al. 2005). Dixon (2000) claims, for instance, that using technology as a means to replace face-to-face conversation has had limited success.

We argue that what is believed to be possible to codify is coded (i.e., written down or otherwise made accessible), but what is *signified* (the 'meaning behind the words') varies among different receivers and also between receiver and sender, which leads to a first *translation* of the knowledge. In the absence of a common language, a translation is needed in order for the parties to understand each other and the message that has been coded.

The term translation has been used in relation to transfer of knowledge before (e.g., Carlile 2004; Major and Cordey-Hayes 2000). Latour (1986: 267), for example, depicts a translation model where:

the spread in time or place of anything – claims, orders, artefacts, goods – is in the hands of people; each of these people may act in different ways, letting the token drop, or modifying it, or deflecting it, or betraying it, or adding to it, or appropriating it. The faithful transmission of, for instance, an order by a large number of people is a rarity in such a model and if it occurs it requires explanation.

This implies that knowledge will normally change when it 'travels' from one person to another; or from one place to another. It does not mean, however, that translation by definition is negative for the outcome, nor does it mean that parts are always removed when translations occur. It may very well be the case that things are added during the translation, and that the outcome is richer in some way than the original version. As argued by Liyanage et al. (2009: 118): 'Knowledge transfer, per se, is not a mere transfer of knowledge. It involves different stages of knowledge transformation. Depending on the context of knowledge transfer, it can also be influenced by many factors; some positive and some negative'. The only thing the translation implies, hence, is that you will never end up with an identical body of knowledge once knowledge has moved from one place to another.

The concept of translation is, of course, commonly used within linguistics. Some of their thoughts also have a bearing on our discussion. If we for example look at de Saussure's (1970: 117) claim that a language is a system that can only be understood by starting from the whole and not from its parts, then translation will be a lot more complicated than is often considered. This means that a text cannot be translated word by word, without the translator understanding the content, and the context, of the whole text. Using de Saussure's view of language, the benefits of dictionaries are marginal; in order to understand a negatively defined sign the context would have to be searched. To complicate the matter further, de Saussure also claimed that words are made up of two arbitrarily related parts; the signified and the signifying (1970: 93ff). The translator therefore needs insight not only in the whole text of signifying words, but also of the whole system that is signified with words. Wittgenstein's (1953) declaration that not only the signifying and the signified, yet also the practical circumstances where a word is used in order to achieve something has to be known, makes the translation task even harder. Every time the codification, that is, the technological knowledge, is used in a new setting, a number of additional translations occur, and the message is further changed in an interaction between involved parties.

There has been much research confirming that interaction in relationships is important for acquiring technological knowledge and learning from it (Burt 1992; Levin and Cross 2004). This becomes reasonable if looking at technological knowledge transfer as a process of translation occurring between interacting parties. In the chapter, these types of translation processes are discussed using the model depicted in Fig. 13.3. Transfer of technological knowledge is achieved through a *translation process* involving two or more actors, in our case a science unit and a firm. The result of the translation will depend on (1) the amount of *trust* between the two parties, (2) relationship knowledge, that is, the *knowledge* the actors have about each other, and (3) their *resource ties* to other actors in the network (Håkansson 1989).

Håkansson (1989) argues that mutual *trust* is a prerequisite for a free and open exchange of knowledge, and that mutual trust generally is built gradually through cases of increased difficulty. Within literature on knowledge exchange in relationships, there is considerable evidence that trust

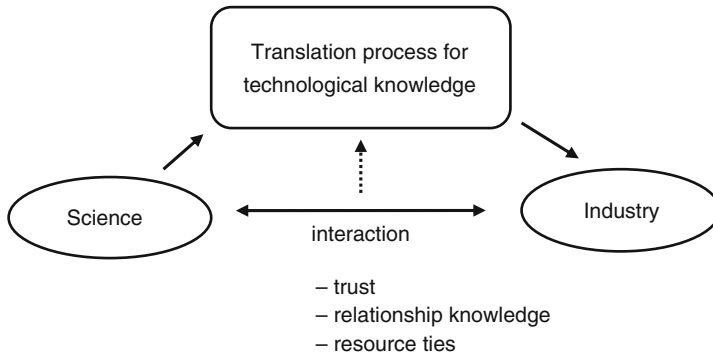


Fig. 13.3 Potential interaction between actors in technological knowledge translation

in the relationship affects knowledge exchange positively (Håkansson 1989; Levin and Cross 2004; Mayer et al. 1995). From this perspective, trust can be seen as a prerequisite for knowledge exchange, and transfer of technological knowledge. According to Moorman et al. (1992: 318), the effects of trust ‘are expected to be weaker in dyads involving dissimilar parties. [...] trust may not mitigate the parties’ differences about what constitutes useful knowledge’.

The *relationship knowledge*, that is, the knowledge that the two parties have about each other, will also affect the translation process. We argue that it is easier to translate something if the intentions and knowledge of the parties in the previous settings are known by the parties in the new one. This type of knowledge about the other party is acquired through interaction with the party. Language is an important aspect of relationship knowledge. As parties learn about each other, they develop a common language for communication. According to Håkansson (1989: 146), ‘the most important and also the most difficult problem (for transmission of knowledge between research and industry) is probably language. Knowledge development almost always involves language development in some form or other’. Moorman et al. (1992) put forward similar ideas concerning the influence of language when they state that ‘communities process information and use metaphors differently’.

Besides trust in and knowledge about each other, the parties’ *resource ties* to other parts and parties within the embedded network have an

impact on the translation process and its outcome (cf., de Saussure's (1970) system view and Wittgenstein's (1953) reasoning on user circumstances). If the two actors are embedded in networks with few common ties the chances of trust, knowledge and usefulness is lower than if their network ties have been developed in interaction, making them part of the same network structure (Håkansson and Snehota 1995).

The translation process by which technological knowledge is shared between science and industry is depicted in Fig. 13.3.

Method

When studying science and its interaction with industry it is easy to imagine the interaction between a research and development (R&D) centre and a business unit. The difficulties are larger when choosing a unit engaged in basic research. In order to make the contrast, or gap, between science and industry as large as possible, we have chosen a scientific unit with little usefulness in application terms. We are studying the world's largest particle physics centre—CERN—which was founded as a multi-state joint venture by a number of European members in the wake of World War II.

The case is based on an extensive study resulting in a doctoral thesis (Åberg 2013). Different kinds of data were collected during a time period of 13 years, from 1999 to 2012. At the forefront, 99 interviews were conducted with people at CERN, in (predominantly) Swedish companies, and with physicists. In addition, a lot of observational data were collected during extended visits at CERN. In order to strengthen the arguments from interviews and discussions, secondary data was used to verify dates and decisions. These secondary data consist of for example CERN annual reports (1955–2012), procurement reports, CERN Yellow reports (which are reprints of CERN articles, where everything related to CERN's interaction with society has been read), and reports on decisions made by the governing bodies of CERN.

When constructing the case described in this chapter, one of the many companies studied was selected based on the amount of data available, its clarity within the transfer aspect, and the fact that its interaction

with CERN was noted by CERN as an example of a successful technology transfer (Bressan and Streit-Bianchi 2005: 41). In summary, we choose this company case from the larger material available, based on its perceived theory developing qualities (Eisenhardt and Graebner 2007). For the description of the interaction between CERN and Ericsson Network Technologies, five interviews with people directly responsible for business with CERN at the firm, and three interviews with people at CERN dealing directly with the Ericsson Network Technologies relationship and the project at hand are used. These are supplemented with secondary data sources such as documents, reports and articles dealing exclusively with this relationship and project; thus of special value to this research.

Transferring or Translating Knowledge— The CERN Case

Outside Geneva, straddling the border between France and Switzerland, the European Laboratory for Nuclear Research, CERN, can be found. From the beginning of the 1950s, this research organisation has been performing research within high-energy physics (HEP). The experimental research primarily consists of accelerating different kinds of particles in particle accelerators and then smashing these particles together at predetermined places inside detectors. In order for this research to be conducted, the accelerators and detectors first have to be decided, planned and built. Today's machines are quite large: the LHC² accelerator is 27 km in circumference and is built approximately 100 m below the surface, whereas the detectors (for instance the CMS and ATLAS detectors) are up to 25 m in diameter, or the height of a six-storey building. In addition to being very large, these machines also include a wide variety of high-tech instrumentation which has to be produced with minute precision.

²The LHC accelerator is CERN's newest and biggest accelerator. It accelerates particles up to nearly the speed of light, after which the particles are made to collide at a certain point within a detector.

This research infrastructure cannot be produced at and by CERN itself, which means that a great number of firms are involved.

CERN's Interaction with Ericsson Network Technologies

In the situation described above, the development of a new machine, technological knowledge needs to be transferred from the scientific unit to industry. This implies, as the case will show, that a certain amount of interaction between the user, CERN, the producer and the firm, is needed. In cases of large and technically complex applications this interaction is often both intense and important for the technological outcome.

One example of such interaction was started at CERN in 1994 as a programme on optoelectronics, where the use of optical fibre to read data from detectors, was launched. This development was part of the R&D needed for the CMS and ATLAS detectors that were under construction for the LHC accelerator. Later it transpired that the Swedish cable producer Ericsson Network Technologies would provide optical fibre cables for two big LHC detector projects: the detectors CMS and ATLAS. This cooperation, which we will research further, has been described by people at CERN as one example of a successful technology transfer. Initially, however, Ericsson Network Technologies was not one of the companies that CERN chose to establish close links to in order to find suitable products within the optical field.

Developed in the 1970s, optical fibre cables are the younger brother of copper cables with the advantage of being able to transfer more data. Copper, however, is better at keeping accuracy of data over long distances as well as in sharp curves, where optical fibre is disadvantaged due to the fact it relies on the reflection of light. Optical fibre cables are based on acrylic-covered glass fibres that are bundled around a central strength member and covered with a plastic coating or tube. Ericsson Network Technologies' most important regular customers are other Ericsson companies together with Telia (formerly the state-owned telecommunications firm Televerket), which has been a true technology driver for Ericsson Network Technologies over the years. For fibre production, Ericsson

Network Technologies uses two main suppliers: a Japanese company which provides the glass and a Dutch company providing the acrylate. Some of the optical fibre that Ericsson Network Technologies use in their installations, however, is purchased from the American company Corning, with local European production in Germany.

It was this company, Corning, that in 1998 first made Ericsson Network Technologies aware of the developments taking place at CERN related to optical fibre. Ericsson Network Technologies employees then contacted CERN and soon found themselves engaged in what has been described by both parties as fruitful discussion. CERN described it from their angle:

... our problem was that the quantity we were talking about, the total volume that we would eventually buy was too small to really be interesting for a normal company. So if you would not have a company with an upstream interest, it would not work. And Ericsson [Network Technologies] had this interest. So we started discussing how to develop the cable together [...].

With their technical-contact people at CERN, the Ericsson Network Technologies development team tried to develop a product that could be used in both the CMS and the ATLAS detectors, and, even if there were other companies present at this stage, Ericsson Network Technologies was perceived as one of the most promising suppliers. As explained by staff at CERN: 'We also worked with another company on this, but basically they never delivered and Ericsson [Network Technologies] did. They were by far the most professional company'.

Most of the development efforts concerning the Ericsson Network Technologies cables used on the two detectors was conducted in 1999. The cables for CERN were far from the standard products at Ericsson Network Technologies and there were special requirements concerning radiation, bending and, as it would result, installation. Testing of one of the requirements for the cables, concerning resistance to radiation, was new to Ericsson Network Technologies and they lacked the facilities to accomplish these tests. Therefore the CERN people arranged for them to be tested at research facilities in Great Britain, Belgium and France, and

thereafter analysed at CERN and reported the results to Ericsson Network Technologies. As the firm's employees received continuous updates on the results, they now knew a great deal more about radiation reactions in their products, and can firmly argue that as CERN's requirements could be handled, their products should be suitable for, for instance, nuclear power plants.

The most intense contact between CERN and Ericsson Network Technologies, however, concerned the installation, which happened to be quite tricky as it involved a huge amount of cables, bent in special ways to secure signal traffic and installed in a limited space. Ericsson Network Technologies had one employee, an installation expert working at and with CERN, something that is described as interesting by both parties. Parts of the installation were also made in cooperation with another company, Kabelschlepp, who built shelves to support the cables.

All in all CERN as a customer is described by Ericsson Network Technologies employees as very interesting, and the relationship more, in terms of technical cooperation allowing for ideas, objections and solutions from both sides rather than a more traditional buyer-seller relationship. As one of the Ericsson Network Technologies employees declares: 'this is not big business for us; it is more about the technological challenges. We are not losing money, but it is not important for our turnover. However, it is technically interesting and could have interesting spin-offs'. Technically challenging customers are explained to be of great value to Ericsson Network Technologies nowadays as their large customer Telia, with its decrease in technical departments during the last 20 years, does not fulfil this function as they used to. Compared to other customers, CERN was also perceived as more open to suggestions, possibly as a result of their research profile. The fact that CERN is full of scientists made the cooperation closer and more detailed. It was perceived as important to give concrete answers to detailed questions.

Hence, the technology transfer from CERN to industry rather consists of technological interaction and high-end demand, as described by the CERN staff:

... we don't tell them what the trick is to this or that. But our requirements are a bit over the edge, and usually they can meet these requirements by

simply anticipating what they would have done in any case. So they gain maybe one or two years in respect to the competition.

A clear benefit from working with CERN, according to Ericsson Network Technologies employees, is the testing of their suppliers that is accomplished within the process. They describe CERN as something of a 'worst case', and if things work at CERN, they will work everywhere.

Case Analysis and Discussion

This case demonstrates the importance of having knowledge about your counterpart and their abilities or needs in technological knowledge transfer situations. Initially CERN did not know of Ericsson Network Technologies and their ability to develop and deliver a cable that could be used in the new project setting. Ericsson Network Technologies was thus not part of the chosen firms that was first invited to the workshop arranged by CERN. Their network ties helped them get informed. Through their supplier/competitor Corning, they were presented with a journal article and hence the background information that they needed in order to discover the efforts initiated at CERN. They also knew enough about their own product, production facility and abilities to know that this was a good match for them from a development point of view. Later they also learnt more about the needs of CERN and realised that even though they joined the project slightly late, this did not negatively influence their abilities to compete, as CERN, by the time they engaged, had become better at knowing and formulating what they actually needed function-wise. The case also demonstrates how their relationship knowledge, that is, their knowledge of each other, and a common language, was developed through interaction between them. As they worked together, their abilities and weaknesses became clearer and suggestions concerning how to solve various problems were given from both sides.

The case illustrates that CERN was able to test the reliability of Ericsson Network Technologies early in the development efforts, and how they arrived to conclude that the firm was a trustworthy partner as they, especially in comparison to another firm, always delivered the

test product, and in general, on time. Furthermore, CERN realised that Ericsson Network Technologies was a company with an upstream interest, and thus, they could trust the firm's intentions; something in the deal for them that made it interesting even if there was not a large amount of money involved. Ericsson Network Technologies also built trust in the people from CERN as they knew what they wanted and were able to discuss the technical matters openly and post detailed questions.

Finally, concerning the resource ties side of the matter, it is highlighted in the case that the knowledge transfer process taking place between CERN and Ericsson Network Technologies cannot be fully understood without considering the network 'embeddedness' of the two actors. It is the resource ties that they each have to other actors in their networks that partially explain the development. To give just a few examples, Eriksson Network Technologies' relationship to its supplier Corning was important for the initiation of the interaction, and functioned as a reference point for trustworthiness of the firm. Later, CERN's ties to research facilities around Europe were used for testing of Ericsson Network Technologies product development concerning the requirement for radiation. This resulted in new technological knowledge, which can be used in further developments concerning other customers of Ericsson Network Technology.

Conclusions and Implications

In this chapter we argue that technological knowledge from science to industry is transferred through a translation process involving interaction between at least two parties, in our case CERN and Ericsson. How large the task of translation is depends more on the parties involved in the 'coding and decoding' (i.e., on the sender and receiver or receivers), than on the technology as such. If the contextual and/or relational gap between the two is large, therefore is the task of translation. Thus, interaction serves as a learning tool, in creating trust between them, in the knowledge that is built and shared, and in creating a common network structure with mutually beneficial ties. Both parties then function as a sender and receiver, and both are able to modify the communication in relation to

the other party in order for them to understand. This is probably one of the reasons why so much knowledge transfer and/or technological development are achieved within established business relationships.

Whether a piece of knowledge—be it a technology, product or text—is to be considered codified or not therefore depends on the receiver, in relation to the sender, rather than on the item as such. Our case illustrates that when studying science—firm interaction, it is important to clarify where the interaction occurs, as individuals' knowledge and position within the organisation may affect the level of counterpart trust. From a knowledge standpoint, it is also important to know if the receiving unit is accustomed to the terminology used, if they have some former experience with the technology described and from what angle they are making comparisons if indirectly acquainted. Do they know the background of the actor behind the document enough to know what meaning they give different symbols (words, components etc.)? Instead of focusing on the technology, product, document, textbook or conversation as such, we need to focus on the actors involved and on how, and if, they are related. In addition to the acquaintance between the actors, the degree of tacitness in the translated document relates to the interaction between the resource constellation at the place of origin and in the network of the unit receiving it. Are the signified objects the same as they are at the place of origin, that is, are their positions in relation to other similar resources (cf., de Saussure's (1970) definition of a sign)? Finally, if one, in order to understand an object, needs to be familiar with its function in practical circumstances, the tacitness also has to do with the activities that are performed in relation to the technology, product or production method (cf., Wittgenstein 1953).

Our case has demonstrated that transfer of technological knowledge is an interaction and translation process in which the interacting parties learn, not only about the object of transfer, yet also about each other and, hence, become better equipped at handling the transfer process. We also argue that the possibilities for the parties to translate the technological knowledge into something valuable increase through this interaction. In the specific case presented, however, the procurement structures at CERN result in few long-term relationships between CERN and industry. The restriction on relationships means that there is usually little room for

mutual knowledge, common language and trust to be developed through interaction between the parties. This structural aspect has not been the focus of this chapter, but is of great interest for further research, as it has strong implications for the knowledge transfer from CERN to industry.

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Part IV

New Terms

14

Strategising in Coopetitive Networks

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Introduction

To understand organisational strategies scholars increasingly highlight the importance of approaching strategy as something which organisational members do rather than as something which the organisation itself holds (Jarzabkowski and Whittington 2008). Such reasoning acts as a basis in the strategy-as-practice stream for approaching strategy as a ‘pattern in a stream of goal-directed activity’ (Jarzabkowski 2005: 40) which continuously forms and reforms through social interactions between individual actors, at multiple organisational levels and in the external environment (Golsorkhi et al. 2010; Regnér 2008; Whittington 2006). In light of this reasoning, the practice approach has outlined the complexity of strategy, as well as deviated from the traditional view of strategy as a top-down stream of managerial decisions. Instead, the simultaneous existence of multiple and potentially contrasting streams of goal-orientated activities,

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favoured and maintained differently by actors across the organisation, is put forth to underlie strategy as a concept (Jarzabkowski 2005).

This chapter applies a practice approach to outline the strategic nature of cooperative relations in the organisation's network (Bengtsson and Kock 2014; Dahl et al. 2016; Fernandez et al. 2014; Tidström 2014). Cooperative relations are defined as those between competitors that simultaneously contain cooperative and competitive interaction processes (Bengtsson and Kock 2000). Within this context of study, the simultaneous existence of, and interplay between, cooperative and competitive goal-oriented activities at an intra- and inter-organisational level of analysis, are brought to attention and set the scene for approaching co-competition strategy as an activity. Moreover, relationships between two or more organisations are always embedded in a wider context, which from a network approach constitutes an organisation's external web of direct and indirect relationships (Ford et al. 2010; Gadde et al. 2003; Håkansson and Snehota 2006). Taking the influence from the organisation's network on strategy into account, including competition (Ford and Håkansson 2013), therefore becomes an area of interest in order to understand co-competition as an inter-organisational strategy.

The practice approach to strategy has been noted as a valuable new perspective for advancing knowledge on strategy at a network level (Baraldi et al. 2007). In the network tradition, views pertaining to emergent views of strategy have been adopted (Harrison et al. 2010), where continuously evolving and complex processes of interactions between organisations and their members are assumed to become the building blocks of strategy (e.g., Håkansson and Snehota 2006; Kock 1991). However, actors are also assumed to act purposefully when interacting with other actors in a network (Gadde et al. 2003; Håkansson and Snehota 2006). Studies approaching strategising in networks, from a strategy-as-practice perspective, have therefore recognised the need for combining both deliberate and emergent views on strategy (e.g., Harrison and Prencert 2009; Harrison et al. 2010).

To increase our theoretical understanding of co-competition as a strategy and strategising as an activity, the purpose of this chapter is to analyse co-competition from a strategy-as-practice perspective. In line with the practice approach, practices, praxis and practitioners, that is, the shared routines and norms for acting, the actual activities, and individuals

involved in these activities, are outlined as three fundamental and interrelated elements underlying strategy formulation and implementation (Jarzabkowski et al. 2007; Whittington 2006). To reach the purpose, we develop a multilevel framework, which outlines the deliberate and emergent nature of coopetition strategy. This framework acknowledges coopetitive strategising activities and actors at both intra- and inter-organisational levels.

Integrating Strategy-as-Practice and Coopetition

This chapter focuses on coopetition as an inter-organisational strategy. Accordingly, strategy formulation and implementation at an intra-organisational level is discussed in relation to the existence of coopetition *between* organisations. Inter-organisational coopetition is defined as ‘a process based upon simultaneous and mutual cooperative and competitive interactions’ (Bengtsson et al. 2010a: 200) between two or more companies engaged in the same line of business (Bengtsson and Kock 2000).

Defining Coopetition Strategy from a Practice Approach

From a practice approach, *strategy* has been defined as a ‘pattern in a stream of goal-directed activity, which is socially accomplished and has consequences on the direction of the organization’ (Jarzabkowski 2005: 40; Johnson et al. 2003; Regnér 2008). Within this definition by Jarzabkowski (2005), the deliberate and intended, as well as emergent and unintended features of the strategy, lie side by side. Consequently, there might be deliberate activities and actions, but also, ‘patterns of practical-coping actions’ and activities, which only in retrospect form some kind of pattern or consistency (Mintzberg and Waters 1985; Tsoukas 2010: 49). Therefore, the activities constituting strategy as a concept are delineated as activities, which are consequential for the direction of the organisation in a planned or unintended way (Jarzabkowski et al. 2007; Johnson et al. 2003; Regnér 2008; Vaara and Whittington 2012).

Strategising has, then again, been defined as the construction of strategic activities through actions, interactions, and negotiations between different actors and the behavioural structures drawn upon (Jarzabkowski et al. 2007) when formulating and implementing the strategy (Whittington 2006). Moreover, the co-existence of multiple individuals engaging in different, and even diverging streams of goal-oriented activities in the organisation, have been acknowledged (Denis et al. 2007; Jarzabkowski 2005). Therefore, the management of different streams of activities and their interplay has also been argued to underlie strategising as an activity (Jarzabkowski 2005).

Drawing on Jarzabkowski (2005), from a practice approach, a *coopetition strategy* is defined in this chapter as a strategy containing cooperative and competitive activities simultaneously, which are in a deliberate and/or emergent way consequential for the direction of the inter-competitor relation and ultimately for the direction of the organisation. Similarly, *coopetitive strategising* relates to the formulation and implementation, that is, the deliberate and/or emergent construction of cooperative and competitive activities and their interplay through actions and interactions, occurring both mutually and individually by the competitors.

Coopetitive strategizing is assumed to stem from the simultaneous existence of cooperative and competitive activities and goals maintained mutually between actors at the inter-organisational level, as well as internally between actors in the organisation. In line with the practice approach (Whittington 2006) this interplay is conceptualised to form through shared routines and norms for acting (practices) alongside strategy formulation and implementation activities (praxis). Moreover, these norms and activities are maintained, as well as form and reform, through interactions between actors (practitioners) within the organisation and at an inter-organisational level; embracing inter-competitor relations but also the institutional environment in general (Whittington 2006).

Coopetitive Strategising from a Business Network Approach

From a business network approach, the structure of a network has been conceptualised through three key dimensions: actors, activities, and resources (Håkansson and Johanson 1992), interlinked by inter-organisational

relations (Håkansson and Snehota 2006). From this perspective, strategising is assumed to take place within a constellation of multiple relationships between organisations, as a means for organisations to extract, develop and combine resources and activities (Gadde et al. 2003; Håkansson and Snehota 2006; Kock 1991). Strategising has particularly been defined as ‘identifying the scope for action, within existing and potential relationships and about operating effectively with others within the internal and external constraints that limit that scope’ (Håkansson and Ford 2002: 137). Within this definition lies the assumption that the relationships the organisation holds, as well as the interactions herein, constitute the core of strategy and organisational performance (Håkansson and Snehota 2006; Gadde et al. 2003).

Coepetitive relations are characterised by cooperation advantages stemming from mutual interactions between two or more competitors, as well as competition advantages that originate in the competitors’ drive to outdo each other (Bengtsson et al. 2010a; Yami et al. 2010). In a coepetitive network, the interactions taking place between the competitors have been depicted to provide organisations with resources and benefits, which can be applied by organisations respectively, in their strategy processes (Chetty and Wilson 2003; Lechner and Dowling 2003; Mariani 2007; Peng et al. 2012). For a focal actor, coepetitive strategising thus involves the construction of both cooperative and competitive activities between competitors in the network, at the same time as the leveraging of the resources obtained through these interactions takes place through cooperative and competitive activities between organisational members in the organisation (cf., Gnyawali and Park 2011). Network resources might range from physical assets to resources of more intangible nature, such as information and knowledge (Gnyawali and Madhavan 2001). Owing to the interrelatedness of business relationships, in a coepetitive context, strategising would include not only direct interactions between the competitors, but also the influence stemming from other relationships that the parties have with actors that reside in the network, that is, indirect relationships (Ford et al. 2010; Kock 1991). Network research has also acknowledged the importance for organisations to manage the interplay between its inter- and intra-organisational networks (Ritter et al. 2004). Strategising therefore takes place through multiple relationships; not only incorporating cooperative and competitive activities

at the inter-organisational level, but also diverging streams of activities and interactions between individuals in the organisation, which must be managed (cf., Jarzabkowski 2005). Hence, attention below is directed at strategising activities at the intra- and inter-organisational levels.

Coopetitive Strategising at the Intra- and Inter-organisational Levels

This chapter focuses on the intangible nature of coopetitive practices by drawing upon Whittington's (2006) description of practices as formal or informal norms. Strategising activities have previously been illustrated to build on coopetitive value creation logic (Mariani 2007) and coopetitive mindsets (Gnyawali and Park 2009, 2011). The coopetitive nature of practices specifically draws attention to the organisation's ability to leverage mutually created benefits, to balance cooperative and competitive interactions and to manage arising tensions due to the simultaneous existence of two interaction processes (Gnyawali and Park 2011).

Strategising activities at the intra-organisational level could be argued to refer broadly to the firm's individual strategy formulation and implementation activities, which underlie the cooperative and competitive activities performed in the inter-competitor relations. In turning the attention to the implementation of a competition strategy, the separation of the cooperative and competitive interactions between different activities/units/markets and, thus individuals in the organisation, has been highlighted (Bengtsson and Kock 2000).

Strategic actors at the intra-organisational level could generally be defined as organisational members engaged in the formulation and/or implementation of the cooperative and competitive activities and in the management of their interplay. This definition embraces not only executives at higher organisational levels, often noted as the prime strategy actors (Gnyawali and Park 2009, 2011; Herzog 2010; Luo 2007; Mariani 2007), but also middle managers (Bengtsson and Kock 2008; Whittington 2006) as well as individual members at the organisation operational level, involved in the actual implementation of inter-organisational interactions (Kylänen and Rusko 2011) or dealing with the consequences of the

inter-competitor cooperation (Bonel and Rocco 2009). Similarly, actors who maintain informal cooperative interactions with another competitor might also attain the role of a coopetitive strategic actor (see e.g., Bengtsson and Kock 1999; Easton 1990: 73; Oliver 2004).

At the inter-organisational level, strategising entails the activities and interactions, in which the organisation engages with competitors in the network, to formulate, reformulate and implement their cooperative activities and mutual value creation. Practices at the institutional level could be argued to embrace general rules and norms of how to compete in the market. Here, informal and widespread ‘rules of conduct’ (Easton 1990: 61) or ‘rules of play’ (Bengtsson and Kock 1999: 181), existing on the market, have been argued to underlie competitive behaviour. The inter-organisational practices might, however, also be relation-specific and exist between two or more competitors. Cooperative, inter-competitor interactions have, for example, been related to the existence of formal, contractual and explicit, as well as, informal, trust-based and implicit inter-organisational norms for acting (Bengtsson and Kock 1999; Easton 1990).

Externally, the definition of a strategic actor not only includes competitors who the organisation interacts with, but also extends to other actors in the network who influence strategy development (Ford et al. 2010; Gadde et al. 2003). This means that external actors who indirectly influence, and form legitimate strategy practices for cooperation and competition between competitors, also take on the role of strategists (Jarzabkowski and Whittington 2008). Scholars have, for example, raised the influence of requirements imposed by institutional actors and external associations on the engagement and coordination of cooperative activities (Bengtsson and Kock 2000; Kylänen and Rusko 2011; Mariani 2007).

The Deliberate and Emergent Nature of Coopetitive Strategising in Networks

Deliberate and emergent features of strategy and strategising have been conceptualised to reside both in the organisation’s ability to predict and control the influence of the external environment, and in the course of action taken within the organisation when formulating and

implementing the strategy (Mintzberg and Waters 1985; Whittington 2001). Consequently, to further explore the strategic nature of cooperative relations, the construction of cooperative and competitive activities and the combination with resources, as well as their interplay across both the intra- and inter-organisational levels, will be approached from a deliberate and emergent perspective.

Mintzberg and Waters (1985) conceptualise the deliberate and emergent nature of a strategy on a continuum in the light of their argument that a strategy is unlikely to be perfectly deliberate or emergent. Similarly, constructing strategic activities in networks are assumed to entail a combination of activities and resources between two or more actors, where each actor is assumed to interact in a goal-orientated way with the aim of deliberately influencing other actors (Gadde et al. 2003; Håkansson and Snehota 2006). At the same time, interactions between actors become 'the stream of events that ultimately determines effectiveness and constitutes strategy,' implying an emergent nature (Håkansson and Snehota 2006: 266–267). By following these notions in general, as well as the research by Dagnino and Rocco (2009), Kylänen and Rusko (2011) and Mariani (2007), in particular, cooperation as a strategy is argued to hold both deliberate and emergent features.

Coopetition as a Deliberate Practice

From a deliberate perspective, the balance and strength of the cooperative and competitive interactions have been conceptualised as planned and directed (Dagnino and Rocco 2009; Kylänen and Rusko 2011; Tidström 2008). Along this line, the ability or mindset to perceive and manage opportunities for cooperating with a competitor, as well as the simultaneous existence of cooperation and competition, has been assigned to executives (Gnyawali and Park 2009, 2011; Luo 2007). Through the existence of articulated, directed and controlled goals by top management, a coopetition strategy is hence assumed to be formulated and implemented in distinct steps through shared perceptions and understandings of strategic goals among organisational members (Mintzberg and Waters 1985).

The above-mentioned ability of top management to realise the interplay between the cooperative and competitive activities as intended, rests on the assumption that the organisation is assumed to be able, through rationality and planning, to predict, control, delimit and manage the influence of the external environment (Mintzberg and Waters 1985; Whittington 2001). This assumption implies that managers are able to perfectly assess, as well as manage, the influence from the inter-competitor interactions as well as from other relationships in its network (Gadde et al. 2003; Holmen and Pedersen 2003). Strategising in a planned sense therefore corresponds to activities related to top managers deliberately influencing actors in the network (Harrison and Prenkert 2009), including the network as a whole (Holmen and Pedersen 2003), whilst at the same time the influence of others is managed (Gadde et al. 2003). Formal planning activities could, for example, pertain to scanning of the network and integrating these insights as intended throughout the strategy process (Harrison and Prenkert 2009).

The formulation of coepetitive practices is, from a deliberate perspective, based on predicting a positive gain or competitive advantage from the inter-competitor relations. This is accomplished not only by assessing the competitor's behaviour and tactics (Garraffo and Rocco 2009), but also from analysing the partner's resources and capabilities alongside value creation and appropriation possibilities (Gnyawali and Park 2009). Hence, top management is assumed to be able to predict and control the flow of resources within the network. Together with an all-encompassing view of resources and activities at the intra-organisational level, managers are able to extract and combine external resources as intended into the organisational strategy process (see Fig. 14.1).

Based on the elements of prediction and control, strategising activities occurring at the intra- and inter-organisational levels are likely to be of a more formal and static nature. Therefore, only those activities that are articulated as strategic at the outset by top management are assumed to have an influence on strategy (Vaara and Whittington 2012). Similarly, the interplay between cooperative and competitive activities is likely to be preset and calculated when entering relationships in the network. The rationality and quest for efficiency underlying the deliberate perspective (Whittington 2001) can be argued to overtake, for example,

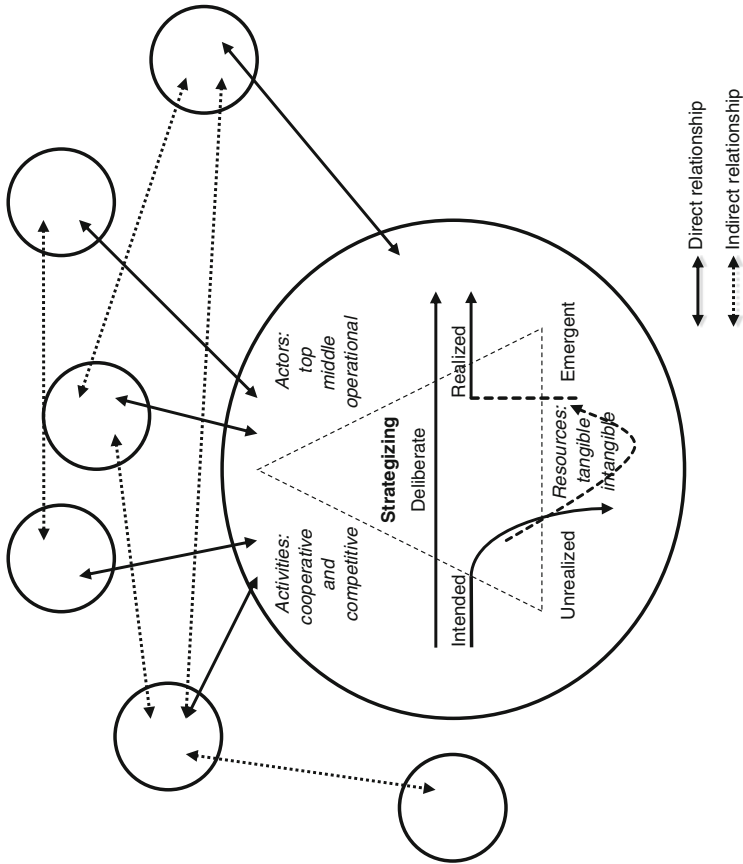


Fig. 14.1 Cooperative strategizing in a network from the perspective of a focal organisation (Inspired by Håkansson and Johanson 1992; Mintzberg and Waters 1985)

the incremental and evolutionary development of trust between the organisational members in the competing organisations (Castaldo and Dagnino 2009). Instead, strategising activities could stem from the individual intent to influence the competitor and be characterised by the individual assessment of the potential benefits that could be extracted from a particular network relationship (cf., Harrison and Prenkert 2009).

Coopetition as an Emergent Practice

An emergent nature implies that the simultaneous existence of the cooperative and competitive interactions form a pattern of goal orientated-activities with consequences for the relationship and the organisation, without or despite, certain underlying intentions (Mintzberg and Waters 1985). Due to the influence of both direct and indirect interactions in a network on the strategising activities (Ford et al. 2010), the organisation's ability to predict and manage the whole range of relationships, including inter-competitor relationships, could be assumed to become limited.

Mintzberg and Waters (1985) argue that the fundamental difference between deliberate and emergent strategies rests upon the notion that in the emergent strategy, managers learn and adapt to the experiences created, and thus leave room for organisational members to form and reform the content of the strategy along the way. The influence of formal and/or informal interactions by organisational members across different levels on the strategizing activities thus arises (Kylänen and Rusko 2011; de Rond and Bouchikhi 2004). The emergent perspective opens thereby up for the possibility that there might be informal practices and goal-oriented activities inherent in social processes, which contrast the more formal ones (e.g., Oliver 2004).

Moreover, the influence of multiple actors on strategy development is acknowledged (Denis et al. 2007; Vaara and Whittington 2012; Whittington 2006). For example, the market and competition existing in the network could be assumed to underlie strategy formulation and reformulation through its power to determine the efficiency and success of the strategy (Whittington 2001). Externally derived strategising activities could range from imposed cooperative activities between organisations

by institutions (Kylänen and Rusko 2011; Mariani 2007), to activities imposed on the organisation due to changes initiated by actors in the network (Holmen and Pedersen 2003).

Interactions between organisations, and the aims and experiences held by individuals herein, are viewed as central elements for understanding the inter-organisational interaction process in the business network approach (Bengtsson and Kock 2000; Håkansson and Snehota 2006). Diverging goals and experiences of members at different organisational levels could thus be assumed to have an influence not only on the implementation of the strategy (Jarzabkowski 2005) and the leveraging of the network resources internally in the organisation, but also on the development of inter-organisational interactions. The emergent view would hence question the assumption of shared perceptions of an organisations' network across the organisation (cf., Leek and Mason 2010), and depict the strategy process as gradually emerging and discontinuous (Whittington 2001).

Following these notions, learning and adaptation are highlighted as two central themes in strategising activities from an emergent view (Czakov 2010; Mariani 2007). From a deliberate stance, resources would enter the organisation, and be combined with internal resources, in a top-down manner. Due to the recognition of informal social interactions, particularly at lower organisational levels in the emergent view (Bengtsson and Kock 1999; Easton 1990; Oliver 2004), resources might flow into or out from the organisation through informal relations at operational levels; beyond the knowledge or control of management (see Fig. 14.1). In this way, resources that have not necessarily been articulated as strategic, or even existed, at the outset could have a substantial influence on the development or outcome of the strategy (Vaara and Whittington 2012).

Coopetition as a Deliberate and Emergent Practice

Network scholars have previously touched upon the need to integrate both deliberate and emergent perspectives when approaching strategising in networks (Harrison et al. 2010). Due to environmental complexity, an organisation's ability to always plan, control and predict the external

environment and its network, as well as realize strategy as intended, or even at all, could be assumed to be delimited. This emergence could be noted in the formation of strategising activities, where the origin of coopetition has been proposed to be socially and/or regionally embedded (Choi et al. 2010; Lechner and Dowling 2003), as well as stem from a network-based nature of the industry and specifically the development of the industry and product life-cycle (Fjeldstad et al. 2004; Ritala et al. 2009). Moreover, due to the influence of multiple inter-organisational relationships in the network on the organisation, continuous adaptations of strategising activities could be assumed to emerge (Harrison et al. 2010).

Along such lines, inter-organisational strategising activities can be argued to attain a formal and/or informal nature. The deliberate nature could be revealed through the assumption that top management becomes the key strategic actor when formulating and reformulating strategising activities in accordance with certain socially or environmentally imposed directions. This deliberateness can, for example, reveal itself through coopetition as an entrepreneurial strategy (Mintzberg and Waters 1985), where the entrepreneur controls the organisation and imposes certain articulated intension on other members, simultaneously as the need to adopt to the external environment prevails (Dagnino and Mariani 2010). Reformulations of preset goals by the focal organisation in a spontaneous manner alongside the development of the inter-organisational interactions could also come into light stemming from competitive forces and self-interests, as well as tensions, opportunistic behaviour and knowledge appropriation concerns (Das and Teng 2000; Khanna et al. 1998).

Alongside the deliberate nature of the strategy addressed above, studies have acknowledged that the articulated intensions by top management may not be directly adopted due to the absence of a shared understanding of, for example, appropriate knowledge exchanges among operational actors (Hamel et al. 1989). The assumed emergent features of strategic activities also draw attention to the ability of top managers to take resources and experiences, which stem from continuously developing interactions between multiple individuals of the competing organisations, into account when reformulating the strategising activities at the intra-organisational level (cf., Håkansson and Snehota 2006; see also Bonel and Rocco 2009). Here, middle managers could be argued to become

important strategic actors in the strategising process (Whittington 2006), mediating information to top management on the inter-organisational activities. This information could then gain an influencing role in the development of an organisation's realised strategy (see Fig. 14.1).

Conclusions and Implications

The simultaneous existences of, and interplay between, deliberate and emergent features have been depicted as a valuable point of departure for coepetition strategy research (Dagnino and Rocco 2009; Kylänen and Rusko 2011; Mariani 2007; Tidström 2008). This chapter advances such notions by acknowledging the simultaneous existence of deliberateness and emergence in coepetitive networks, and accordingly the possibility of strategising activities to employ both deliberate and emergent features (Dahl et al. 2016). It has been discussed how managers, through their positions and access to resources, in some cases can direct and control the strategy, while in others have to adapt to changes or demands arising from the context. The chapter advances existing knowledge on strategising in networks by integrating the strategy-as-practice approach and coepetition deeper into the established ARA-model. The simultaneity of deliberate and emergent strategising features are taken into account, extending current understanding of strategising in networks as a planned, deliberate process, enlarging understanding of strategic activities and resources, as well as who constitutes a strategist.

From a theoretical viewpoint, the chapter advances our current understanding of coepetition as a strategy and coepetitive strategising as an activity, firstly, by focusing on the interplay between competitive and cooperative activities. By that, the chapter takes the definition of coepetition strategy closer to the articulated features of coepetitive relations, embracing the simultaneous existence of cooperative and competitive interactions (Bengtsson and Kock 2000; Bengtsson et al. 2010a). Secondly, by following a practice approach (Jarzabkowski et al. 2007; Whittington 2006) the chapter outlines the interplay between the cooperative and competitive activities through three underlying strategy elements: the

strategic actors, the formal and/or informal norms for acting as well as the formulation and implementation activities.

Thirdly, in line with calls made for research acknowledging the existence of, and interplay between, coopetitive interactions at multiple levels of analysis (Bengtsson et al. 2010b), this chapter introduces a multi-level framework on coopetition strategy. At an intra-organisational level, the discussion on strategising activities is broadened to include organisational members implementing the strategy as well as those who are informally involved. In addition, the framework acknowledges: the extent to which strategic actors control the environment and the network, the organisation itself, as well as any inherent social embeddings thereby providing an all-encompassing view of coopetition as a strategy.

For practitioners, the developed framework provides insights on the complexity of coopetitive strategising, particularly through its emergent intra- and/or inter-organisational features. For example, in line with Bonel et al. (2008), the potential complexity in coherently implementing a coopetition strategy of a certain nature, across different organisational levels, is acknowledged. To conclude, this chapter acknowledges a need for further research on coopetition from a practice approach to open the discussion on activities and actors at both intra-, inter-organisational and network levels.

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15

From Business Remains to Reactivated Relationships

Mikael Gidhagen and Virpi Havila

Introduction

Over the years, research has covered many different aspects of business relationships; for example, there are streams investigating relationship initiation (e.g., Edvardsson et al. 2008), relationship development (e.g., Dwyer et al. 1987), critical episodes in relationships (e.g., Gidhagen 2002), relationship termination (e.g., Alajoutsijärvi et al. 2000), as well as network effects of relationships (e.g., Håkansson and Snehota 1995). However, there are few studies that focus on the time after a business relationship is terminated. A practical explanation may be the difficulty to study something ‘that is not,’ given, for instance, the reluctance to discuss any termination processes, or even problems of finding anyone with memories of the past. Another reason is of course that there may be considered little rationale in analysing something that is no more. However, this no-longer-existing business relationship may indeed be

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turned into ‘something’ again—once terminated, and later reactivated. In such a situation, the former relationship, its termination and also the time between termination and reactivation are all important aspects to consider.

In this chapter, the purpose is to increase our understanding of the time between relationship termination and reactivation, and especially of any remains of former relationships that may still be traceable in this so-called *relationship aftermath stage*. In this stage, relationships can at times be seen as sleeping (Hadjikhani 1996) or as existing in other forms, such as personal contacts (Havila and Wilkinson 2002). However, as yet we know little about this stage and its importance. If, for example, the aftermath period is brief, many different types of business remains may be found. In such a case, individuals involved in new and/or resumed business would have fresh memories to mind of the former business relationship. On the other hand, if the aftermath period is longer-term, lasting for many years, be that due to specificities of the line of business or other contextual reasons, some business remains are likely to have faded away over time.

We base our discussion on a case study where business of a once closed company is resumed after two decades. Thus, we elaborate on which type of tangible and intangible business remains may survive an extended duration of inactivity, and especially how these may influence business relationship reactivation. The case study indicates that, however intangible and vague, remains of a previous business relationship may be substantially influential to reactivate such affiliations. Furthermore, the more thoroughly any business remains are identified and categorised, the more they—or the mere knowledge of their existence—may be used as potential resources when resuming business.

The chapter is structured in the following manner. First, we discuss the theoretical framework appropriate for understanding the connection between relationship termination and relationship reactivation. Second, we present our research methodology and an exemplifying case study, with a focus on business remains. Then, we analyse the case study and conclude by discussing the role of business remains upon resuming business. Finally, we contend a way of studying when and how history may matter when reactivating relationships.

'Between' Termination and Reactivation

Research on the *ending* of business relationships shows that there is a multitude of possible termination situations which occur in a variety of ways and for very different reasons (e.g., Pressey and Mathews 2003). For instance, relationship termination may be a complex and complicated process that finally disconnects the two business parties from each other (e.g., Havila et al. 2013), or it may be a natural process based on mutual agreement, where the possibilities for future business opportunities are retained (e.g., Alajoutsijärvi et al. 2000). Furthermore, there are studies which show that business relationships are either deliberately terminated by the seller and/or by the customer (Holmlund and Hobbs 2009), or fade away without any deliberate decision of termination (Pressey and Mathews 2003).

Most research which deals with the ending of business relationships views them as going through a series of different stages, or phases, where they are terminated in a final stage (e.g., Dwyer et al. 1987; Ford 1980). For example, Halinen and Tähtinen (2002) regard relationships as terminated when different types of activity links, actor bonds and resource ties are broken. Research also shows that during the final stage, both communication strategies (Alajoutsijärvi et al. 2000), as well as termination strategies (Giller and Matear 2001) are needed. Thus, companies need to have ending competence when closing business and/or terminating business relationships (Havila and Medlin 2012; Ritter and Geersbro 2011). Thus, over the past years, we have gained increased knowledge about the ending process of a business relationship, yet still little is known about the relationship aftermath stage.

Relationship Aftermath Stage

Even though research is scarce on the aftermath of business relationships, there is nevertheless some to be found that indirectly or directly deals with the period after a relationship has been terminated. As an example, it has been indicated that business relationships related to intermittent projects can at times be seen as sleeping (Hadjikhani 1996; Skaates et al. 2002).

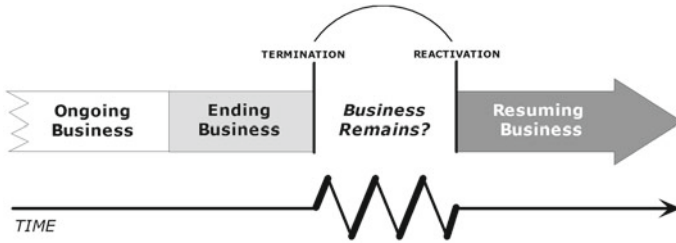


Fig. 15.1 A conceptual framework for the connection between relationship termination and relationship reactivation

In these situations, the notion of a ‘sleeping relationship’ refers to a (temporarily) less frequent interaction, or non-interaction/non-business, episode, in an otherwise existing, although discontinuous, relationship. There are also studies discussing the effects of dyadic relationship endings on other parties (e.g., Vaaland et al. 2005). A third example is the study of business relationship reactivation (Poblete et al. 2015). In all of the above examples, the assumption is that relationship termination is sometimes followed by what could be termed as a ‘relationship aftermath stage.’

Business relationship ending involves an aftermath stage, which is recognized by, for example, Halinen and Tähtinen (2002: 175), who see that the ending ‘is mentally processed and finalised’ during aftermath. Havila and Wilkinson (2002) also discuss this and highlight that personal contact can still continue even though business does not. For example, sales representatives may continue to visit former customers on a regular basis even though no sales occur or, sales personnel who switch to competing suppliers may bring ‘their’ customers. This shows that business remains exist at the individual level, and that these may be in the form of former business-relationship memories. Harrison (2004), in turn, discusses legal aspects in connection to termination which illustrate that business remains may also exist at an organisational level. The question is, as Fig. 15.1 illustrates, how can the concept of business remains be understood?

Business Remains—What Are They?

In every organisation, rules, procedures, technologies, beliefs and cultures are developed and maintained through what might be referred to as

an *organisational memory*: systems of socialisation and control (Levitt and March 1988). The organisational memory not only records the history of the organisation, but also shapes its future path; continuous interpretations of the past are embedded in systems and structures as well as within individuals (Walsh and Ungson 1991). Building on the categorisation of organisational memory into what is termed 'storage bins' (ibid.), and further developments thereof (Ackerman 1998; Akgün et al. 2012), it has been argued that organisational memory can be retained in six categories of places, or 'carriers': *physical artefacts*, *internal archives*, *external archives*, *individuals*, *organisational culture* and *organisational structure*. Thus, in an active organisation, these six 'carriers' contain the organisational memory, such as any memories of past and present business relationships.

At the point in time when a company is closed and business operations halt, any remaining business relationships are consequently terminated. Hence, the organisational memory is no longer connected to an active organisation, entailing that organisational memory (presupposing an active organization) turns into context-specific business remains. Hence, memories of past business activities can be found in the form of business remains. In situations when the time between termination and reactivation of a business relationship is short, the business remains are relatively easily traceable, to be used in the reactivation process. Thus, resuming business is less complicated in these instances than compared to situations when the duration is longer between termination and reactivation. Another more complex situation is when a company is closed and all business operations have come to a halt, consequently resulting in the termination of all of its external and internal relationships. In such a case, there are no business remains to be found within organisational culture or structure as the entity is no more; these carriers cease to exist at the point of company closure where relationships are terminated.

Physical artefacts are perhaps the most easily discernible carriers of business remains. These refer to the actual physical setting, or workplace ecology (cf., Walsh and Ungson 1991), of an organisation, that is, the layout and design of all of its physical facilities, including everything from workplace layout to architecture and infrastructure. Some physical artefacts, such as a plant, buildings and roads may remain even after company closure, and, such 'remains' may again reach resource status for resumed business. Archives constitute another category of business-remains carriers

which remain more or less stable after business closure. For example, *internal company archives* are fundamentally formalised and articulated organisational memory, stored as: corporate records, accounts, manuals, databases, filing systems and even as stories told by its members. The most commonplace remains are frequently stored even though a company closed its operations. *External company archives* are not the least important, especially in consideration of organisations that have ceased to exist. Any organisation is surrounded by others who follow and/or are dependent upon its actions, such as business partners, former employees, competitors, governmental agencies, journalists and business historians. However, the probably most pungent carrier of business remains is found in *individuals*, either former employees, or other individuals external to the closed organisation. This being said, it has to be taken into account that individuals as memory carriers are related to as the most vulnerable type of business remains, as memories tend to fade with time.

Investigating relationship reactivation thus requires acknowledging, analysing and noting any potential resources in the different categories of business remains. These may be stored in more or less stable carriers such as artefacts, internal or external archives and individuals' memories, and should the focal organisation continue to be in business, also *organisational structure* and *culture*. As the case at hand considers a company that was once closed and where business resumed many years later, the two latter types of carriers are of little relevance for this chapter.

Method

The research is based on a single case study, a method useful in exploratory research (Yin 2009). The case consists of a Swedish iron ore mine, the Mining Company,¹ which was closed in 1992 and reopened in 2012, chosen particularly because of the time lapse between termination and the reactivation of some of the business relationships. A fundamental principle of data collection in a case study, and a single-case study in

¹The Mining Company' is an alias for the actual firm.

particular, is to achieve multiple sources of evidence (*ibid.*). To increase validity, the chosen research design is combining primary and secondary data, considering both the focal company and the other relevant actors with which the company had established business relationships. Apart from studying official company information, oral presentations, press releases, and data from, for example, articles in public media, primary data was gathered through six interviews with individuals considered to be key informants (Marshall 1996). Two interviews (in September of 2010 and June of 2012) were with one of the Mining Company founders (Founder A) who also acted as the CEO during the starting phase of the company. Later (in October of 2011 and in November of 2012), the two subsequent CEOs were interviewed. Furthermore, two interviews occurred (in January of 2012 and in May of 2012) with key representatives of the local municipality in which the Mining Company is situated.

Located in an area of Sweden known for its iron ore and iron works since the Middle Ages, the Mining Company, with its iron ore mines, has been operational from the fifteenth century, on a relatively large scale of ore extraction. Ownership has switched during the centuries, but the Crown/Government has always been influential for the business. The last owner, before the 1992 closure, was a primarily state-owned company. As a result of the low market prices paid, a weakening demand for iron ore during the late 1980s and low or negative profit for the Mining Company, the owners decided to close the company in 1987, focusing on larger mining plants elsewhere. However, the mine remained in operation until 1992, when the last ore of the era was extracted, refined and delivered. After closing, the mining facilities and equipment were mainly left as they were (below and above ground), and the shafts were gradually flooded and filled with ground water as the pumps were switched off. Then, after a period of 13 years of lying fallow, two entrepreneurs started a new company in 2005, using the old mine name (Mining Company), seeing a strong potential of business opportunities and profitability in resuming the core activities.

In this chapter, we use the period of nearly 20 years of inactivity as an example to discuss business remains that may survive such a long aftermath period.

The Mining Company and the Time 'Between' Termination and Reactivation of Relationships

The Mining Company's most important stakeholder types, which existed when the company was in operation, can be divided into four main categories:

1. Business counterparts
 - (a) Customers (primarily steel works), both national and international
 - (b) Equipment suppliers, for wheeled machinery below and above ground, and stationary production facilities, such as lifts and sorting systems
 - (c) Suppliers of transport/logistics solutions, such as road carriers and contractors, railroad carriers and contractors, shipping companies, and port facilities
 - (d) Local/regional electricity supplier
 - (e) Services suppliers and petty suppliers, for various maintenance and repair, cleaning, expendables and catering
2. Authorities
 - (a) Local municipality; as being a relatively large business influencing the region, and also being subject to directives, regulations and local political decisions
 - (b) Concession authorities (that is, in this case the County Administrative Board)
3. Owner/parent company
4. Employees

The process of closing operations, and ending/exiting extant relationships with customers, suppliers, partners and municipality officials, not to mention the employees, consequently lasted 5 years, until the company was left completely non-operational in 1992.

The two entrepreneurs who started the new Mining Company in 2005 managed to tie expertise and—most importantly—financiers to their venture. Three years later, the company received the concession, and its

organisation and management shifted to adapt to the next phase—to align with a skilful group of professionals who were to build up an operational organisation. Seven years after the starting point of the new company and 20 years after the end of prior operations, the Mining Company was once again fully operational; business resumed and with a pace of production by far exceeding that of the past.

As so many years had passed, much of the knowledge and competence of the operations at the site, as well as its previous business relationships, had either vanished or become obsolete; together with much of the previously used mining technology. Resuming operations at the Mining Company was a case of establishing new relationships with involved actors: from employees and service suppliers, to authorities, municipality and customers. Nevertheless, although most of the individual professionals of the past were gone (many of them retired), there were in some cases the same actors (at an organisational level) present that had been involved in the prior mining operations, in a way, resuming relationships with the Mining Company. The local authorities at the municipality level, as well as the concession authorities, were unchanged, and there were still memories of past operations. The suppliers of, for example, electricity, transport facilities and maintenance services were on the whole the same as 20 years ago. Possible customers in the market were also, more or less, fundamentally the same, although perhaps under different ownership. Railway lines, roads and the nearby shipping harbour could once again be used for transporting iron ore to the customers, albeit in need of renovation and modernisation.

Business Remains Visible When Mining Business Was Resumed

The Mining Company is operating in the same line of business as its predecessor as an iron ore mine, entailing that physical artefacts could possibly prove useful once again, and some counterpart types, such as the local municipality and concession authorities, remain the same as before.

Business Remains in Physical Artefacts and Archives

At business closure, the mining facilities and equipment were left as they were (below and above ground). The roads and the railway that were used to transport the iron ore to the shipping harbour remained, as did office and industry buildings, as well as employee housing, located nearby. When production facilities were to be updated and rebuilt for modern production, the whole process of getting the infrastructure, above and below ground, running (access ramps, elevators, ventilation systems, electricity networks, loading terminals, railway and sorting plant) only took 1 year (interview, Founder A), indicating the strong effect of relationship remains carried in physical artefacts.

As mining business is regulated by the Swedish Government, through the Mining Inspectorate, any reports and documents related to the mining industry, as well as permits issued, are stored in its archives. Hence, there are descriptions, legislative or geographical records and concessions to be found concerning the Mining Company. Mining operations at the facility's ore reserves were first mentioned in a document dated to 1481, and from then, records of the mine, its location and mineral reports have been kept in different archives. These remains were of the utmost importance to the entrepreneurs restarting the business in 2005. Also, thanks to records of iron ore quality and mineral content kept by the former customers, they had the possibility to know exactly what type of iron ore could be produced. One example of how such remains influenced the resumption of business was noted when visiting one former iron ore customer in the UK. This customer presented the entrepreneurs of the newly started company several binders of saved documentation from the previous business relationship, such as detailed delivery agreements and reports since the 1940s and onwards (interview, Founder A), which aided business resumption and the reactivation of the particular relationship.

Individual Memories of Relationship Remains

As so many years have passed from the days of the former Mining Company, few individuals retain fresh and complete memories of the

past. However, three people, from 23 newly employed in February 2012, had also worked for the former company. One of these individuals started at the company when he was 16, in the middle of the 1970s, and had worked there until the end of the 1980s. He feels that he still knows his 'new' job 'as well as he knows his ten fingers' (article in a newspaper). Another example is the President of the City Council at the local municipality, who in another position had been involved also during the termination phase. He remembers the negotiations when the municipality was to occupy the land and properties from the earlier Mining Company. Thus, individual memories of the earlier relationships can be found, and some memories may even influence the resumption of business.

The support from the local community and its inhabitants has indeed had effects on the recommencement of operations. The people living in the region have for generations been dependent on, or closely connected to, the Mining Company, and were proud of the local mining tradition. As such, the company managers were surprised that there were no objections or appeals made upon reinitiating the business.

To sum up, even though 20 years had passed since the previous operations were terminated, different types of business remains (see Fig. 15.2)

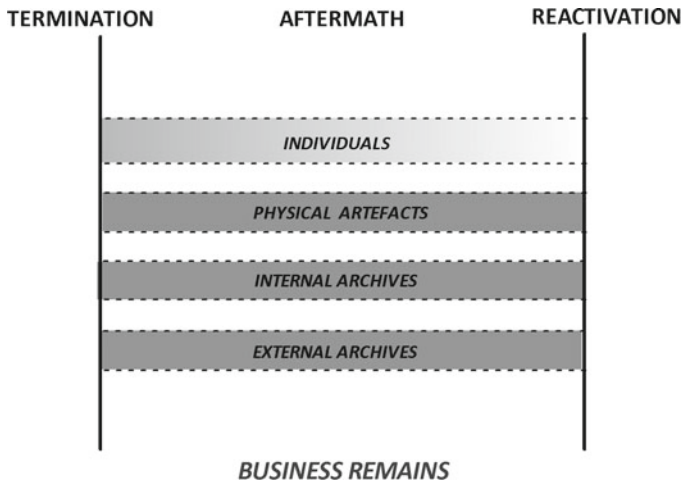


Fig. 15.2 The multidimensionality of business remains in the relationship aftermath stage

could be found in the form of: physical artefacts, archives and in some individuals who still have memories of the past business and its termination. However, as illustrated in the figure, individuals' memories fade over time, however important they are. Physical artefacts and archives can be seen as more stable; although fading may occur, it does so at a much slower pace.

Concluding Remarks

In a case of resuming business after a shorter period of latency, maybe 1 or 2 years, extant business remains likely contribute to a relatively smooth and straight-forward resumption of the relationship. Unless something has critically changed the operational circumstances of either of the parties, there may readily be important business remains in terms of individual and organisational knowledge, as well as supporting facilities and a well-suited infrastructure; that is, metaphorically speaking, merely to turn the switch from 'latent' or 'sleeping' to 'ongoing.'

As soon as the latent/sleeping period becomes more extended over time, the business remains start to fade away. This is illustrated in the case of the Mining Company: After 20 years of latency, the chances of finding and using any 'live' remains (individuals and/or artefacts) were to a considerable extent limited, or affected, by the aspect of time. In fact, there was not even an active organisation present that would have been able to comprehensively preserve the remains. Hence, there were no actual memories left in the inanimate object (the mine), yet, the mere fact that physical artefacts as business remains existed as the remnants of previous relationships, as well as archival and other types of stored information, all act as carriers via remains. Thus, in the different types of relationships within the Mining Company context, they all have one remnant in common: the actual mine per se and those physical artefacts related to it. However, as a result of time aspect (where 20 years is a long time), the fading presence of living memories carried by individuals becomes scarcer. Thus, the potential resource for resuming business carried by individuals is reduced, in terms of knowledge related to the activities at the very site (where, e.g., particular competence becomes

outdated), and skills related to how particular resources were combined to gain certain effects (i.e., related to site-specific routines and practices).

In this chapter we have extended the business network approach by providing a way to study how history may matter too after business relationships are terminated; history related to not only the pre-termination stages of a relationship, but also the relationship aftermath. We contend the need for a framework introducing a new concept, business remains, when studying the connection between relationship termination and reactivation—in order to view the possibilities and challenges of business resumption.

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16

Learning by Lobbying: The Role of Networking in Banks' Interpretation and Implementation of Accounting Standards

Anna-Karin Stockenstrand and Fredrik Nilsson

Introduction

The world of accounting saw a revolutionary change in 2005 when the 2002 EUs decision to adopt International Financial Reporting Standards (IFRS) for quoted companies was implemented. Organisations in the financial sector were especially affected by the new principles-based accounting regime, which saw historical cost accounting downplayed in favour of a market-based valuation philosophy (i.e., fair values). Today, it is evident that IFRS, together with other kinds of regulations, both internationally and nationally, has made both the interpretation and implementation of accounting standards more difficult (for an overview, see Nilsson and Stockenstrand 2015).

In this chapter we argue that as a result of these changes, networking between banks have become more important than ever. Thornton et al. (2014) present the concept of organisational *networking* as a means of capturing the indirect business relationships of strategic importance

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to organisations. Even though such relationships have been found fundamental, they have not to date been extensively studied in network research. Our aim is to extend the business network approach in the following way. First, we argue that the explosion of new accounting standards, in combination with more severe sanctions for wrongdoing in financial reporting, play a large part in explaining the increased importance of banks' networking activities. Second, we add to the understanding of how learning and lobbying become interrelated processes in the networking of banks. The fact that banks act together is a basis for a learning process that is not limited to the political, formal networking but extends to informal networking. Third, we consider the existence of these networks, as a result of limited individual bank possibilities to affect the development of accounting standards, and how they are implemented. In sum, we extend the business network approach to the territory of financial accounting regulation, interpretation and implementation.

Accounting Networking as an Arena for Learning and Lobbying

The existence and effects of networking are often discussed as 'sets of connected exchange relationships between actors controlling business activities (cf., Cook and Emerson 1984)' (Forsgren and Johanson 1992: 5). The development of these relationships is affected by learning and how the organisations collaborating in the network interact. Forsgren and Johanson (1992: 3) describe it in the following way:

Through the interaction the parties gradually, on one hand, learn about each other's needs, capabilities and strategies and come to trust in each other, and on the other, adapt to each other's way of performing operations and commit resources to the relationship.

A lot of attention has been devoted to study how the interaction with customers and suppliers contribute to developing the businesses that belong to those networking. Research has also acknowledged that in order to be able to develop an organisations' business, it is often crucial

to influence the institutional environment. Whereas many studies adopt the view that networks are mainly composed by actors in vertical and horizontal relationships, others adopt a broader view. These studies also include actors other than those following the chain of business and the immediate resource exchange (Anderson et al. 1994).

The view that the survival and development of an organisation is dependent not only on customers and suppliers, but also on their market counterparts, has been further developed by several researchers. One example is Hadjikhani et al. (2008) who emphasise the possibility for managers of large corporations to not only 'obey and adapt' (p. 923) to political regulations, but also take action in order to increase their positions on the market by managing their relationships with political and sociopolitical organisations. Hadjikhani and Ghauri (2001) discuss how a firm that develops knowledge (e.g., knowledge of political decisions) and commitment (e.g., investments to the counterpart) will be able to go from adapting to influencing political decisions. They write (*ibid.*),

By the development of knowledge and commitment, the process of change in political behaviour proceeds from adaptation to influence. Firms with a low level of knowledge and commitment rely on the first mode of political activity, which considers internal change in order to adapt business activities to political rules. The alternative applies to the act of changing the counterpart's behaviour, namely overcoming the political rules which govern the enterprise's business activities. The final outcome of the management decision becomes an antecedent to the firm's commitment and knowledge and the activities of political actors. (p. 265)

One politically marked issue in the world of Swedish banking is accounting standards. As long as there have been standards, there have been political processes with various actors trying to influence the accounting standard-setting process. With accounting standards becoming an international concern, the political arenas for accounting regulation are nowadays also international with the possibility of political-mobilising increasingly important. Riahi-Belkaoui (2004) explains how the accounting quality within companies in 32 countries was connected not to the technical, but political climate of the country. With this being so, earnings opacity could be seen not only as an accounting issue, but also as a political one.

In this chapter, we consider accounting regulation to be a political process. In light of the fact that not only the banks' financial reports, but also their businesses, are affected by new accounting standards, there are strong reasons to expect that they will participate in different types of lobbying activities. We can also expect that no bank will be strong enough to influence the political process solely. Instead, they will need to be part of a network of banks. For such a network to be effective, we expect to find an 'organisation' coordinating it referred to as the 'iminator,' following the reasoning of Hedberg et al. (1997). An important role of the iminator, according to the authors, is to ensure that the organisations' networking contributes to creating a learning environment. As discussed by Hadjikhani and Ghauri (2001) learning is vital for networks trying to influence political processes. However, we also believe that the lobbying process can create new knowledge in the domain of facts—for example, how new accounting standards should be interpreted and implemented. Thus, through networking, accounting networks are created.

Method

This chapter is based on data from a qualitative research project in the Swedish banking sector, focusing on the effects of international regulation on strategies, financial accounting and management control. The analysis in this chapter uses a network approach, which was developed with an explorative and inductive point of departure. It became apparent during interviews that networking within Swedish banks is of fundamental importance. The fact that members of the accounting department at one of the large banks engaged in extensive discussions with accounting experts in competing banks, in order to deal with accounting problems, was not something that we had expected. This finding inspired further investigation by one contributing author to closer analyse the Swedish Bankers Association (SBA), an important actor within the network.

Fourteen interviews in total were made within the overall research project mentioned earlier. These interviews comprise both actors both outside and inside the banking sector, including members of an

accounting department of a large bank as well as members of other departments that had a close connection to the strategy of that bank (i.e., trading). An interview with the head of the accounting working group at the SBA was also conducted. In an explorative phase, interviews (included in the fourteen aforementioned) were conducted with, for example, auditors, a financial analyst and a representative from the Swedish Financial Supervisory Authority (SFSA). These interviews were semi-structured with some prepared issues that we wanted to discuss, albeit with great openness to newly emerging themes throughout the interview process. Such parameters were essential in order to get an understanding of the day-to-day life and activities of the interviewee (cf., Mason 2002). Examples of discussed areas following the explorative phase were the environment of banks (including accounting standards and other regulations), bank strategies, financial reporting as well as the management control system of the bank. Questions were also asked on how the environment affects strategies, accounting and control and the daily practices of bank management. The interview with SFSA included questions on the role of authority in lobbying activities, interbank learning and how it facilitates a formal network of banking organisations. Documents, such as annual reports and comment letters, were also studied, as and when referred to in the interviews.

The collection and analysis of data were completed using four analytical categories: environment, financial accounting, strategy and management control systems. In a parallel, open process, theoretical themes and concepts emerged. Throughout this iterative and abductive procedure, we continuously worked with identifying theoretical concepts that could explain and capture empirical phenomena (cf., Lukka and Modell 2010), such as the concept of 'imaginator' (Hedberg et al. 1997). We also identified areas that are important to understand the learning paradigm within networks that needs further research. For example, the relationship of learning at the organisational level versus that of the individual (cf., Nonaka and Takeuchi 1995: 13 f). This, however, is outside the scope of this chapter. Finally, due to the inductive and 'emergent' character of the research-design, we classify the study as explorative, consequently with tentative findings.

Case Evidence

Empirical Background—The Banking Sector in Sweden

The banking sector is fundamental to society with regard to stability and growth, as such, the confidence in this sector is critical for its functioning (Jungerhem and Larsson 2013). On the other hand, there are few sectors as heavily regulated as the banking sector which places great pressure on banks to understand accounting standards: how they should be interpreted and implemented and what their effects are. One factor that has become especially important, albeit challenging, is to explain to different stakeholders how these new accounting standards affect earnings. Such effects must be understood and dealt with by banks in order to maintain stakeholder confidence (see e.g., Duh et al. 2012).

This study is focused on large banks in Sweden. However, all limited liability banking firms are members of the Swedish Bankers Association (SBA), working together to try to influence their environment. All limited liability companies in Sweden must follow the same rules and thus have roughly similar interests relating to what set of rules should be dealt with. Therefore, there are strong incentives for banks to discuss the interpretation and implementation of new standards and by doing so, learn more about them and how to handle them in a way that is appropriate to the banks' situation.

As mentioned earlier, the main interest organisation for Swedish banks and credit institutions is the SBA (www.swedishbankers.se). This association has a board of directors comprising seven to eight group managers of the largest member banks. Within the association, there are a number of committees and steering groups working on various critical aspects of the banking business, such as, the Accounting Committee, the Capital Adequacy Committee and the Banks Security Committee (Interview with Head of Accounting Committee, SBA). Internationally, a similar organisation exists to which the Swedish association is a member—the European Banking Federation (EBF).

The Environment—A World of Accounting Standards

Banks' environments are increasingly coloured by the continuous issuance of new standards and regulations. Besides the financial accounting standards, most banks comply with other types of regulations such as the Basel Accords, new laws for remuneration and many others. We acknowledge the importance of these regulations; however, in this chapter only accounting standards will be discussed. There are reasons to believe that these standards affect business and corporate strategies and thus, what market(s) a bank is geared to operate in (Stockenstrand 2014). In addition, some results from studies of other types of organisations show that increased demand from funders as well as increased demand for transparency and reporting may affect the business strategy (see, e.g., Brettell Grip 2009).

Even though a single bank can have difficulty resisting environmental pressures for change directly, interviewees mentioned the important role of networking with other banks. Due to the fact that standards affecting banks are developed internationally, the arena in which to influence these standards is also international. Consequently, it is the EBF that is the most important actor for Swedish banks. To be able to affect this federation, the banks must act together to have a chance of making a difference. However, it also appears that handling external pressures—by lobbying for example—is difficult. This means that most efforts need to be focused on adaptations to standards, rather than resisting them. In Swedish banks, dealing with the environment in terms of adapting to new accounting standards and regulations has therefore become a feature of everyday life:

There are an enormous number of new regulations that are directed to the bank all the time. People have just gotten used to it, there is no point trying to resist it, you just have to work all the time to adapt. (Head of accounting, large Swedish bank)

This suggests that even though a bank can try to influence its environment, its reality in everyday life is to adapt and make the changes needed in

order to manage a new standard. Some interviewees claim that the effects of adaptations are unclear, especially the long-term effects. However, many are convinced that internal effects do occur; sometimes these are concrete, such as a new reporting system. At other times, interviewees appear worried that the effects may be difficult to identify since they can be indirect and long-term. This is partly connected to the difficulty of understanding financial accounting standards.

Financial Accounting

Over recent decades, there have been fundamental changes in financial accounting standards and consequently, the financial accounting practices of organisations. Shortridge and Smith (2009) describe these fundamental changes as a revolution in accounting thought. As the world of accounting has become extremely international, it is those international 'standard-setters' that are the most important in trying to influence standards:

One of our main tasks is to write comment letters to IASB. With regard to accounting, the IASB is the most important actor. They affect us, and we try to affect them. (Head of Accounting Committee, SBA)

However, there is limited evidence that harmonisation of financial accounting on a global level leads to the same level of harmonised practices. On the contrary, there is a body of research trying to understand why accounting interpretation and implementation differ across countries, industries as well as companies within the same domain and culture (Nobes and Parker 2002). Adding to the complexity are the indications that an increasingly principles-based form of accounting standards creates more leeway for companies in their financial reporting. For example, Beattie et al. (2001) describe how the audit risk seems to be increasing with more principles-based rules, because of the increased amount of subjectivity and judgement.

The thoughts now pervading the financial accounting domain are evidently creating new challenges for banks. The difficulty of interpreting standards, increasing the need for subjective judgement as new and fundamental

aspects of financial accounting in banks, is noted not only by the banks themselves, but also from the supervisory authority monitoring financial accounting practices within banks. A representative of the SFSA explains:

As it is right now, and when we look at the banks in detail, it is apparent that standards open up for a lot of interpretation and subjectivity. The creation of standards has been well-intentioned, but it is now so detailed and includes such a large amount of flexibility in order to cover every little possible variation in a complex reality that we have actually strayed quite far from the term comparability.

During the study it became more and more apparent that the content and form of financial accounting standards had a large impact on a bank's challenges and its need to seek collaboration through networking. The subjectivity and endless amount of alternatives in interpretation and implementation of standards were not looked upon with appreciation, but with anxiety. Therefore, the importance of networking with other banks and discussing how they dealt with similar issues was considered crucial.

We have on-going work in the European Banking Federation around accounting issues, and it is extremely important to be involved in that work, which I am right now. The challenge right now lies in the accounting of financial instruments, and that is the fundamental challenge at this point, to deal with. (Head of Accounting, large Swedish bank)

This head of accounting furthers that several years ago, accounting was not something that top management discussed, but instead addressed by someone else who would oversee 'debit and credit.' However, today she argues that accounting is a core issue that penetrates other areas and calls for networking at the top management level.

Strategy and Management Control

With regard to strategy formulation and implementation in a bank, there appears to be a complex connection not only between the formulation

and implementation of strategies (cf., Mikes 2009; Wahlström 2009) but also between the strategy and accounting problems that companies face as a result of implementing that strategy. In interviews, it appeared that an increased complexity in accounting standards may have different kinds of long-term effects on strategy. An important relationship between strategy and accounting can also be seen within the networking activities as the intimate link between strategy and accounting creates a dilemma for those providing and administrating the formal networking. The head of accounting in the SBA explains how strategic issues often come up in accounting discussions and why it is very important for him to stop these discussions. He argues that banks cannot go too far into strategic issues when networking within the platform of the SBA, as it must not cause negative effects such as disrupting competition. The role of stopping discussions when needed provides evidence of how interwoven strategy and accounting are:

It is important to understand that the same standard can have very different effects in different banks of different size, with different customers and different business models. Just look at impairments, if you have a lot of solid customers, you will probably have a different opinion than a bank with customers that are insolvent. In those cases it is not clear how we should move forward in the issue, and we might need to act separately in the lobbying process. (Head of Accounting Committee, SBA)

However, and perhaps somewhat paradoxically, although strategic issues were always sensitive to discuss among the banks, there were also motives for networking through sharing such information. A representative of the valuation department at one large bank explains how accounting problems can hinder strategic aims, something that could in turn spur banks to go quite far into strategic issues in order to understand accounting problems at a very detailed level:

There is a constant dialogue with others, inside and outside the bank, when dealing with complex instruments, because if we can't deal with a financial instrument, then it stops right there. (Head of Valuation Group, large Swedish bank)

This means that the bank can learn and build market and accounting knowledge of how to deal with complex financial instruments, for example, by benchmarking against other banks or discussing issues in networking activities. By doing so, the bank will most likely increase its capability to implement a certain strategy:

We take in a lot of help externally, just for discussing things, and in that way gaining an understanding for how other actors on the market are doing things. (Head of Valuation Group, large Swedish bank)

Hence, strategy is interwoven within the accounting issues when banks network with each other. In other words, strategy and accounting increase the motivation for networking through the sharing of information, but also set limits for both learning and lobbying within the networking activity. Learning is thus a prerequisite for formulating and implementing a strategy. Being able to trust that the discussions of strategic issues were both limited and very strict within networking processes actually created an important point of departure for banks designing informal contacts where they could detail sensitive issues.

It can be concluded that networking is crucial not only to comprehend and interpret accounting standards, but also to understand how these standards are implemented in a way that the banks retain some control over what effects the standard would have on respective strategy. At the same time there are also signs that a new accounting standard could change both the strategic possibilities, as well as the design and use of the management control system.

When a new standard arrives, the organisation must build up new knowledge, perhaps employing new competencies and implementing entirely new reporting systems. (Auditor)

These types of internal effects due to new standards could be significant, especially with regard to reporting systems and routines. This considers that banks on the one hand were trying to resist change by being involved in lobbying and, on the other hand, had reached an understanding on the importance of adaptation and that it had to be quick and efficient.

Such adaptations may have effects on very detailed levels of the management control system:

To a certain extent you can mobilise resistance and try to change through the Bankers Association but I believe also that we are at the same time also more prepared to adapt and change our systems, and take a more defensive approach. (Head of Accounting, large Swedish bank)

The Role of Networking

In sum, we can conclude that the accounting network mediated formally by the SBA plays a vital role for Swedish banks in handling large and challenging accounting standards. Within the networking activities, advanced accounting issues were discussed, something that occurred within the process of also trying to affect the banks' situation. Through their development of new knowledge they were able to not only adapt to new accounting standards but also enhance their capabilities in order to influence the standard-setting process (cf., Hadjikhani and Ghauri 2001; Hadjikhani et al. 2008). This was mainly executed through lobbying and writing comment letters to the International Accounting Standards Board (IASB)—as part of the larger network of the EBF:

We work as a platform for the collaboration between our members. We give recommendations to our members that our members have discussed, to help banks develop a common accounting practice through collaboration and discussion. (Head of Accounting Committee, SBA)

As most accounting standards applied in the financial sector in Sweden are international, Swedish banks need to become 'international players.' Even the largest Swedish banks are small compared to their international counterparts. Networking creates a stronger position for Swedish banks and the possibility of voicing an opinion on the international arena, something that no bank can achieve individually, ultimately: to be more effective in their lobbying activities. This is made possible through networking within the more international context of the EBF, which has over 30 national banking associations as members.

We can thus conclude that the environment had significant effects on the organising of the networking among Swedish banks. Networking was organised in a way that mirrored international networking mediated by the EBF with similar working committees and procedures. Also, the head of the Accounting Committee in the SBA and an accounting expert from one of the large Swedish banks were also members in the EBF accounting committee. As indicated below, the frequency of interactions in the international networking activity was very high, indicating the importance of this relationship:

My colleague from X [Swedish bank] and I, we meet physically in the EBF accounting committee around three times a year, then we have telephone conferences every month, but I would say that the email correspondence frequency is daily – often several times a day. (Head of Accounting Committee, SBA)

When we look closer at the role of networking, especially the role of the SBA, several conclusions can be drawn. First, the study shows that SBA administered networking with clear boundaries and also managed to create a high level of trust between the participants. Second, formal networking also created the basis for nurturing more informal connections and collaborations between the banks. Such informal networking could be seen as an ‘imaginary organisation’ (Hedberg et al. 1997), meaning a lasting collaboration where there are mutual benefits in linking existing knowledge whilst building new knowledge together. Also, accounting experts at different banks saw each other as ‘colleagues’ within the informal networking activities. Networking did also resemble an ‘imaginary organisation’ in other respects as it ‘lacks a hierarchy, routines and an established language for communicating on the subject of possible futures’ (Alström et al. 2007: 316). Furthermore, it is important to note that the SBA did not administer or coordinate informal networking. Instead, it appeared self-governing, lacking what Hedberg et al. (1997) call an ‘imaginator.’

The Swedish Bankers Association is a very important way for us to meet and discuss and write position papers and so on. But then we also meet more informally and discuss things among the banks, and that is very important too. (IFRS Specialist, large Swedish bank)

To sum up, informal networking was just as important as formal networking. One interpretation is that the interwoven nature of accounting, strategy and management control creates a delicate balance, making it difficult for someone to assume the role of formally administering such interactions in depth. We argue that this is why such conversations must be considered outside the formal networking activity. Within informal networking, banks with high levels of trust and similar strategies might be able to exchange more information and help build more detailed accounting knowledge. The large banks appear to trust each other—sometimes even more than external independent accounting experts.

Before using an external accounting expertise – myself and my colleagues in the other banks’ accounting departments often try to find interpretations by networking. (IFRS Specialist, large Swedish bank)

Thus, because several banks were connected to each other in a number of ways—formally through the SBA, but also by sharing strategic directions—learning may occur on an even deeper level. Hence, connectedness enabled networking, both formal and informal, concurring with Håkansson et al. (1999) who argue that the extent to which learning takes place is highly related to the existence of connections between companies. This also indicated that the main motivation of engaging in networking appeared to be the need to learn:

What has become clearer and clearer is that banks have a wish to meet here just to discuss things, just to get that insight to “Aha! Do you read that standard in that way?” (Head of Accounting Committee, SBA)

Conclusions and Implications

The chapter departs with the challenging reporting environment that the banking industry is facing today. The chapter discusses how these challenges have increased the importance of interorganisational relationships between large Swedish banks, albeit too with regulating bodies. Figure 16.1 describes the principal relationships in this ‘accounting

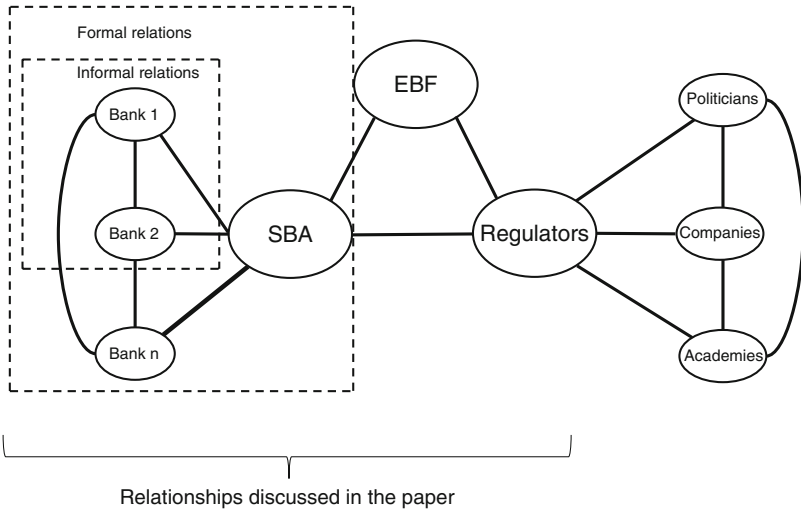


Fig. 16.1 Principal relationships in the 'accounting network'

network.' Informal relationships include several (albeit not all) banks. Formal relationships include all banks belonging to the SBA. The relationships that are discussed in the chapter include the informal and formal networks and their relationships to regulators. As can be seen the latter relationships can be direct or indirect (i.e., lobbying through the EBF). The figure also includes politicians, companies and academies as influential stakeholders in the standard-setting process. However, these stakeholders are not discussed in the chapter.

Our explorative and tentative study supports the idea of extending the business network approach and that the inclusion of counterparts in the business environment as important actors are critical to understand how large banks deal with issues closely connected to strategy and management control. We can also see that networking focusing on the interpretation and implementation of accounting standards is a fruitful study object to develop an understanding of how lobbying and learning are intertwined within networking. Our main finding is that although the 'accounting network' mainly revolved formally around the efforts to change and manage new standards by lobbying (both nationally and internationally), networking

was at the same time an equally important, and even critical basis for learning. By discussing interpretation, implementation and the possible effects of the standards, it was possible to learn from other banks' experiences in handling these challenges. As a consequence, several banks can adopt similar solutions simultaneously, thus minimising the risk of one bank imposing its interpretation and implementation of accounting standards.

The role of knowledge in political behaviour has been previously illuminated, for example, in Hadjikhani and Ghauri (2001), who described how small- and medium-sized firms worked to understand standards and their potential implementation. They also showed that larger corporations usually have deeper political knowledge as well as knowledge of specific issues. Due to this higher degree of knowledge in several crucial areas, they could act more forcefully to sway decisions before they are made. This study develops these ideas by describing how learning is an integral part of large corporations' political and proactive behaviour pre-decision making.

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17

Legitimacy in the Business Network Context

Sabine Gebert-Persson and Enikő Káptalan-Nagy

Introduction

Perceptions of uncertainty can be significantly reduced by establishing trust within relationships as well as by the manner public view an organisation as legitimate. One of the most important aspects when explaining business-to-business interaction is the organisational relationship. Within the network approach, relationships are defined as developing over time, resulting in a number of adaptations and roles (IMP Group 2002: 22) which consequently become institutionalised within the relationship. Such institutionalisation concerns activities between the actors and may require substantial adaptation relating to internal organisational processes within each firm. Interactions between entities form rules and expectations for what constitutes an accepted behaviour; therefore the legitimacy concept is essential to consider in relationships. Legitimacy is a perception held by a beholder based on either direct or indirect relationships, as well as upon reputation. It is founded on different constituents'

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© The Editor(s) (if applicable) and The Author(s) 2016
P. Thilenius et al. (eds.), *Extending the Business Network Approach*,
DOI 10.1057/978-1-137-53765-2_17

301

expectations, perceptions, evaluations and judgments of the firm as being trustworthy, credible, desirable, proper or appropriate (Suchman 1995). Sharma (1991), over two decades ago, stated that without legitimacy the network will not be willing to supply resources. Furthermore, the concept of legitimacy has been widely discussed by researchers within institutional theory (cf., Human and Provan 2000; Meyer and Rowan 1991), recently regaining interest among various network researchers including, the analysis of foreign market entry (cf., Gebert-Persson and Káptalan-Nagy 2009; Jansson et al. 2007; Low and Johnston 2010), regional strategic networks (Gebert-Persson et al. 2010) and firms acting within political contexts (Hadjikhani 1998). However, these studies have primarily perceived legitimacy as a resource that can be drawn upon or affecting how actors are perceived.

This chapter will argue that legitimacy forms within the interactions occurring between actors through both their direct and indirect relationships within the network. As such, legitimacy is therefore both a factor affecting behavioural perceptions and formed as interactions transpire. Addressing the conceptual domain of legitimacy in network dynamics, a theoretical model is developed to highlight how legitimacy is shaped and reshaped via business-network context interactions. The aim of this chapter is to reintroduce and incorporate legitimacy within the network approach, as initiated by Sharma (1991) and Hadjikhani (1998). We add to previous research by arguing that what constitutes legitimate behaviour is formed during the course of relationship interactions, embedded within business network contexts.

The Concept of Legitimacy

Legitimacy is ‘... a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions’ (Suchman 1995: 574). Legitimacy can be understood as a social contract where a firm is conferred as legitimate if it offers something desired and approved by society (Linsley and Kajüter 2008). This external legitimacy raises the organisations’ positions relative to that of others’ in the environment,

contributing to increased legitimacy, stability and predictability (Meyer and Rowan 1991) as well as greater ease of accessing resources (DiMaggio and Powell 1983).

Norms, rules and expectations influence the different legitimacies associated with an actor within different contexts. These expectations are an important part of how an actor is perceived, additionally affected by previous perception as well as current actor interaction; thus, constituting the legitimacy base within the relationship. This implies that legitimacy is not static; however, it continually changes as the actors engage in new relationships or exchanges, and consequently, such behavioural expectations and perceptions of legitimacy alter. Norms, rules and values are perceived by the firm as external pressures, yet these evolve within actor interaction via the establishment of new accepted norms of behaviour exchange as a two-way legitimating process. The interaction and formation by organisation of what an accepted behaviour is implies that behavioural institutionalisation is a process, emerging through interactions. Acting in accordance to these institutionalised expectations will create a perception by the other actors that the organisation is legitimate. Legitimacy thus reflects system embeddedness of institutionalised values and activities, also justifying the organisation's role within this system (Ashforth and Gibbs 1990). Acceptance is fundamentally a perception by others, and as this process occurs with contextual boundaries, differences in perceptions, expectations, beliefs, norms, values, rules and regulation, that is, what is considered to be 'proper' behaviour, may differ (Aldrich 2000). This means that what is morally accepted in one context may be suspect in another; legitimacy is formed through interactions between organisations in different settings.

An organisation is more likely to survive if it obtains social support, acceptance and legitimacy from the external institutional environment (DiMaggio and Powell 1983; Meyer and Scott 1992; Parsons 1956). Thus, the chance for an organisation to survive is significantly increased if it demonstrates '... conformity to the norms and social expectations of the institutional environment' (Baum and Oliver 1991: 189). If an organisation develops ties to societal institutions, it shows a desire to be adherent to the expectations and cultural beliefs herein (Ruef and Scott 1998). As legitimacy is determined by various stakeholders, the firm must

be responsive to the different constituents' expectations and their perception of what a legitimate behaviour is (Kumar and Das 2007).

The various perceptions of legitimate behaviour and the processes forming it can be described as different pressures. When the legitimacy process is about behaving in accordance to public self-interest, this can be referred to as pragmatic pressure (Ruef and Scott 1998; Suchman 1995). Such pressure expects the firm to demonstrate a willingness to satisfy the interests of the stakeholders within their direct and indirect relationships. Another evaluation is whether the firm uses socially accepted techniques and procedures (Scott 1991), with the actions thus favouring the given society's socially constructed value system (Ruef and Scott 1998; Suchman 1995). Bitektine (2011) also states that 'the observed features of an organization, its structural attributes, and outcomes of its activity are benchmarked against the prevailing social norms [...]' (Bitektine 2011: 157). The evaluating actor renders a judgment as to whether the organisation, its processes and actions are acceptable or unacceptable and hence, whether it should be encouraged, tolerated or sanctioned (cf., Aldrich and Fiol 1994; Kostova and Zaheer 1999; Suchman 1995). Therefore, the degree of firm acceptance is dependent on the degree of network actors' understanding of the firm and its activities. An ultimate outcome is when the firm becomes taken-for-granted (Aldrich and Fiol 1994; Ruef and Scott 1998; Suchman 1995).

Legitimacy from the Perspective of the Network Approach

Legitimacy of an actor is formed in a process of gaining, maintaining and repairing it within a certain context (Suchman 1995). Networks are defined by those actors embedded within it, whose perceptions are based on the interrelationships, activities and resources involved in doing business, the business network context of the firm. The context is continuously changing as new relationships, direct and indirect, evolve and others dissolve. As an effect of the ever-changing context structure, the institutional components are also affected, which may lead to changes in how the focal actor perceives, and is perceived, by others. Therefore,

legitimacy is not a state but a process, dependent on the situation within the focal actor's own organisation, its external direct and indirect relationships within the business network context and the broader environment. Legitimacy from such a perspective can be seen as a process whereby formations of proper, appropriate and desirable behaviour can be analysed at different levels: firm, relationship, business network context and aggregated.

Legitimizing Process at Firm Level

In order to understand the two-way legitimating process, it is necessary to begin by observing the firm level as the expectations of behaviours reside in the entity as well as the individuals representing it. Each firm develops its own routines and rules of conduct, which, to a certain extent, are unique for each organisation. This uniqueness is based on inherent experiences from different types of interactions and activities, both internally within the firm as well as externally within the context it is embedded. 'This experience may be the result of many other similar relationships and will equip the company with knowledge about the management of these kinds of relationships' (IMP Group 2002: 26). Experiences are mediated through individuals within the organisation who together may create a generalised experience within the organisation via interactions (IMP Group 2002: 26). As interactions between two different organisations occur, the individuals representing the firm bring with them their own perceptions, to a certain extent formed by their specific organisational experiences as well as those originating from outside that context. Therefore, the interactions between two different organisations will be affected by their respective routines and associated rules of behaviour.

At the firm level, legitimacy becomes a resource that is a necessity for survival as without it, the firm will not have access to resources outside its boundaries. Simultaneously, the firm is influencing the perceptions of what constitutes a legitimate behaviour through the relationships it is involved in. Legitimacy can thus additionally be a resource in influencing the legitimating processes, whereby those taken-for-granted are powerful actors, potentially utilising this role to affect contextual norms

and rules. An important characteristic of institutions is that they provide normative rules stating what actions are acceptable or not, making it possible to separate between preferred and desirable behaviour (Scott 1991); the normative substance consisting of values and norms. This supports and empowers activities or actors by providing guidelines and resources for conduct, as well as emplacing constraints upon action. In this sense, legitimacy can be seen as an exogenous factor, as it is given by what actors surrounding the focal actor in the network perceive as acceptable, desirable, proper and appropriate behaviour. This will affect the possibilities to act and frame the behaviour of the individual firm. In line with this, it influences how firms exchange resources and establish relationships.

Our suggested two-way process of legitimacy shows that institutions (cognitive, normative and regulative), actors, relationships and the business networks are interrelated. From a focal actor's point of view, the regulative institutions are perhaps the easiest to understand as they consist of various instructional issues that can be enforced via sanctions or authorities. The normative is the perceptions of accepted behaviour that have not been institutionalised into laws and regulations, yet rather are the explicit or implicit norms of acceptance. Norms work as prescriptions of how to act that create 'expectations about behavior that are at least partially shared by a group of decision makers' (Heide and John 1992: 34). Norms can be viewed as the acceptable conduct, a convention or practice, to which behaviour should conform.

Legitimizing Processes at Relationship Level

In the initial stage of a relationship, two organisations will perceive different counterparts as having different degrees of legitimacy. What the two entities perceive as legitimate is an amalgam of both intraorganisational values, beliefs, cognitions and norms, as well as the experiences gained from previous relationships with others. This, in turn, will have an effect on behavioural expectations within the initial interactions and negotiations between new counterparts. Both organisations will enter into the interactions with prevalent expectations on accepted behaviour which may either be easily aligned or result in harsh negotiation. Through the

interactions (and under the condition of continuous interactions) the organisations' previous norms, beliefs, values and cognitions can be negotiated, formed and adapted to the counterpart as transactions and activities occur, thereby becoming relationship specific. In other words, the outcome of the continuous interaction processes between two entities within a specific relationship is perceived as legitimacy, based on jointly negotiated cognitions and norms. Hereby, these interactions will, to some degree, affect, and therefore adjust, the legitimating process at both the organisational level and that of the business network context.

Within the network approach, there is a concept that is rather similar to legitimacy: trust. Trust is defined as '[the] adoption of a belief by one party in a relationship that the other party will not act against his or her interest, where this belief is held without undue doubt or suspicion and in the absence of detailed information about the actions of the other party' (Tomkins 2001: 165). For a relationship, trust is a way to decrease actors' perceptions of risk and uncertainty in exchanges, and thereby it encourages the parties to cooperate with the exchange partner, favouring long-term benefits of the relationship (Morgan and Hunt 1994). Trust and reputation may be represented as informal, non-contractual ways to govern relationships (Dyer and Singh 1998; Forsgren and Johanson 1992; Gulati 1995; Håkansson and Snehota 1995; Uzzi 1997). Thus, trust increases alongside the exchange partners' reciprocity, with the development of frequent, stable interactions. Developing trust is time-consuming, implying that firms' relationships are not established instantaneously; however, it rather grows as mutual organisational trust develops (Håkansson and Snehota 1995). Relationships characterised by trust are highly valued by the parties (Morgan and Hunt 1994). Moreover, trust exists when one actor has confidence in an exchange partner's reliability and reputation (*ibid.*). Trust and legitimacy are both ways to decrease perceptions of risk and uncertainty. If these concepts are compared, we find both differences and connections between them. The definition of legitimacy as a perception by the beholder does not necessarily have to be experienced through direct exchange with the focal firm, albeit as something built upon reputation. Legitimacy is viewed within this chapter as a perception within a business network context. Trust, on the other hand, has to be addressed within the boundaries of the relationship (Tomkins 2001)

and is based upon direct relationship experience. Legitimacy is then an antecedent to relationships; however, not all relationships develop trust. As direct relationships between two parties evolve, the perceived legitimacy can be either confirmed or rejected. When legitimacy is confirmed, it becomes an antecedent for trust building. The connection between the two concepts occurs when legitimacy is confirmed and the two parties have developed, and realised, a trustworthy relationship. Thus, we want to emphasise that legitimacy is the perception of an organisation as trustworthy, whereas trust is based on experience. This experience is borne from direct counterpart exchanges where the held perceptions of the organisational legitimacy is confirmed and revised.

Legitimizing Processes at Network Context Level

Legitimacy from a business network context level can be considered as the amalgam of the legitimating processes ensuing at the firm and relationship level. The different connections within their specific relationships, as well as general perceptions of what constitutes a legitimate behaviour, together form perceptions of legitimacy in the firms' business network context. In the different contexts in which the firm is embedded, multiple expectations of behaviour can evolve during the various interactions, as each have their own specific developed norms and rules, as well as those explicit within the intra-organisational environment (Kostova and Roth 2002). This implies that legitimacy becomes a two-way process as the perceptions of such behaviours are formed within and through interactions which on an aggregated business network context level become an evaluation of the specific organisation's behaviours as being legitimate or illegitimate.

The legitimating process in a business network context is dependent on (1) the focal actor's understanding of the aggregated expectations on behaviour, (2) the awareness of other actors' perceptions within the context, (3) their evaluation of the focal actor, its activities and resources as well as (4) the focal actor's actions in accordance with the aggregated expectations on and perceptions of desirable, proper or appropriate

action and behaviour. Moreover, through interactions the focal actor has an effect on aggregated expectations, and perceptions, of behaviour (i.e., legitimacy). Being perceived as a legitimate actor is vital for the focal firm's current and future operations within the existing and future business network contexts. This implies that the survival and performance of the firm depends upon the strategic actions as well as external perceptions of the firm as contextually legitimate within its linkages to others.

Conclusions and Implications

In this chapter we proposed a theoretical model for understanding legitimacy as processes at different levels where an organisation is subjected to both internal and external pressures to behave and act in accordance with what others expect and perceive as desirable, proper or appropriate (in accordance with Kostova and Roth 2002). We add that legitimacy is not only the process of others' evaluations but also that we need to consider that perceptions of desirable behaviours are formed, adjusted and influenced through interactions, within the organisation, in relationships that are embedded in business network contexts. Through interactions between the focal actor and its counterparts, rules are formed, and expectations of an accepted behaviour evolve in that specific business network context. Acting in a proper and desirable way within context will create a perception that the firm is legitimate. In order to understand the legitimating processes, it was argued that we need to consider the processes at different levels: the firm, the relationship, the network and the aggregated. Furthermore, the recognition of audience perceptions and judgment of the organisations within the context is essential in order to fully understand the two-way process continuously affecting actors' activities, actor bonds as well as interactions.

The implication of considering legitimacy as a two-way process within the network approach is that we are able to better understand and explain firms' behaviour, for example, during foreign market entry process, crisis management and governmental or public affairs. Gaining legitimacy involves different types of activities. These activities are not something

that a manager plans as an effect of trying to conform to a changing environment, yet rather are a question of nursing its relationships and framing the business network context, which is in line with the strategy definition by Håkansson and Snehota (1989).

A firm can obtain legitimacy from an existing legitimate organisation via merging, acquiring or building joint ventures (Pfeffer 1989). This is a way for the firm to tap into the organisations' position, reputation and legitimacy. Thus, by acquiring an established organisation or building a joint venture, it is possible for the firm to access resources and, as a consequence, also the position concurrently, as perceived uncertainty may be reduced (Oliver 1990). However, this '*obtaining strategy*' is not without complications, as the firm has to be legitimate not only within the eyes of the other actors on the market, but also internally within the firm. As pointed out by Aldrich and Fiol (1994), legitimacy gaining is additionally about achieving legitimacy within the firm, as the individuals are the representatives towards other organisations (see also Granovetter 1985). Trust can be seen as a belief in lack of evidence that things will be resolute. As stated, trust is important within the relationship yet also important to gain legitimacy. When there is a lack of information or evidence about a potential counterpart, the more important trust becomes. Trust '[...] provides a link between factors influencing organization formation at the individual level to factors influencing formation at the organizational and environmental levels' (Aldrich and Fiol 1994: 650). Gaining legitimacy herein is viewed as a social process of trust building within the organising process.

Framing the business network context is also a way of gaining legitimacy, as it is a process of selecting counterparts. By framing the context in such a way that it aligns the organisation, the firm does not have to make larger changes to mirror what organisations within the business network context consider proper and appropriate.

Legitimacy gaining is not only a question of trying to adapt the contextual behaviour to fit, but also one of *influencing* the laws, rules, norms and perceptions within the network. Forming or acting through trade associations or other organisations is a way of influencing the image of the firm and moreover, a way of actively swaying the institutional

components within the business network context via lobbying (Oliver 1990).

By *tending* the existing relationships the focal firm displays that it is able to maintain trust and is reliable. Existing relationships affect the image and identity of the firm, whereby the image can be spread through reputation. Thus, existing relationships are a vital part of the legitimacy forming process.

When there is a risk of being perceived as illegitimate, public relations may be an important source of influence. Interacting with the media is a channel, which could be used to show a desire to justify an action, thereby defending the image of the firm in the eyes of those within its business network context (Sommerville 1999). Hadjikhani and Håkansson (1996) analysed the interaction between government and business units using the network approach. Their focus was how a scandal connected to a Swedish firm, Bofors, whilst conducting business in India, influenced other Swedish companies and their manner in the same country. As a consequence of the scandal, other Swedish companies in India were affected. One of the conclusions drawn was that companies are influenced depending on their network position in relation to the relationships that were affected by the scandal. When a negative incident occurs, decoupling the controversial activity is a way of maintaining legitimacy, or at least decreasing the risk of being perceived as an illegitimate actor (Elsbach and Sutton 1992; Meyer and Rowan 1991).

Governments and public authorities influence, to a high degree, the business activities and the behaviour formalisations. However, due to information overload, governments and public authorities are dependent on expert knowledge provided by the industry for their 'informed'-decision and rulemaking process regarding industry performance.

Efficiency within the network approach is not whether the actor adapts to its environment but rather how it relates to its context and how interactions affect the business within this contextual network. As Sharma (1991) concluded, without legitimacy the network will not be willing to supply the organisation with resources.

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18

Business Netquakes: Analysing Relatedness of Events in Dynamic Business Networks

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Introduction

One crucial, recurring challenge for business managers involves taking the right action when pressured to change from resource investment in a business relationship to the pausing or termination of such, which, in some situations may dissolve the relationship completely. In that ongoing quest, a substantial part of the information necessary for the managers' choice of path of action stems from the past, current and potential future in the specific business relationship. However, to rely solely on the available information in the relationship is, in most situations, insufficient to select appropriate managerial action. The notion that business relationships are better understood as part of business networks is well established (see, e.g., Ford

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et al. 2002; Håkansson and Snehota 1995), consequently suggesting that further information, potentially vital for the choice of managerial action, can be sourced within the immediate surrounding business network.

Furthermore, with a common view of business relationships being founded on incrementality, crucial decision points can be associated with critical events calling for more pronounced and adapted managerial action. Critical events have been described as delimited periods of time where the situation calls for radical change rather than continuance and incrementality (Halinen et al. 1999). Change in business relationships concern fundamental alterations in exchanges and/or adaptations where the parties make adjustments to facilitate the future continuance of the exchange processes (Johanson and Mattsson 1987; Medlin 2004). Change can thus be alterations in the frequency or the character as well as the inhibition of exchange in a relationship. In some cases the adaptations the counterparts are willing to make are insufficient, and further exchange is rendered unfeasible. In these situations, exchange may decline or even be terminated which eventually can lead to the dissolution of the business relationship.

Critical events call for managerial action where the choices profoundly affect the future development of the business relationship (cf., Flanagan 1954). Clearly, decisions of this importance will, in most circumstances, require management's information seeking to be confined not only to the particular business relationship, but also to influential external factors. In that sense, managers—apart from the situation of the critical event in the business relationship—in their decision-making, substantially benefit from having key information on past, current and expected future happenings within the network, possibly providing critical-event insight. The impact of the business network can thereby be described based on the notion that it is a set of directly and indirectly connected business relationships where occasionally critical events occur within each business relationship. When viewing the critical events arising within a certain business relationship, it is often possible to link these to a chain of events by using the knowledge of the ongoing business as the frame of reference. However, the difficulty is to find a way to relate these often seemingly unrelated critical events in time, into an understandable base of information, useful for choosing the appropriate managerial response.

In this chapter we extend the business network approach by outlining an analogy of earthquakes—*business netquakes*—as a way of disclos-

ing the hidden link that relates seemingly unrelated events in a dynamic business network. Similar to an earthquake, where the effect on the surface varies but has a common starting point of the epicentre, the business netquake with its common inception, results in a number of relationship events throughout the business network. In an earthquake, the forces released from the epicentre spread not dissimilar to rings on water, which may cause visible surface effects making it possible to find the origin. In the business netquake, the challenge of any manager is to reveal the common inception by linking the critical events like 'rings' in the network to find the centre. The ability to link such critical events in business relationships constitutes the proverbial 'golden key' in order to take the correct managerial action in a situation of threatening radical change.

In the proceeding sections, the dynamics of business networks is examined, followed by the discussion on views of time and the relatedness of events. The next segment outlines the analytical tool of the business netquake and considers the associated challenges. Finally, some concluding remarks and managerial implications are drawn.

Business Network Dynamics

The notion of business networks addresses the interlinked character of firms in business-to-business markets. A business relationship between two firms is based on the exchanges that are fundamental to business, including those of products, money and information (Håkansson 1982). Established exchange relations in business-to-business markets are characterised by incremental growth, mutual adaptation of products and processes (Hallén et al. 1991), trust in another's intentions and not least, interdependence (Dwyer et al. 1987; Håkansson and Snehota 1995). The adaptations are idiosyncratic; the firm makes an increased commitment to the business relationship, which gives the relationship a long-term orientation (Anderson and Weitz 1992). The adaptations that the buyer and seller make to facilitate their mutually orientated business can thus be seen as distinctive for each specific business relationship. Adaptations are not a necessity in the business relationship other than in the sense that future exchanges are assumed to be hindered should changes not be made.

Clearly, the changes brought about by the adaptations made by either the supplier or the customer to adjust to circumstances allowing for continued exchanges are associated with costs. Adaptations are, in that sense, commitment activities including investments to develop the businesses, thereby strengthening the business relationship and making it more competitive against others (Hallén et al. 1991). In this sense, they are closely associated to other central relationship dimensions such as trust (Morgan and Hunt 1994). Studies on adaptation include for instance: reciprocity as the result of dependence (Hallén et al. 1991), variations in adaptation associated with customer technology (Hallén et al. 1994), motives and decision-making underlying adaptive behaviour (Brennan and Turnbull 1999), continuous supplier adaptations to retain customers (Ahmad and Buttle 2001), mutual and unilateral actions by suppliers and buyers (Brennan et al. 2003), the scope and calculation in decision (Schmidt et al. 2007), and the effect of relational exchange factors on mutual adaptations (Mukherji and Francis 2008). Furthermore, the incremental adaptations made are not only partly driven by issues endogenous to the relationship, but also partly due to the response to changes in the wider business network.

Even though the normal idea of incrementality in change of business relationships and business networks might be a useful assumption, networks may sometimes change in a radical way (e.g., Halinen et al. 1999; Havila and Salmi 2000). Networks change in response to specific events (Madhavan et al. 1998), and for example, acquisitions, mergers and bankruptcies can be seen as radical events that may trigger such a change that could spread far into the business network (Dahlin 2007; Halinen et al. 1999; Havila and Salmi 2000). Halinen et al. (1999: 786) view a critical event as 'the impulse that allows tensions to be released and the network to reconfigure', that is, some relationships may be terminated or new ones established. Whether this will happen depends on how the parties perceive and react to the event. It also depends on the specific character of the relationship, as well as the context in which it is embedded (Gidhagen 2002).

A business network can be viewed as a structure of connected inter-organisational relationships, and therefore the contextual 'embeddedness' that a network implies is considered highly important in order to

understand an actor or a specific relationship (Emerson 1981; Granovetter 1985). The business network view thus implies that organisational change, as alterations made by a firm, can spread to affect business relationships in the form of adaptations to accommodate further exchange. This, in turn, can distribute to connected business relationships in the network if adaptations cannot be made without interfering with relationships of others. In extreme cases, when adaptations are not enough to facilitate further exchange, a critical event may lead to the termination of the business relationship. For example, a merger between two firms not only is a huge change for those two organisations, but also may too radically affect the wider business network (Anderson et al. 2001; Havila and Salmi 2000; Holtström 2008; Öberg 2008).

To understand business dynamics, it is important to recognise that the business network is not just a context to organisational or relational changes but also an integral part of the change. In a framework of network dynamics, Halinen et al. (1999) capture how change on a relationship level relates to change on a network level, as it is received and transmitted by connected business relationships. Certain 'critical events' can trigger more radical changes of the business network (Havila and Salmi 2000), highlighting that event type can be decisive for the character of the change at the network level. An example of this is mergers and acquisitions which can lead either to the ending of business relationships, (Öberg 2008) or to other mergers and acquisitions (Öberg and Holtström 2006). However, whereas critical events drive change, the 'inertia' in the network resists and reduces it (Halinen et al. 1999), which suggests that the character of the network can impact the pace and spread of change.

In addition, Emerson (1981) argues that the strength of the connections between relationships can vary and thus transmit change to an altering extent. As such, it is suggested that different types of change can occur in a business network and that the mechanisms governing the change can be found both within the originating event and in the character of the relationships, connections and network. Thus, change in business relationships may well be associated to adaptations made to accommodate continued exchange, as well as to alterations in frequency or inhibition of exchange therein. From time to time, the change in one business relationship is critical, thereby forming an event that depends on the passing of

time as well as the strength of connections which possibly relate to events of change in other relationships in the dynamic business network.

Time and the Relatedness of Events in Dynamic Business Networks

Approaching a business network as a dynamic phenomenon calls for the dealing with certain issues related to the understanding of the reasoning as to why certain dynamics occur, and consequently how such can be described, analysed and eventually be put to use in managerial actions. One crucial aspect of business network dynamics regards the analysis of the relatedness of events of change in business relationships. Theoretically, one can juxtapose two extreme conditions of relatedness whether analysed as a *manifest phenomenon* or as an *unobtrusive phenomenon*.

Relatedness of Events in Business Networks as a Manifest Phenomenon

Regarding the first condition, relatedness analysed as a manifest phenomenon, the spread of change in the network through the relationships is to a large extent approached as predictable and almost deterministic in nature. The role of time in this analysis of relatedness is associated to a chronological view in that it provides a common frame of reference which allows classification of the relative order of events occurring in the dynamic network. The timing of events has a past, present and future (Medlin 2004), where the change in the one or the other forge them together into a sequential chain of events. The relatedness is said to transpire through the linkage of the 'past-present' of one event to the 'current-present' of another, thus determining how the change is spread from one event onwards. The view of the business network associated with this relatedness is that it is typically formed by a limited number of strong relationships, few or no alternatives to the existing relationships and a long-term orientation among all relationships.

The relatedness of events in a business network is herein in line with the notion of Cook and Emerson (1978) on the connection between two relationships; that the connection exists to the extent of exchange in one relationship which conditions that of the other. This implies a highly structured network with strong long-term-orientated relationships. Exploring the relatedness of critical events occurring in certain relationships becomes akin to disclosing a 'cat on the rat'¹ chain of events. Notwithstanding, when focusing on how a critical event at a supplier of raw or semi-finished material influences events 'downstream' at customers' level, then that of customers' customers and so on, until reaching the final consumer, the reasoning is sound. One example of this reasoning is presented in the study of Hertz (1998) which describes how changes in one relationship lead to changes in other relationships through the concept of 'domino effect' and claims that this is more likely in networks with a 'higher degree of integration and complexity' (p. 3).

There are, though, at least three limitations associated with the manifest view on disclosing the relatedness of events in a business network. First, the reasoning relies heavily on strong relationships between business parties following a distributive channel. Second, the relatedness is contingent on changes actually occurring within the next relationship in the chain. If change is non-present in one relationship, the chain of events is broken and further discoveries of relatedness along the distributive channel are rendered less probable. Third, as outlined above, the time relation among the chain of events is predominantly linear and sequential, that is, chronological in the sense that one event is clearly preceding the next, which in turn is succeeded, leaving little or no room for alternative ways of approaching relatedness in time.

The limitations when analysing the relatedness in the manifest may be found in the view on connection that two relationships '...are connected to the degree that exchange in one relation is contingent upon exchange (or nonexchange) in the other relation' (Cook and Emerson 1978: 725). Consequently, some business network analyses are often specifically concerned with the supposed interdependencies forged among the strong business relationships in the network, due to the exchange of resources

¹ This is a Swedish proverb referring to a chain of events.

between business partners following a distributive channel. However, in extending the business network approach, research argues for the integration of other types of relationships into the network (Axelsson and Easton 1992; Easton and Araujo 1992) and multiple boundaries with direct and indirect interactions (Araujo et al. 2003). These include aspects of competition and other relationships besides those of an industrial nature (Mouzas 2006). Accordingly, the view on the business networks' boundaries is extended to include other relationships (Araujo et al. 2003; Bengtsson and Kock 1999, 2000; Easton and Araujo 1992; Hadjikhani et al. 2008; Halinen and Törnroos 1998; Welch et al. 1998; Welch and Wilkinson 2004). Furthermore, research has shown that the inclusion of relationships founded on weak ties (Granovetter 1973) too contribute to the understanding of business network dynamics. Thus, following Johanson and Mattsson (1987) and Anderson et al. (1994), three inter-related issues should be considered when delimiting the business network boundaries for broader analytical purposes. The first issue is the focal business relationship where change and events occur, the second is the connected relationships to business partners following the distributive channel, and the third is the incorporation of direct and indirect connected relationships to competitors and ancillaries.

Relatedness of Events in Business Networks as an Unobtrusive Phenomenon

Concerning the second condition, when relatedness is analysed as an unobtrusive phenomenon, the spread of change among relationships in the business network appears at a cursory look to be unrelated and almost stochastic in nature. The analysis of unobtrusive relatedness requires a broader delimitation of the business network; hence, in line with the discussion above, a higher number of relationships are involved. In such analysis, relationships follow not only the distributive channel, but consider also relationships with competitors, ancillaries and others. Furthermore, rather than building on strong relationships alone, there is a need to recognise variations in relationship strength and accordingly, the network consists of a mix of strong and weak relationships. This implies

that the analysis will involve a higher number of alternatives, and for that reason, higher volatility in the business network compared to the view of stable networks consisting of only strong relationships. In all, the business network and the relatedness of events in this view are more complex and considerably harder to disclose in analyses.

From such a perspective of business networks, it is not possible to approach the relatedness of events by employing the same view of time as described above, that is, by revealing sequences following chronologically along a distributive channel. A key issue to consider regarding time linking events is to approach from kairological² time, rather than chronological. While the latter relates events to a common, linear, sequential and even pace in the passing of time chain, kairological time highlights the timing of events. A kairological time perspective means relating events not to a certain time on the clock but rather to the 'right' time, for example, a need, an occasion, an opportunity or a crisis. Accordingly the relatedness of events may, in this view, build upon past, present and also future expectations in the development of business relationships and the business network (Hadjikhani and Johanson 1999, 2002; Hadjikhani et al. 2014). Linking events is thereby not only the forging of a chain of events where each link is hammered to the next, but also involves a cautious and iterative analysis, gradually disclosing more subtle links between events' past, present or future. In essence, the analysis concern events that can be related unobtrusively, although separated in chronological time and not directly linked, in the dynamic business network structure.

In real business life, one cannot expect to find either of the extreme conditions of relatedness; rather any analysis involves a combination of manifest and unobtrusive relatedness of events. However, in order to approach and understand the relatedness of events in a network of higher complexity, the need for adequate analytical tools is imminent. Sound analytical tools may assist the researcher, and the manager alike, in revealing the relatedness of seemingly unrelated events in business networks, thus providing insights into business development.

²Ancient Greek used three words for time: *Chronos* meaning time as the actual passage of time, *Kairos* meaning time as the 'right' time in relation to circumstances, and *Schole* meaning time as free or spare time.

Business Netquake: Outlining an Analytical Tool

In this section the business network approach is extended by the outlining of an analytical tool aimed at enhancing the understanding of spread of change in a network emanating from a critical event. To overcome the limitations outlined above, confining the analysis of the relatedness of events and business network dynamics to be a manifest phenomenon, there is a need for novel and useful approaches. Analytical tools can take many forms ranging from being theoretical (conceptual) frameworks, typologies, scaffolds, metaphors, or, as in this case, analogies. In this chapter *business netquake*, an analogy of an earthquake³ is outlined as a tool for the analysis of the unobtrusive links that relates seemingly unrelated events in dynamic business.

The proposed analytical tool thus resides in the analogy of an earthquake in finding relatedness of events in business networks. In a naturally occurring earthquake, the ground you walk on starts to shake, you hear a rumbling noise from deep below, objects around you start to sway back and forth and some may fall to the ground, or even become demolished as the ground shakes. The rumbling noises and shaking of the ground peters out after a while, leaving you behind observing the more or less severe effects. However, what has really happened? Where did it all start? What triggered the earthquake? And why were some objects shattered while others passed the earthquake with only minor or no damage? For an earthquake, the answer comes from analysing three issues: (1) the distance from where you are to the origin of the earthquake, the epicentre; (2) the strength of the earthquake, the magnitude; and (3) the structure of the ground you stand on and that surrounds you.

Concerning the first issue, *the epicentre*, the analogous origin for the business netquake is the business relationship where a triggering critical event has occurred. The business netquake starts with the observation of ‘rumbling’ and ‘shaking’ events, in the form of changes happening in some business relationships of the network. The events need to be traced

³We are aware that geology and seismology are not our fields of study. The analogies of a business netquake and an earthquake made in this chapter are based on layman’s view.

to the critical event, by determining the distance in the network from the observation of change in certain business relationships, to the critical event 'epicentre'. In seismology the geologists' ability to determine the epicentre of an earthquake is relying on a number of measurement points which monitor release of energy in the Earth's crust. From these measurement points, the epicentre can be calculated, and, without stretching the analogy too far, the same approach could be used for finding the epicentre of a business netquake; the topology and connectedness of relationships in the network to find the originating critical event. Hence, to find the critical event a posteriori, the analysis would involve tracing the events of change counter-chronologically, employing a view of relatedness as a manifest phenomenon, via connected relationships back to the origin. However, to do the analysis during, or even a priori, the critical event brings about the challenge of viewing relatedness of events as an unobtrusive phenomenon, thereby not confining the analysis to strong relationships and chronology. Consequently, this task calls for the further extension of the business network approach to allow modelling of business network dynamics, thereby making business netquake-proofing of business relationships possible.

Turning to the second issue, *the magnitude* of an earthquake can range from a slight tremble detected only by a seismologist's instrument to a devastating catastrophe causing mayhem and complete destruction. There are several scales developed for magnitude; most well known is perhaps the Richter scale, used to represent the energy released by an earthquake. In outlining business netquake as an analytical tool, the analogy of critical events in business relationships is simple; some critical events are strong enough to 'shake the ground' far away from the business relationship, some only affect those directly connected and some may cause the complete dismantling of the business network. In a dynamic business network, the effects in a business netquake can take the form of (1) change in the interaction within the existing structure of connected ongoing business relationships and (2) change in the network structure of connected relationship in the form of ending of existing business relationships or initiation of new business relationships. Without exaggerating the analogy, the magnitude of a business netquake could be analysed using these basic forms of change in the business network. The more

changes in the business network structure of connected relationships, in relation to adaptation due to a critical event, the higher the magnitude of the business netquake. On an analogous scale, the one extreme would be change in the form of adaptations only, whereas the other extreme would mean no more business network. However, given that business relationships are connected, the analytical challenge lays in the crucial, and recurrent, issue of on which criteria the boundaries of the dynamic business network should be set.

The third and final issue is that of *the structure* of the Earth which consists of layers. The topmost layer is the lithosphere, which comprises the crust and a solid portion of the upper mantle. The crust of the lithosphere is divided into many tectonic plates that are constantly moving in relation to each other. The Earth's crust offers perhaps the biggest challenge for the business netquake analogy. The structure of Earth's crust is rock, albeit in three types: igneous (from magma or lava), sedimentary (from deposition of material) and metamorphic (from change of the other two). The analogy of rock should then be the business network, that is, the dynamic structure where the business netquake happens. The dynamic business network, irrespective of how the boundaries are set, is constituted of actors, being business or non-business alike, and their specific relationships, varying in strength but always involving exchange (and over time developed idiosyncratic behaviour of each dyad of actors). However, how should the structure of the dynamic business network be viewed upon? Turning to extremes, on one end there are holistic views, where the network *is* the structure, and the issues at hand concern resource configurations, processes of change or developments, given the network. In the holistic view of dynamic business networks, relatedness is approached as manifest phenomena; the analysis of the effects of a critical event in one of the relationships in the network is just another process in the structure. On the other extreme there are atomistic views, where a common notion (implicitly or explicitly) is to rely on the relationships being connected, that is, the exchange in one is contingent upon the exchange in the other relationship (Cook and Emerson 1978). Notwithstanding, these views only provide part of the answer to the structure of the dynamic business network in which to analyse (preferably a priori or during a critical event) a business netquake. The analytical challenge thus lays in how to take the step from connected relationships to network structure. Yamagishi et al.

(1988: 835) build the argument further and highlight that the ‘... mere fact that two exchange relations, A-B and B-C, share the same actor, B, is not sufficient evidence that the two relations constitute a network, A-B-C. Rather, two exchange relations, A-B and B-C, are defined as connected at B to form a larger network structure, A-B-C, *only* when exchange between A and B to some extent affects exchange between B and C, and *vice versa*’ [Emphases added].

Adhering to this notion, on the smallest of networks consisting of only the relationships of three parties, A-B-C, and trying to conceive the ramification for the dynamic business network comprising of the relationships of C-D-E and E-F-G and so on is a mind-boggling exercise. In trying to employ the analogy of an earthquake once again, the constitution of Earth’s crust needs to be translated to aspects of network structure. Contemplating Granovetter’s (1973) strength of weak ties (i.e., relationships) in combination with Emerson’s (1981) varying degree of connection between relationships provides the base for some rough parallels between Earth’s crust and network structures. Hence, there might be igneous areas with fluid network structures where weak relationships and weak connections allow for volatility. Other areas might consist of sedimentary network structures where strongly connected strong relationship evolved over long time. Finally, areas of the network structure might be considered metamorphous as the relationships and how they are connected are in a state of change. The composition and differences in network structure (i.e., displaying analogues of igneous, sedimentary or metamorphic rock) affect the pace and reach of the effects of the business netquake as it spreads from the epicentre. Clearly, the analysis of business netquakes and viewing the relatedness of events as an unobtrusive phenomenon call for further, and necessary, research on how to approach the structure of the dynamic business network, without having to resort to a manifest view and the limitations thereof.

Concluding Remarks

One fundamental notion of business networks is the connection of business relationships. In reality it is most often difficult to study the spread of change in business networks as several events causing change are

concurrent, or almost, over the often un-delimited network. However, in a situation when a critical event occurs in a business relationship, it is often possible to follow the effects or non-effects of the termination on other connected relationships. The crucial challenge, however, is not only to be able to analyse the effects of a critical event on the network in hindsight, when perhaps the effects have been severe for the business of many firms, but also in advance, or at least in real time, to be able to avoid the effects. Drawing on the analogy of this chapter, the researcher or manager who wants to analyse a business netquake not only need to decipher the seismology of a critical event, but also has to penetrate the geology of the network structure in which it happens.

Inspired by the analogy of earthquakes, this chapter has pointed towards some critical issues, such as the relatedness of events in networks as a manifest or an unobtrusive phenomenon, and outlined an analytical tool, business netquake, to gain understanding of the effects of a critical event in a business relationship within the dynamic business network. All together, the framework offers a possibility to increase our understanding of how change can spread in business networks, albeit there are crucial issues most definitely calling for further research on extending the business network approach.

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19

Exploring Ethics in Business Networks: Propositions for Future Research

Aino Halinen and Päivi Jokela

Introduction

In the current business environment, ethics and responsibility are emphasised as necessary values for successful business. Companies enforce ethical codes of conduct and stress non-harmful actions, expecting that commonly agreed principles will translate into actual business behaviour. Cases like Enron (Sims and Brinkman 2003) and the sub-prime mortgage crisis in the USA (Jennings 2008), the Bangladesh garment industry tragedy (Peck 2013) and unethical supply chain practices in the smart phone industry (Garside 2013) have created awareness of ethical issues and shown that companies can suffer severe reputational and financial damage when their unethical dealings are revealed. When such cases are reported, they often involve a major scandal that seriously impacts not only the company but also the whole industry or even the world economy (Benady 2009; Marriage 2013; Taticchi et al. 2013).

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Unethical behaviour in everyday B2B interactions less often makes the news. It may have become a norm and generally accepted in the business network, or the most powerful actors simply suppress the views of those who are not willing to play by questionable rules. For those who suffer the consequences of unethical behaviour, it may be difficult to prove the harm done, and those accused of unethical behaviour may easily renounce their responsibility on the matter. Yet, this does not mean that ethics do not matter. On the contrary, we argue that ethics is an important element in all business exchange.

In business networks, companies are connected to each other through activity links, resource ties and actor bonds, which generate interdependencies (Håkansson and Snehota 1995) conducive to ethical concerns. In networks of multiple actors, there are different viewpoints on business interaction, and actors' interests typically vary. In such conditions, ethical norms of behaviour function as an important governance mechanism (Gundlach and Murphy 1993), which in the long run may create healthy business that benefits the network and positively affects companies' competitiveness and performance.

Business exchange also occurs embedded in various temporal and social layers of the society (Halinen and Törnroos 1998), making it dependent on ethical considerations. Cultural values and industry-level practices that have become established over time or social norms such as fairness, trust and reciprocity that have developed between individuals significantly influence exchange. Through the globalisation of markets, freedom of information and the pressing social and environmental problems affecting the world, ethical issues have increasingly become part of everyday business (Lindfelt and Törnroos 2006). Researchers argue that business networks are ethically embedded (Lindfelt and Törnroos 2006), ethical issues are critical for their functioning (Leonidou et al. 2015; Normann et al. 2015), and therefore network research should concern itself with questions and theories on ethics (Makkonen and Olkkonen 2014).

Ethical issues have long been on the research agenda of relationship marketing scholars (Brown et al. 2006; Gundlach and Murphy 1993; Grayson and Ambler 1999; Hunt and Vitell 1986, 2006), but research focusing on ethics in business networks is scarce. Within the IMP business network tradition, Lindfelt and Törnroos (2006) pioneered the

theme and studied ethics as part of economic value co-creation. They conceive ethicalness as a characteristic of companies and networks in which value is created. Other scholars have recently opened interesting discussions on, for instance, the notion of justice in supply chains (Higgins and Ellis 2009; Normann et al. 2015), the limitations of ethical codes and legal directives in fostering ethical practices in project networks (Crespin-Mazet and Flipo 2009), and the importance of networks and the broader social context in creating a proper understanding of ethics in B2B exchange (Ivens and Pardo 2010). Also some specific unethical behaviours have been raised for discussion, such as corruption (Salmi 2000) and betrayal (Leonidou et al. 2015). Unfortunately, these ideas have not yet reached publications, but clearly indicate a perceived need to extend business network research into the area of ethics.

The purpose of this chapter is to discuss ethics in business networks as an extension to the current research and a potential new research area. To this end, we pose three key questions for further scrutiny:

1. How has ethics been approached in the business network research to date? In other words, to what extent is this a new territory for research within the domain?
2. For ethics to be a promising area of research, we need to ask why is it important to business networks, to their functioning and performance?
3. Assuming that ethics is a relevant area within the business network research, what kind of questions should be posed in future research to develop the area?

The study is conceptual and draws primarily on the existing research on ethics within the IMP Network Approach, other network research traditions, for example, network organisation and social networks, and the relationship marketing literature. Our aim is to engender new research efforts in this thus far neglected area and offer a solid foundation for future research.

The chapter proceeds as follows. First, we provide a basic theoretical understanding of ethics and ethical behaviour in business networks, using moral philosophies as a starting point. Second, we describe the characteristics of business relationships that make ethics an especially relevant

topic to study in business networks. Third, on the basis of the existing literature, we suggest four themes and a number of research questions on network ethics to be examined in future research.

A Theoretical Grounding of Ethical Behaviour in Business Networks

Ethics in Relationship and Network Studies

Ethics is a branch of philosophy (so-called moral philosophy) that ‘involves systematizing, defending, and recommending concepts of right and wrong behavior’ (Fieser and Dowden 2013). In the business context, it has been defined as the moral principles, norms and standards of conduct that govern an individual or group (Ferrell et al. 2012: 6; Treviño and Nelson 2004: 13). Ethics thus sets the rules for acceptable behaviour in business interaction.

Moral philosophy offers various theoretical approaches to ethics that provide ideal moral principles to guide individuals (Ferrell et al. 2012; Hosmer 1995). Perspectives widely used in the business context include deontological, teleological or utilitarian and virtue ethics (Ferrell et al. 2012; Hunt and Vitell 1986, 2006; Nantel and Weeks 1996). Deontologists believe that the action is justified when there is conformity to ethical rules or norms (Ferrell et al. 2012; Hunt and Vitell 1986, 2006). Teleologists and utilitarians emphasise the ethical consequences of the action for the related stakeholders; the action is considered ethical, if considering all its costs and benefits, it creates the greatest potential utility as an outcome (i.e. desired consequence) (Ferrell et al. 2012; Hunt and Vitell 1986, 2006; Nantel and Weeks 1996). Utilitarian ethics presumes that acting morally can also be rooted in egoistic motivations (Hosmer 1995), and as Ferrell et al. (2012) put it, organisations may end up following the so-called ‘enlightened egoism’ simply driven by an attempt to maximise their own benefits. Finally, virtue ethics sets ideals for individuals that require moral character and leads to seeking good for others and adopting a respectful and benevolent attitude (Melé 2009).

All three theories of ethics have been applied in business exchange studies in some form. Higgins and Ellis (2009) take the virtue ethics view to the extreme in the context of supplier relationships: based on Levinas (1998), they suggest that justice is demanded equally of every party, no matter what the distance between the parties, and without expectation of reciprocity when adjustments are made to others. Ivens and Pardo (2010), in contrast, point out the insufficiency of the virtue ethics approach to business relationships. They argue that in assessing the ethicalness of B2B exchange, the focus on relational virtues is too limited; assessment should also include the utilitarian aspect of non-harming consequences for possible stakeholders and society at large.

Research with a particular focus on ethics in networks is on the whole scarce. Besides the few studies within the IMP tradition, a couple of contributions can be found within other schools of thought. Drawing on the social network approach, Brass et al. (1998) focus on social network structure as an explanatory factor for unethical behaviour in individuals, while Melé (2009) examines ethics in the interaction practices between people. Within the organisational research stream, Daboub (2002) stresses the importance to company reputation of business partners behaving ethically, and Daboub and Calton (2002) suggest that a climate of trust makes for efficient contracting. Santana et al. (2009) study the means by which managers attempt to control ethical issues in a network organisation. On the whole, very little is known about ethics, its importance or its manifestations in inter-organisational or business networks.

Ethical Behaviour in Exchange Relationships

Ethical behaviour has been scrutinised mainly at the level of exchange relationships without reference to the connected business relationships and networks. The existing studies emphasise both the role of personal relationships and fair sharing, in trying to answer the question of when the exchange relationship is ethical. These studies draw on different theoretical backgrounds, but the concept of fairness is a common denominator as well as the assumption that exchange is future-oriented, and consequently, ethical exchange behaviour is linked to concepts such as trust and commitment.

It is important to note that as an elusive, philosophical concept ‘ethics’ is rarely the key entry in ethically laden studies; some other concept is used, such as justice (Higgins and Ellis 2009; Luo 2006, 2009), opportunism (Liu et al. 2014; Wathne and Heide 2000), the dark side of relationships (Grayson and Ambler 1999) or governance of exchange in general (Burkert et al. 2012; Wathne and Heide 2004). To create an understanding of ethical behaviour in business networks, it is necessary to look more closely at these relationship-level notions.

In Gundlach and Murphy’s (1993) treatment of relational exchange, trust, equity, responsibility and commitment are required for fair exchange to occur. The model of Murphy et al. (2007) adopts a process perspective and explains how ethical behaviour emerges. From a virtue perspective, they suggest that trust, commitment and diligence, defined as persevering effort to maintain the relationship, develop sequentially. In addition, these fundamental virtues should be paired with supportive virtues of integrity, fairness, respect, empathy and transparency, in order to achieve an ethical relationship. While these scholars consider trust and commitment as essential dimensions of ethical exchange, many other authors regard such relational bonds as outcomes of ethical behaviour (Daboub and Calton 2002; Luo 2009; Melé 2009). In sum, research has emphasised the foundations or principles on which an ethical relationship is built (see e.g., Perret and Holmlund 2013), not the ethical behaviour *per se*.

In contrast to ethical behaviour, the research has mainly focused on its opposite, opportunistic behaviour. The interest of research as well as business has been on how to safeguard exchange from the opportunistic behaviour of the other party by using different governance mechanisms (e.g., Burkert et al. 2012; Gundlach et al. 1995; Wathne and Heide 2000). This viewpoint has dominated the research to such an extent that ethical behaviour has often been inversely defined as ‘acting to prevent a substantial harm to others when an individual or group has an opportunity to do so for their own benefit’ (Robin 2009: 140). In other words, ethical behaviour means abstaining from opportunistic behaviour.

The concept of justice, based on equity theory (Adams 1965), offers another view of ethical exchange behaviour, placing a strong emphasis

on fairness. Luo (2009) uses the notion of distributive justice to evaluate ethical exchange behaviour, examining the outcomes—benefits, costs and risks—against the resource contribution of each partner. The evaluation is extended to cover also processes. For this, Luo (2009) proposes the concept of procedural justice that he defines as fairness in integrating the exchange partners' views and hearing their voice in the decision-making process.

Distributive justice and procedural justice are connected, yet separate aspects of ethical behaviour. Procedural justice signals to the actors that they will receive fair treatment and, by implication, fair outcomes in the future. Mutual respect and trust are present in the relationships and the partners are assured they can work together and there is no partiality in managing the processes and procedures (Crespin-Mazet and Flippe 2009; Luo 2009). Although both concepts already include social elements, Luo (2006) has complemented the set with a third concept, interactional justice, that emphasises fairness in the interpersonal relationships through honesty, respect, understanding and courtesy.

Melé's study (2009) is exceptional in describing ethical and unethical behaviour in a network. For Melé (2009), virtuous social networking relates to acting in good faith, sharing goals, acting in an acceptable way, sharing resources with reciprocity and benefits with fairness. The network can be used as a source of knowledge and other resources, but with transparency and without deception. The suggested characteristics of unethical behaviour, on the other hand, include abuse of trust, misuse of power, opportunism and collaborating to harm other network actors (*ibid.*)—all behaviours that may be said to exist in business networks. The actors may have hidden intentions, and the asymmetries that exist in their business relationships can lead them to take advantage of weaker actors.

In sum, the literature has provided two major approaches to ethical behaviour in exchange relationships: the relational exchange view and the distributive justice perspective. Varying views exist on what is considered ethical behaviour and what are its outcomes. Furthermore, the research has typically examined ethical behaviour in dyadic relationships, focusing on strategic alliances, joint ventures or channel relationships, and disregarding the network view.

Significance of Ethical Behaviour for Business Networks

Business networks can be regarded as webs of interconnected exchange relationships, where companies interact with each other for the purpose of doing business. Ethical behaviour in business interaction is crucial to the functioning of networks and their sustainability. We base this statement on two key arguments. First, networks provide a natural arena for ethical concerns, as they embrace various actors interacting with each other with potentially divergent interests. Second, the nature of exchange relationships in business networks stresses the role of ethical norms and principles as a governance mechanism. A brief discussion on these two issues follows.

Networks as an Arena for Ethical Concerns

Where ethics is concerned, the issue of how (or why) to strike a balance between yours' and others' interests is typical. The principles of ethical theories present guidelines on determining how conflicts in human interests are to be settled and on optimising the mutual benefits of interacting individuals (cf., White and Lam 2000). Because the interests of the actors do vary and are sometimes hidden, ethical problems and conflicts easily arise (Boyd and Webb 2008). This is also the case in business networks, where actors' interests typically vary and there are always different viewpoints on business interaction.

A further examination of the relationship features as depicted in the IMP business network view reveals that relationships almost inherently include an expectation of ethical behaviour. The ethical behaviour is embedded in the mutual orientation required of the actors when establishing and developing relationships for well-functioning collaboration and value creation (Ford et al. 1986). This mutuality, which is a measure of how much a company is prepared to refrain from following its own individual goals or intentions in order to increase the positive outcomes of others, and through this to ultimately increase its own well-being, rests on a belief in the importance of the collective goals of more than one

company (Ford et al. 1986). Thus, the companies are expected to move from the hardest bargains—market-based transactions—to an exchange that stresses relational aspects and a focus on network interdependence and co-evolution instead of competitive aspects (Gadde et al. 2003).

Nature of Exchange Forming a Rationale for Ethical Behaviour

The characteristics of exchange relationships, such as continuity, adaptation, informality and (a)symmetries, significantly influence and shape ethical behaviour in networks (Håkansson and Snehota 1995: 7). Whether voluntary or forced, relationships share these characteristics stressing the role of ethical and unethical behaviour. Ethical behaviour creates a potential for the relationship to prosper and sustain as a mutually rewarding arrangement, while unethical behaviour can make the opposite party suffer in a locked-in relationship or choose to exit.

Business relationships are often established with an *expectation of continuity* (Håkansson and Snehota 1995). In a positive scenario, repeated transactions and fairness experienced therein enable the relationship to develop and generate expectations of positive future outcomes and relationship continuation (Gadde et al. 2003; Halinen 1997; Hosmer 1995). Over time, increasing commitment and trust between the actors is expected to transform into stability while keeping the networks dynamic and open to change (Håkansson and Ford 2002). In long-term relationships, ethical behaviour becomes even a precondition for positive outcomes to emerge. The mechanisms for this lie in the interdependencies that tie the firms together at several levels, for example, technological and social, but also economic.

Long-term network collaboration requires *adaptations*, and the relationship-specific investments that are made result in complex interdependencies which evolve gradually as resources are used and created in the network (Håkansson and Snehota 1995). The investments that actors are ready to make depend on the time perspective and the gain they expect to receive. Ethical behaviour can be expected to increase the willingness and readiness of the actors to continue investing and working

for the future competitiveness of the network while, at the same time, expecting a fair share of the value created (Praxmarer-Carus et al. 2013). Unethical behaviour, in turn, may weaken future prospects, and experiences of unfair sharing of outcomes may make actors refrain from further adaptations (Hunt and Vitell 2006).

Informalities such as interpersonal closeness and trust emerge to complement the formal contracts and have an important role in adjusting the relationship and network activities (Håkansson and Snehota 1995). In their exchange relationships, the network actors will start following the informal ‘normative contracts’ (Rousseau 1995), comprised of implicit understandings that embody common values, beliefs, norms and expectations, among business partners (Brown et al. 2006; Luo 2009). The purpose of contracts in general is to clarify roles and expectations, to reduce ambiguity, uncertainty and disagreements. The social elements of informal contracts play an important role in creating flexibility and in resolving and even preventing conflicts (Brown et al. 2006). These social bonds take time to develop, but their increasing strength can become a function of their problem-solving capacity—and ethical behaviour. The more the actors observe fairness in conflict situations, the more they are able to look beyond these single acts and weigh the value of the whole relationship.

In asymmetrical relationships, imbalanced possession and use of resources can give one company influence and domination over the other party (Holmlund and Kock 1996; Mouzas and Ford 2006). Asymmetric power-dependence relationships have been considered a structural relationship characteristic or portfolio-level issue (Dubois and Pedersen 2002; Mouzas and Ford 2006). Even when there is a ‘joint consent’ between the actors, the ethical issues that emerge as a result of the asymmetries are various, ranging from the unequal sharing of risks and benefits to limited development of resources and capabilities for cooperation, all issues that may require balancing activities from the less-dominant actors (Mouzas and Ford 2006). In sum, continuity, adaptations, informality and potential asymmetries that characterise exchange relationships create conditions where ethical norms are particularly significant in terms of relationship governance, and the actors’ behaviours as either ethical or unethical are likely to affect business performance.

Propositions for Future Research on Ethical Behaviour in Business Networks

Ivens and Pardo (2010) argue for the need to extend the dyadic view into networks in order to understand ethics in B2B exchange. In line with the network thinking, they emphasise the role of connected actors and posit that a business relationship can only be referred to as ethical, if the positive outcomes it creates for the relationship parties do not produce negative effects on third actors. Lindfelt and Törnroos (2006) similarly stress the role of connected actors, while proposing the notion of ethical embeddedness. They pinpoint that a company's value creation processes are dependent on the relationships it has with its key counterparts. Ethically dubious activities by key counterparts may severely harm the value creation.

Based on the existing literature on ethics in networks and the fundamental characteristics of exchange in business networks, it is possible to suggest topics for future research that would significantly extend our knowledge on ethics and its ramifications in multi-actor business settings. We next propose four major themes and a number of related research questions where future research would be needed.

Theme 1: Ethical Climate and Conflicts in a Network

It is a common assumption that the values of individuals differ when dependent on the moral values and maxims of cultural, organisational, professional and industry environments where they live and work (e.g., Boyd and Webb 2008; Hunt and Vitell 2006). Organisations (Klemm Verbos et al. 2007) and industries (Payne and Dimanche 1996) are known to construct particular ethical climates as part of their culture that form the base for their ethical behaviour. In a study of strategic alliances, Boyd and Webb (2008) specifically examine organisation-level ethical climates and the potential conflicts their differences may create in such alliances. We also know that professions tend to emphasise ethical codes of conduct in order to cherish respect and trustworthiness for their profession and legitimise their activities in the society.

Based on these assumptions, a number of intriguing questions emerge from the network research perspective. Could business networks similarly create a specific ethical climate? The concept of ethical atmosphere proposed by Lindfelt and Törnroos (2006) supports this option. Ethical atmosphere includes 'questions of what is considered right or wrong and not only questions of economic, strategic and business sustainability between actors interacting in the network' (p. 341). For instance, could companies collaborating in new product development produce their own ethical climate?

In the formation of an ethical climate, there could be different scenarios. The emergence and development of norms in business interaction might incrementally create a certain type of ethical climate for the network that all involved actors respect and maintain. Studies from the tourism (Payne and Dimanche 1996) and construction sectors (Crespin-Mazet and Flipo 2009) indicate that norms and behaviour may even be automatically transferred to new network entrants and be accepted and acted upon.

An interesting research question relating to the mechanism of ethical climate evolution then emerges. Since an actor involved in exchange develops ethical norms with respect to the behaviours and principles of other actors (Macneil 1980), it could be assumed that ethical behaviour spreads through the relationships, through actor bonds and activity links (Halinen et al. 1999), 'contaminating' the network with positive or negative norms of conduct. The positive ethical climate and behaviour in one relationship would foster ethically similar kinds of behaviour in another relationship. Or, conversely, an experienced unethical behaviour might create a counter-reaction by the party treated in an unfair manner, making it reciprocate unethical actions to harm others (Crespin-Mazet and Flipo 2009). Researchers should thus study the mechanisms of climate evolution, but they should also consider the role of single powerful actors and asymmetric relationships in the formation of ethical climate.

Alternatively, the network actors could maintain their divergent views on ethical norms and behaviour based on their different organisational cultures (Boyd and Webb 2008, Klemm Verbos et al. 2007). Networks typically extend to different industries and professions, and interaction occurs between various companies and organisations from different

geographical areas and cultures. This means networks necessarily function at the intersection of various ethical views. Hence, in contrast with the network-specific ethical climate, it might be even more probable that companies and their representatives have various conflicting ethical views that then create a challenge for value creation, performance and business continuity. Different ethical climates could develop in different disconnected parts of the network, for instance, due to geographical distance between supply chain members (Zakaria et al. 2012).

Also related to this scenario, several research questions emerge: What kind of problems do the differing views on norms and behaviour create for the functioning and management of networks? How do conflicting views affect value creation in networks? How can differing views be reconciled?

Theme 2: Embeddedness of Economic Action in Societal and Social Layers

In business networks, human behaviour occurs within an economic and inter-organisational context that provides a specific setting in which to examine the ethicality of behaviour. The economic and social become intertwined, since economic exchange is always embedded in a broader set of social relationships and in time (Halinen and Törnroos 1998; Granovetter 1985). From the network ethics perspective, this means that both the societal context of business as well as the social, inter-personal context forms an issue to be taken into account.

The societal context of companies comprises political, cultural and legal environments where their business is influenced by the interests of various stakeholders, and where they also interact with a range of non-profit actors and organisations in order to safeguard positive conditions for their business (e.g., Hadjikhani 2000; Robin 2009). In these interactions, companies need to reconcile a range of interests and value bases linked to possibly conflicting ethics that become unavoidably transparent.

In their study on competitive tendering in the construction business, Crespín-Mazet and Flipo (2009) revealed the limitations of ethical codes and legal directives in fostering ethical practices. Ivens and Pardo (2010)

emphasise the role of the broader social context, different company stakeholders and non-profit organisations in creating an understanding of ethics in B2B exchange. The stakeholder theory has commonly been applied in approaching ethical issues in business (e.g., Robin 2009; Treviño and Nelson 2004) and has also been considered useful in bringing the societal level into network analysis (e.g., Ivens and Pardo 2010; Lindfelt and Törnroos 2006). The question thus emerges, how do companies cope with different societal actors with potentially different ethical standards to enable their business activities?

The notion of social embeddedness, in turn, involves the idea of business networks operating through a network of personal relationships. Business interaction occurs through individual people, who potentially expect to be respected and treated fairly. As Luo (2006) suggests, interactional justice is an essential dimension of ethical business behaviour. In industrial buyer-seller relationships, economic exchange has been regarded as being dependent on such social norms as trust, commitment and reciprocity (Turnbull and Wilson 1989), and personal relationships have been viewed as both enablers and constraints for business relationships (Halinen and Salmi 2001).

The question can be posed, do perceptions of primarily interpersonal aspects, that is, interactional justice, enhance distributive justice, or are they independent dimensions of ethical behaviour? The results of Brown et al. (2006), from channel relationships, indicate that distributive justice is simply an overriding fairness criterion for companies, and even if the social elements are in place, it will not necessarily be associated with perceived fairness in sharing economic outcomes. Yet, if there is a connection, could it even be that strong personal relationships harm the fair division of outcomes for the interacting companies as people prioritise their friendship to the detriment of the business relationship?

With a focus on social networks, Melé (2009) suggests that strong personal relationships can foster both good and bad behaviour from an organisation's point of view. Important research questions for business networks thus arise: How do strong personal relationships and social networks potentially influence the ethicalness of people's behaviour as representatives of their company? What are the mechanisms through which ethical behaviour of business people in their social networks affects the business outcomes either positively or negatively?

Theme 3: Creating Value with Ethical Behaviour

For the purpose of value creation, ethics has been given an instrumental role in the B2B context and considered part of the co-created ‘offering’ (Lindfelt and Törnroos 2006; Ramirez 1999). While the previous research has focused on the ethicalness of the process, for example, studying ethically driven value created in cooperation with end customers (Arvidsson 2008), we extend here the view towards its outcomes for business actors: the impact of ethics on their performance and satisfaction in the network and the significance of ethical reputation potentially accruing value for the actors.

The evidence to date on the positive outcomes of ethical behaviour for business performance and satisfaction originates largely from dyadic relationship studies. According to Luo (2009), distributive justice conceals an important performance mechanism: the experienced fairness in exchange, and sharing its economic outcomes, increases partners’ commitment to cooperation, deters opportunism, lessens relational risk and reduces the need for monitoring. Conversely, unfair treatment may weaken incentives for ethical behaviour, and partners may start working against each other’s interests resulting in conflicts and instabilities (Luo 2009; Johnson et al. 2002).

The study of Brown et al. (2006) on wholesaler-supplier relationships examined the connection between perceived economic fairness and satisfaction. When firms perceived that the economic outcomes were fairly divided and channel procedures fairly managed, this increased their satisfaction and reduced conflict with their channel partners. Expectedly, economic fairness dominated procedural fairness, implying that procedural justice alone was not enough to satisfy the partners; satisfaction required also high distributive justice.

Shifting the focus towards networks, and assuming they are able to develop an ethical climate of their own, it would be relevant to ask whether a network exposing high ethical standards in its interactions (or a higher level of moral development, see Boyd and Webb 2008) is able to outperform a network enacting lower ethical standards and a low level of moral development. Or could it be that in specific conditions, unethical behaviour—misusing power vis-à-vis other parties, abusing others’ trust and exploiting possibilities for self-gain in an opportunistic

manner—would make companies economically better off? The temporal perspective on performance, short or long, is of course decisive in seeking answers to these questions.

In the connected business world, good reputation is an important asset (Fombrun 1996), which recently has also been related to partnerships (Money et al. 2010; Wathne and Heide 2004), supporting the idea of examining the value of reputation even for networks. A network's reputation forms a potential foundation for actors' expectations concerning network processes and outcomes (Money et al. 2010). Reputation can have ethics-related characteristics that other organisations find important, for example, be perceived as a fair negotiator. In the network context, positive reputation can be significant in attracting good quality partners (Cravens et al. 2003; Money et al. 2010), securing existing relationships, and bringing new business to network members (Hoejmosse et al. 2014).

However, in a network, all actors need to participate in building a positive image. Reputational risks represent a real threat, since any member may easily damage a good reputation, if engaged in unethical activities (e.g., Christopher and Gaudenzi 2009; Daboub 2002; Lindfelt and Törnroos 2006). Researchers should take a careful look at the various types of value that ethical reputation potentially creates, and also investigate the construction of reputation in a network setting. Highly reputable companies may be important flag bearers in reputation building, but it is equally important to consider that the least visible or resourceful actor may easily turn out to be the weakest link and ruin a reputation.

Theme 4: The Role and Manifestations of Ethical Behaviour in Different Types of Business Network

Networks have been classified according to purpose, temporal orientation, whether members are horizontally or vertically positioned in relation to each other, and whether ongoing technological change is radical or incremental (Möller et al. 2005). We posit that depending on the type of network, ethics may manifest differently and specific ethical questions may arise.

The studies assessing firms' ethicalness, justice and performance have mainly focused on long-term relationships. However, considering temporal orientation, we can, for instance, compare long-term, vertically structured networks to those established for a temporary purpose. In the former, the purpose has potentially crystallised, the activities of network members and norms of behaviour are well defined and the interdependencies between parties are likely to encourage them at least to maintain the current level of ethical behaviour. On the contrary, in the latter case, where relationships do not yet have a common history in terms of developed social ties and interdependencies, ethical behaviour may be much more of a challenge. The companies are potentially not concerned about the future continuation of cooperation, and there are simply fewer incentives to form a morally sustainable approach towards other actors. This observation has been made, for instance, by Crespín-Mazet and Flipo (2009) in short-term project networks, where asymmetrical power positions allow opportunistic behaviour towards the more weakly positioned network partners.

Controlling unethical behaviour is relevant in horizontal cooperation, for example, between competitors. Since the networks they form are often characterised by fast technological change and innovation, the ethical questions that arise concern principles of knowledge sharing and the risk of leaking information. Due to the intangible nature of knowledge, ethical questions are also likely to concern the measurement of equal contributions and the avoidance of free-rider problems (Melé 2009). However, even in vertical supply networks, major variations in behaviour are likely; long-term orientation is not a guarantee of ethical behaviour. Asymmetries can produce fairness-related problems, and depending on the strength of economic ties and intensity of interaction, suppliers may be differently favoured and rewarded (Gadde and Snehota 2002).

We may thus assume different types of network foster different types of ethical norms and behaviour. Since there is little research on ethics in business networks, future research should address the most basic and descriptive questions such as how ethical behaviour manifests itself in different network contexts.

Conclusion and Implications

In this chapter, we have argued for the relevance of ethics in business networks and examined ethical behaviour as a potential new area for business network research. We first set out to investigate how ethics has been approached in business networks, to determine the extent to which it is a new territory in the research domain. We found that the topic has only recently been raised for discussion, even though ethics forms an inherent dimension of all human behaviour, including business interaction. Research has long dealt with ethical issues in business exchange, focusing on relationship level scrutiny of ethically laden concepts such as justice, opportunism, governance or the dark side of relationships. In contrast, ethics has rarely been investigated at the network level in relation to other connected relationships. This omission applies to both the business network research and research on other business-related network traditions. In reviewing the literature, we could not find any theoretical model proposed to understand ethical behaviour in business networks. In sum, we may conclude that network ethics is definitely new territory for business network research.

In order to demonstrate ethics' relevance as a research theme, we also asked why it is important to business networks. In globalised business, different interdependences, cultural values and political interests intertwine with business interaction, and ethical issues have thereby become important. International political requirements for responsible business and sustainable development emphasise the ethical aspect of business. As nested structures of different interests, business networks are vulnerable to ethical conflicts. Business relationships cross political, national and cultural boundaries. Moreover, they are characterised by continuity, adaptations, informal bonds and asymmetrical power relations, emphasising the role of ethical norms as a governance mechanism. We argue that business networks constitute a natural arena for ethical concerns, and ethical norms function as an important governance mechanism for business networks. Ethical behaviour impacts network emergence and persistence; it is likely to contribute to relationship stability and positively to perceived satisfaction, reputation and performance of networks. Yet, all these observations are mainly founded on theoretical reasoning, supported by scant empirical evidence.

We thus suggest ethics is a relevant extension to the business network research. To contribute to the research field, we posed one more question: what kind of research questions should be studied to develop the area?

Based on the existing literature on ethical issues in the wider business context, and on the inter-organisational network research in particular, we have identified four broad, major themes potentially relevant to the business network research, which offer several intriguing questions for future research. The theme of ethical climate and conflicts concerns ethical behaviour and its emergence in a network setting, among several actors, combined with interactive relationships. The second, on embeddedness of networks in societal and social layers, emphasises ethical behaviour in different cultural, political and social contexts, and the influence of, for instance, personal relationships and national politics. Third, on value creation through ethical behaviour, we focus on the potential of ethical behaviour to improve network performance, build a favourable reputation and even deliver competitive advantage. The fourth theme points out the need to study and compare ethical behaviour in different types of business networks, where the relevant dimensions of ethics are likely to vary. All four themes also encompass a managerial viewpoint, that is, how business managers could better recognise ethical behaviour, and how it could be used to improve company and network performance.

Finally, we wish to stress that business networks are a complex object of study, and investigating ethics in such complex structures adds further difficulty. Ethics combines philosophy with business and moral norms with economic efficiency, an alliance renowned for its complexity. The debate on whether business can or should be ethical dates back centuries. The concept is easily perceived among business actors as moralising on the part of researchers and improper for use in the business context. The domain of business ethics is also conceptually complex. Ethics interferes with several concepts that have long been studied in the business exchange literature, making a systematic literature review a daunting task to complete. A conceptual map of the existing research would nevertheless help clarify what ethics might entail in this context. Methodology offers another challenge: it is often difficult to access reliable data on ethically sensitive issues. Despite the challenges ethics pose for research, we encourage network scholars to tackle the issue and hope that the four themes distinguished here for future research form a helpful basis for such an endeavour.

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Part V

New Times

20

'Tic-Toc-Tic-Toc': Thoughts on the Tempo of Business Network Extension

Amjad Hadjikhani and Peter Thilenius

Introduction

'Tic-Toc-Tic-Toc'... a long time has passed for the business network approach. The main aim of this chapter is to discuss the history of boundary extension in business networks, starting in the old times and ending in the new times. Many researchers believe in the existence of the 'business network' to some degree. This chapter takes the perception of the business network as a point of departure, working from the perspective that its boundary depends on the intention of the observer. This perspective allows us to present a developmental journey of how the business network approach, over time and in different tempos, has gained its identity, whilst both implicitly and explicitly extended its boundary.

Although networks of relationships have existed in practice for thousands of years, there were few scientific studies in the area until the last decades. Thousands of years ago the network had an implicit boundary

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based on social groups. The economic and social exchange behaviour was tacit in the social constructions that inhibited the behaviour of the members of a group. Knowledge about the boundary was implicit and transferred to the nearest person in a networked society. Members had no idea about either marketing or transactions but implicitly realised the efficiency to solve their needs and social problems by acting and cooperating in a networked society. Social scientists have been inspired by how people managed their social and economic problems by developing and maintaining their relationships in networks both before and after the emergence of civilisation. In this implicit boundary, established social relationships were woven into an economic context, mutuality was set by belonging to the network and interdependency was embedded in simple social rules. Increasing heterogeneity in products and production along with specialisation and developing distribution structures meant increasing distances between producers and consumers. The implicit boundary was extended as it included more actors and relationships. However, in science theoretical reasoning on networks still did not have an explicit locus.

A long time elapsed before the business network established its position as a marketing theory in the scientific world. Before the business network approach was established, the trends in economic theory led to the field developing in favour of economic exchange and marketing management theory, in conflict to the notions of the few who were advocating behavioural theory and relationships. Addressing maximum profit led researchers to promote the efficiency of the economic perspective when developing business strategies. This perspective directed firms' behaviour until the conflict between those with the economic perspective and those who had a social science perspective was revived and became explicit.

The two contradicting fields of practice and research gained recognition and momentum late in the nineteenth century.¹ However the clear conditions for the presentation of an explicit boundary for business networks in the late nineteenth century were short-lived as the competing

¹This development have been discussed in, for example, Hadjikhani and Thilenius (2009) and Hadjikhani and LaPlaca (2012, 2013)

fields had already developed powerful positions. The conflict between them was revived and increased during the 1950s, but the explicit underpinning and boundary extension was not initiated until in the 1980s. In this chapter the interesting but difficult journey of how the network boundary has extended, implicitly and explicitly, is revealed.

Business Network Extension: Where Does It Come From?

The network may be likened to a spider's web. The spider web is observable and tangible. It has strength and structure and a change in one strand (or tie) of the web has immediately apparent effects on other parts of the web. The relationships between different webs are observable, the network boundary is clearly set, and the content of the relationships is well planned. Spider webs are heterogeneous, because they have different boundary settings, different ties binding the network together and the ties have different strengths. The extension of the network boundary stabilises the network. Interestingly, researchers in marketing have a similar view of business networks as heterogeneous and with variable tie structures and strengths. While the spider web's network characteristics can clearly be observed, touched, measured and calculated, those of the business network are not directly observable and depend on a number of assumptions. While the spider web holds one actor and uses the network ties to capture victims, the business network is assumed to comprise of a number of different complementary, but also hostile, actors. The spider is the only actor in its web, and its strategy is to capture the unknown target. The tangible reality of the spider web has a high level of objectivity. However, the business network lacks these characteristics and therefore presents problems, that is, the boundary is not tangible and observable, it is imaginary. The business network is a subjective perception of a business reality by an observer, and the boundary can be extended or limited both empirically and theoretically, depending on the aim of the observer. A specific business reality can be studied with completely different analytical tools and different boundary sets. An observer defines and extends or limits the boundary.

The spider web structure is designed to absorb environmental challenges. Dramatic changes in the environment like heavy rain, fire or large objects colliding with the ties can destroy the network. To re-establish the network, the spider can use existing ties or build a completely new web. Some of the environmental uncertainty is reduced through genetic learning and adaptation of the ties' structure. Similarly, the extensive environmental changes in business networks, which lie beyond the known uncertainty and outside the boundary, affect harmony within the network. Boundary setting based on 'harmonic' relationships that ignores other types of relationships or environments presents the network with troublesome and dramatic challenges. Management of such uncertainties calls for network extension beyond the boundary based on harmonic perception. The spider web's network structure has not changed in thousands of years, but the market environment of the business network has faced extensive and dramatic changes. The increasing distance between the producer and final customer has extended the business network boundary to include more links along the distribution chain. Market changes are often critical and sudden and call for drastic changes in the perception of the business network boundary.

The process of extension and what we have empirically and theoretically perceived as the change in the business network boundary is an interesting journey. This journey makes explicit the issue that while the tangible spider web has remained almost unchanging, the science of the market and the business network approach has gone through profound changes, which have driven the perception of where to set, extend or limit the boundary.

A Perception of Extension: The Early Inspiration

Business network extension has proceeded within empirical and theoretical frames. While the empirical frame has developed from simplicity to complexity, the theoretical frame has moved from implicit to explicit as a result of challenges from competing research.

Business people were going about doing business for several thousand years with no knowledge that their activities could be perceived in terms of networks. Thus, the business network and its expansion is a perception based on the mechanism that dominates the behaviour of individuals and groups within a given boundary. The implicit construction includes the economic and social behaviour in combination with the knowledge of relationships and social constructions. While this practice can be traced back several thousand years, explicit significant contributions to network theory, its identity and boundary, have only been made during the last decades.

In early primitive society people became aware of the benefits of cooperation. Instead of acting individually, boundaries were extended by building coalitions and cooperating for increased gains and greater efficiency. Rules became established and knowledge about how to cooperate and survive passed to subsequent generations. In spite of simple specialisation there was mutuality in sharing the benefits of cooperation. The market was simple, as was the individuals' behaviour. Actions towards the market were based on cooperation grounded on knowledge and trust. These elements bonded actors into a simple network structure. The network boundary was limited and knowledge about other networks was very limited. As in the spider web, the network boundary was set within a limited context. The boundary can be perceived as being set to a limit, which was sufficient to solve the social and economic problems of the group. It was easy to manage and also efficient in reaching the set goals. Similar to the spider web, some environmental uncertainties were managed by learning and adaptation and others led to destruction of the network. However, while the spider took violent actions towards other actors, the business network was built on cooperation among actors. Both types of networks extended their boundary to a limit that enabled achieving a goal or an aim of the core actor/s. The driving force for belonging within a boundary was economic/social gains of the members. The implicit boundary was set on economic and social behaviour combined with knowledge. Knowledge within the social unit was general and transferred to the closest actors in the network. Marketing was inbuilt in the social construction but had no scientific identity. The ancient people

had no idea about marketing or transactions and had not realised the efficiency in relationships to solve social and economic problems.

The first step in boundary extension was when interactions were initiated between isolated networks. There was occasional hostility between members, but in general they realised that managing such relationships could increase efficiency. Extension of the boundary increased the need for specialisation and coordination. Specialisation, cooperation and coordination were attained through learning. A social network was constructed to resolve economic problems more efficiently. Social relationships developed in an economic context, and mutuality was established simply by belonging to the network. The consequence of opportunism was exclusion. Marketing knowledge was implicit, individualised and experientially based and inhibited such destructive behaviour. Boundary extension was embodied in a number of new issues that stressed the network. Economic issues, which were handled within social constructions, now gained a principal role. The increasing distance between the parties, together with further stresses on specialisation and coordination, relocated the simple network to a more complex one. The boundary extended geographically and relationship elements like trust gained significant roles. Distrust, which was not a critical issue in the early social networks, appeared. Interdependency was embedded in the simple logic of production, transportation and customers' access to resources. The extension amplified the increase in product and production heterogeneity, requiring further specialisation, complex distribution structures and sophisticated knowledge. The extension caused sudden increases in problems like conflicts, distrust and managing the distribution channels. It led to development of drifts, occasional opportunism and distrust in some channels, contrary to the economic-social network models.

Thus, the extension of the network boundary accompanied the change from simplicity to complexity, increasing specialisation and geographic distance. Simple knowledge graduated to complex knowledge in production, distribution and increasing uncertainty in customers' needs. Adaptations to challenge the uncertainty required actions like cooperation and developing rules and procedures. This development in the business network context embraced moving from a social network to a network that encompassed both social and economic relationships.

The increasing products, production and development of distribution channels were inhibited by the extension of the business network, especially after industrialisation. The extent to which this empirical development has influenced studies in marketing science is a question well worth answering.

Identity and Extension: The Early Development

The idea of the business network as a distinct field of research and practice gained momentum after the initial notions in the late nineteenth century. Since then, the field has gone through substantial changes. Increasing production, development of distribution channels and the notion of consumers, who unlike those in the primitive societies, were completely separated from the production all induced changes. The fundamental theoretical bases underlying network boundary setting have undergone many changes, and the process has been inhibited by conflicts among researchers and between researchers and managers.

Despite the evident existence of business networks dating back several thousand years, recent research appears to hold the belief that the business network did not exist prior to the last decades. This chapter challenges this belief by offering an alternative view of network boundary extension. We perceive the boundary as a consequence of the development in several contexts. First, the arrival of ideas based on behavioural theory challenged existing economic theories. This challenge created conflicts that disturbed not only the freethinking on business networks, but questioned their mere existence. Second, the development of behavioural *concepts* supported challenges to existing competitive theories. Although, not explicitly expressed, some concepts were advocated as analytical tools for better understanding of marketing. The theoretical network boundary was thereby coupled to concepts that just had been captured by business network researchers. The sporadic efforts of researchers and their proposals lead to the development of a loosely bound set of concepts with no clear common appellation.

Even if these efforts only set up a blurred network boundary made up of vague concepts, the challenge from competing fields was intensified. Still, managers highlighting the shortcomings of economic theory and marketing management models supported research on more explicit identity and clearer boundary setting of the business network. These business researchers explicitly addressed the business network and the boundary was set with a theoretical foundation other than economic theory.

Centuries ago there was no theory guiding the perception of the market and marketing. However, since economic theories began to dominate marketing, the establishing of a theoretical boundary for the business network became a critical issue. As long as the fight between those favouring the strong and well-established economic theory and those supporting behavioural theory were going on, the boundary remained blurred. In the early twentieth century researchers were primarily concerned with consumers and the analytical base was borrowed from economic theory. The objective was to connect consumers with the wider society and to include 'marketing' in the model of societies' 'existence'. Real business life was about needs and understandings between producers and consumers. The theoretical view developed was far from this. Industrialisation in the nineteenth century separated producers from consumers, and the distance between the two created a demand for middlemen, which in turn legitimated the development of economic theory. Despite the fact that in the late nineteenth century and beyond, the world of business was functioning on the basis of cooperation, coordination and interdependency and the managing of relationships, the dominant theory made no recognition of this. One reason that economic theory dominated was changes in the market with increasing production and supply driving businesses towards competition.

However, this did not eliminate the actual interdependencies between suppliers, producers, distributors and customers. Becoming aware of the shortcomings of the economic theories, some researchers proposed new concepts like satisfaction, resources, trust and loyalty, some of which were borrowed from social science and others from psychology. The perception of these behaviours in terms of relationship interdependencies within a united context, that is, a business network, was still absent. The concepts developed as interconnected islands with a vague common boundary, but

there was little unity in their theoretical foundations. Nevertheless this was vital for the emergence of an identity of business networks and distinct boundary setting.

The economic base, with its emphasis on the consumer, continued to concern researchers in the subsequent decades. The dearth of attention on differentiation and the stress on the perceived homogeneity of business markets, rationality and economic-based decision-making clashed with emerging issues like customer choice and irrational or emotional behaviour. Interestingly, business leaders raised the first clear and explicit voices in favour of concepts like resource exchange, interdependency, loyalty and trust and implicitly the business network already in the late nineteenth century. This initial stage of business and customer relationships was being discussed in relation to shortcomings in short-term profit maximisation and opportunistic behaviour directed by economic theory. The ideas with their emphasis on relationships gave rise to belief in the business network and setting of its boundary. Yet more interesting is the freedom that researchers gave to the perception, that is, how to perceive business relationships, as they clearly understood the roles of customers, retailers and all interacting actors. In order to clearly outline the conceptual boundary, explanations that invoked reciprocity and mutual gains with a view of more balance between the involved parties were enunciated. This was diametrically opposed to those that favoured maximum profit. The network boundary was even extended by adding relationships with politicians and financial groups.

Unfortunately, these early ideas lay dormant for several decades and the identity of business networks was forgotten. During this slumber, those promoting economic theories came to dominate marketing theory. The tension between economic theorists and behavioural theorists resurfaced in the 1930s and intensified in the 1950s. The shortcomings of economic theory were becoming apparent, fuelling a demand for an alternative behavioural theory. Some recognise this development as a paradigm shift from a transaction paradigm to a behaviour and relationship paradigm. This in turn meant a shift from direct consumer marketing to ideas on marketing relationships. The paradigm shift also gave a clearer identity to the business network. However, it also supplied freedom for boundary extensions towards two crucial theoretical and empirical spheres;

(1) developing and presenting concepts for understanding relationships; and (2) adding or removing actors in the settings, depending on their role in the relationships. Business relationships were now clearly characterised and the expectation was of further theoretical extension.

The debate on how to bring in behavioural theory went in two different directions, mainly on the basis of general or specific empirical boundary settings. Further, in the early stage of this process the boundary settings of the network were implicit, but later gained a more explicit form. The theoretical extension of the business network became more obvious for researchers in, for example communications, who were inspired by social and organisational sciences and adopted concepts like social behaviour and diffusion of innovations in relationships. There was pressure on researchers to get closer to business realities; that is, pushing for closer integration of the empirical and theoretical boundaries. It was during this general boundary extension that researchers introduced interdependency and blended the social and economic views. The general view still considered the society on an aggregate level building on cumulative knowledge. The business network had a generally undefined nature, and multiple levels, but the concepts used to study the phenomenon later extended the business network approach.

The discussions went against ideas of economic rationality and strategy when considering the single firm or analysis of firms in the network. The theoretical boundary was instead grounded in bounded rationality, interdependency and interaction. The autonomy of individual firms in making strategic decisions was rejected and instead mutuality and coordination as the basis for efficiency in reaching goals was infused. This was based on the view of heterogeneity and specificity, not only among different networks, but also in relationships. Conflicts and arguments with economic theorists continued despite the efforts made to differentiate between industrial firms and consumer marketing. However, the identity of the business network as a unit of analysis was becoming clearer for reasons like firms' behaviour, which was difficult to understand using economic theory. Admittedly, the behaviour perspective enhances the basic economic explanation of what happens during the exchange of money and goods. However, it seems that the increasingly clearly defined identity of the network and the extended understanding drove the two

perspectives further apart. Researchers from these opposing perspectives delivered contradictory results. While researchers in marketing management found evidence to verify rationality and purposeful actions, those employing behavioural theory reached conclusions based on cooperation, adaptation, interdependency, heterogeneity, mutual gains and long-term relationships. This was a big step for the crystallisation of identity and boundary setting for the business network approach.

Crystallisation and Extension

The development of the business network approach has been sporadic for most of the twentieth century. After the first publications in the nineteenth century the business network field did not undergo significant expansion until the 1980s. The identity of the business network eventually crystallised, and the field is now undergoing accelerated expansion. Interestingly, with an explicit emphasis on industrial marketing research the field shifted focus from the consumer to the industrial firm. This shift seems to have facilitated research on the business network. Maintaining a distance, not directly challenging marketing management theory, together with extensive empirical evidence provided legitimacy to the perspective and allowed crystallization of the network approach and explicit setting of the network boundary. A rapprochement to studies on distribution channels that address marketing efficiency, and emphasising interdependency, adaptation and mutually beneficial business relationships increased the credibility of the business network approach. Initially the emphasis of researchers was on dyadic relationships while other firms remained in the environment. In the 1990s integrating other firms extended this boundary, and the unit of analysis became the industrial network.

The business network had gained an identity and its perceptual boundary was set. With emphases on heterogeneity, cooperation and coordination, research on topics such as resource interdependency and product development flourished. Studies on industrial networks were finally able to make a clear contribution for deeper understanding of firms' industrial behaviour. The advances after the 1990s were accompanied by expansion of the boundary in different directions. Some aspects of the

network, such as concepts like resources, were more tangible than others and interdependency was more observable. Behavioural aspects that emerged subsequently demanded perception of less tangible concepts. Later, complementary and contradictory views blurred the boundary that existed previously.

Extending the boundary setting is by some researchers discussed within the context of depth and width and concern both theoretical and empirical extensions. Before elaborating on these discussions we need to establish some additional constraints, which, for example, reflect the fundamental issue in the business network, that is, the definition of relationships. While some researchers look at relationships as pure objectives, others implicitly regard relationships as means to reach objectives. In the spider web, ties in the network are obviously a means to reaching the ultimate goal. In the primitive society the tight mutuality and social interactions can be perceived to characterise the network as an objective, but for the actors relationships are a means to achieve some purpose. Relationships act as a means for the members to gain benefits and survive. Firms employ relationships to strengthen their market position. In this context, firms employ relationships to increase organisations' efficiency/effectiveness towards outcomes. This view preserves a degree of autonomy for organisational decisions on building new relationships, or maintaining an existing relationship. However, in the end, there is no autonomy in relationships and firms' strategy, especially regarding resource interdependencies and embeddedness. Such a discussion is essential since diverse definitions drive the boundary extensions in different directions.

To precede our discussion of extension in the last two decades we must once again divide the field of study into empirical and theoretical extensions. The theoretical extension reflects the depth or content of specific relationships or networks. The empirical extension is concerned with the applicability of the business network approach to other types of relationships. Some authors include relationships with actors like consumers, service organisations and non-business organisations, as they impact on the business of firms. Those who believe in this expanded scope of these theories may believe, for example, that consumers are similar to business units, that is, are not passive and

maintain long-term relationships. This explanation is reminiscent of the studies in the late nineteenth century, which stressed that business firms must manage different types of relationships, from industrial to governments and consumers. However, there have been voices both for and against such extensions, especially when considering including non-business organisations and consumers. Some echo back to the critical concern of the early studies that all interactive members in the business community are related to each other. Extension of business networks towards those outside the industrial firms requires integrating additional theoretical concepts.

Generally, researchers have followed a stable and frictionless extension to develop notions on interdependency and mutuality. However, later researchers have emphasised conflicts, competition and crises, requiring extensions towards other theoretical notions beside the traditional ones. This type of theoretical extension is suggested by the new emphasis on the infusion of views from behavioural theory. Delimiting extension by excluding concepts like trust or expectation is said to miss crucial aspects of relationships. The implicit assumption of incremental long-term relationships, associated with the absence of conflicts and crises, lacks in explicit consideration of issues like radical change. Uncertainty caused by this boundary extension has persuaded some researchers to draw attention to deeper consideration of issues associated with discontinuous relationships. Rapid changes in the business environment that trigger crises or rapid change expose weak points in the decisions for boundary setting. The spider, when it encounters rapid unexpected changes in its environment, may learn to strengthen its ties and limit or extend the boundary of its web. Extension towards these boundaries assumes the view that firms inherently face dynamics and change in the business network. The boundary can expand and delimit in different directions at different times. There is thus no stability in the extension of the boundaries. In this notion, interdependency lies beyond technological or resource exchange. This is consistent with the claims of relationships based on discontinuity, complexity or dramatic change in the network.

Despite its relative youth, the study of business network extension has persisted and diversified in both empirical and theoretical dimen-

sions. Extending the boundary to include globalisation has intensified discussion of whether and how competition or culture can be included in this context. Standing against those who believe in incrementality, scholars demand the inclusion of competition, which is fundamental in economic theory, referring to the business world. Extending the boundary in this direction would incorporate both complementary and hostile relationships. Such relationships are also dynamic by nature and can move between the two categories.

Recent developments in the business network approach are extensive and includes progress from different research fields and schools of thought. Contributions from the social theory perspective have introduced a new form of network explanation, which explicitly moves away from reductionism. In this field some extend the theoretical ideas using elements from structural theory. This enables exploration of how firms' structure and procedures enhance or obstruct learning in a network context. While concepts like structuration focus on the depth of relationships, others employ concepts such as enacted practices. Structuration is used to extend the network view by capturing both structures and dynamism of individual and collective actions. It retreats from the view of the network as the sum of its members (i.e., reductionism). These concepts reveal the theoretical extension towards both organisational and social sciences to enable the business network approach to absorb new empirical evidence. Acquisition of a completely new firm is embodied by integration of two business network structures and applies for views far beyond the boundary driven by traditional relationship complementarity. The discussion finally arrives to the conclusion that business network extension by nature is flexible and elastic. There is no best way to know in which direction and how the theoretical and empirical extension can proceed.

Concluding Remarks

The journey of network boundary extension, from an implicit individualised concept several thousand years ago to a more systematic explicit expression, has encountered some complementary, but mainly contrary

views. It began on socioeconomic ground, moved on to pure economic ground, then to behavioural, back to economic and now on to social and business constructions. In order to define the boundary, this chapter has examined the business network approach as it has evolved and challenged the economic perspective. The establishment of its identity and its boundary extension were critical developments. While the business world has progressed from simplicity to complexity, the marketing perspective based on behaviour theory has followed a turbulent process due to the robustness of competitive views. The perception of the business world has taken us on a journey that began several thousand years ago and revealed a theoretical silence until the end of the nineteenth century. Unfortunately there was a long hiatus in theoretical studies until the last decades. The earlier views did not immediately launch the business network field, but it took several decades until an explicit approach with a specific theoretical and empirical boundary emerged. The process has been criticised and harmed from many ways by competitive views. Researchers who believed in behavioural theory were challenged with the consumer view, which was the core issue for the new economics and the followers of marketing management theory. Demanding inclusion of behavioural views and combining the economic and social aspects, the few researchers in the field condemned marketing management believers for appearing remote relative to business reality. But the failure was evident.

It is true that there has been significant growth in the theoretical and empirical extensions of the business network. However, its extent is severely underrepresented in scientific research. Marketing management theory has dominated marketing research for decades despite the fact that there is little evidence supporting its appropriateness. We have witnessed the significant costs of marketing management theory's tools, which are carried by customers, firms and society. The complexity of measuring costs and benefits of so-called marketing management theory's tools has allowed these developments to occur. Substantial criticisms, such as the ability of firms to collect knowledge about their environment to manipulate customers for opportunistic behaviour, have increased. The weakening position of marketing management theory has opened new doors for the development and extension of the business network

approach. It was mainly the initiative of researchers in the last decades to focus on industrial firms that provided an explicit foundation for the business network. This was accompanied by not directly opposing marketing management theory and an explicit declaration of the industrial network's boundary set. We can now confidently state that after many decades the business network approach has gained a clear identity and an established boundary.

In its early stages, investigations were based on a theoretical boundary containing stable change and harmony. This has been criticised in the theoretical and empirical progress of the last decades. During this period, researchers moved back towards the initial thoughts from the late nineteenth century. The theoretical extension has been towards instability, disharmony, conflict and the role of negative settings. Furthermore, the principal issue of where to set the boundary looms large. An element may lie outside of the boundary, standing on the network horizon, but a sudden environmental challenge may cause it to come inside the boundary. Based on business realities, some researchers, similar to the notion of initial thoughts in the late nineteenth century, have extended the boundary to include all types of relationships, no matter whether they are between business firms, politicians, non-governmental organisations or consumers. However, such extensions bring about new times and new theoretical challenges. As these actors belong to completely different networks and possess different relationships and the exchanges may be indirect, extension requires infusion of social or economic concepts that are applicable for studying such complex networks. Disregarding this complexity and employing concepts that are only applicable, for example, for industrial relationships may cause the analysis to be incomplete. Therefore, an interesting and unanswered question calls for a new research agenda: to what extent can researchers define the empirical and theoretical boundaries? Extending the boundaries of the business network enables researchers to perform deeper analysis while admitting explicit theoretical and managerial implications. However, such extension is like the *Barbapapa* characters, highly flexible, shape-changing and adaptable towards multiple demands.

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Erratum to: Digitalisation and Service Innovation: The Intermediating Role of Platforms

Per Andersson and Lars-Gunnar Mattsson

Erratum to:

Chapter 8 in: Peter Thilenius et al., *Extending the Business Network Approach*
DOI 10.1057/978-1-137-53765-2_8

Hultén, K., & Gadde, L.-E. (2007). Understanding the “new” distribution reality through “old” concepts: A renaissance for transvection and sorting. *Marketing Theory*, 7, 184–207.[CrossRef](#)

Hultén, K., & Mattsson, L. G. (2000). Distribution network dynamics: Evolution in the PC distribution network. *The IMP Journal*, 4, 170–193.

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Hulthén, K., & Gadde, L.-E. (2007). Understanding the “new” distribution reality through “old” concepts: A renaissance for transvection and sorting. *Marketing Theory*, 7, 184–207.[CrossRef](#)

Hulthén, K., & Mattsson, L. G. (2010). Distribution network dynamics: Evolution in the PC distribution network. *The IMP Journal*, 4, 170–193.

The online version of the original chapter can be found under

DOI 10.1057/978-1-137-53765-2_8

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Index

A

adaptation, 14, 49, 110, 156, 177,
179–82, 185–8, 195,
260, 261, 285, 289,
290, 293, 294, 301,
316–19, 326, 341,
342, 350, 362–4, 369
aftermath, 270–2, 275, 279, 281
ancillary, 196, 197, 322
anonymity, 12, 41–60, 199

B

boundary, 3, 7, 10, 11, 14,
54, 94, 130, 155,
172, 212, 295, 303,
305, 307, 322, 326,
350, 359–74
business netquake, 15, 315–28

C

change, 12, 14, 15, 17, 26,
41, 42, 44–5, 47, 48, 50–6,
58–60, 68, 69, 80, 83, 86, 87,
91, 93, 95, 100, 103, 104,
128, 129, 133, 134,
142–9, 151, 152, 154–6,
170, 173, 182–6, 189, 212,
231, 232, 260, 262, 283, 285,
289, 290, 293, 294, 298,
303, 304, 310, 315–22,
324–8, 341, 348, 349,
361, 362, 364–6,
371, 374
commitment, 7, 13, 14, 48, 54, 122,
128, 131–4, 153, 177–84,
188, 195, 198, 204, 206, 215,
217–22, 285, 317, 318, 337,
338, 341, 346, 347

competitor, 15, 70, 122, 125, 126, 128, 130, 131, 143, 165, 167, 168, 171, 240, 250, 252–7, 259, 274, 322, 349

connection/connected, 6n, 8, 22, 27, 28, 43, 48, 51, 57, 70, 78, 80, 91, 92, 102, 108–10, 113, 124, 125, 130–4, 141, 142, 145–8, 150, 151, 155, 156, 185, 186, 189, 195–8, 205, 206, 222, 270, 272, 273, 279, 281, 284, 285, 287, 290, 291, 295–7, 307, 308, 311, 316, 318–22, 325–8, 334, 337, 339, 343, 346–8, 350

consumer, 12–14, 16, 28, 67–81, 83, 144, 149, 151, 159, 161, 162, 211–24, 321, 360, 365–71
 marketing, 67–9, 77, 79, 81, 367, 368

continuity, 88, 198, 203, 205–7, 341, 342, 345, 350

cooperation/cooperative, 14, 15, 32, 83, 85, 87, 88, 93, 142, 143, 148, 173, 177–82, 184, 186–8, 195, 205, 223, 237, 239, 250–7, 259, 262, 342, 347, 349, 363, 364, 366, 369

coopetition, 15, 31, 250–5, 254, 256–63

E

embedded/embeddedness, 29, 34, 86, 91, 95, 100, 101, 113, 124, 132–4, 160, 164, 199, 228, 234, 235, 241, 250, 261, 273, 302–5, 308, 309, 318,

340, 343, 345–7, 351, 360, 364, 370

end user, 12, 79–81, 144, 145, 163, 165, 166, 168, 170, 181

ethical, 15, 131, 172, 333–49, 351

ethics, 14–16, 333–51

expatriate, 13, 99–118

experience, 50–2, 57, 68, 69, 72–4, 77–9, 81, 90, 102, 106–17, 125, 160, 161, 163, 170, 171, 218, 221, 231n, 242, 259–61, 298, 305, 306, 308, 342

G

global/globalisation, 17, 31, 68, 83, 84, 86, 99, 117, 121, 212, 290, 334, 372

governance, 10, 41–9, 56, 58, 60, 334, 338, 340, 342, 350

I

identity, 12, 21, 41–60, 91, 155, 311, 359, 363, 365–9, 373, 374

incrementality, 316, 318, 372

industry, 14, 17, 41–60, 83, 93, 105, 124, 142–4, 146, 147, 151, 154–6, 167, 186, 199, 227–43, 261, 278, 290, 296, 311, 333, 343

infomediary, 68, 71–4, 76, 77, 79

information system, 14, 178, 181, 185, 193–207

information technology (IT), 12–14, 16, 22, 30, 90, 116, 142, 143, 177–89, 194, 202, 211, 213

innovation, 13, 16, 30, 31, 47, 49,
83–95, 104, 141–56, 159–73,
349, 368

integration, 14, 26, 30, 54, 59, 60,
159, 177–89, 194, 205, 321,
322, 368, 372

interdependence, 43, 51, 148, 188,
195, 317, 341, 350

intermediary, 4, 12, 13, 68, 69, 71,
72, 74, 84, 86–8, 94, 95, 133,
142, 144–6, 148–55, 197,
217, 218

intermediating, 13, 80, 81, 141–56

intermediation, 13, 142–9,
151–5

internationalise/internationalisation,
13, 14, 27, 45, 121–35,
211–13, 216–23

internet, 13, 68, 70, 71, 80, 118,
141, 144, 147, 153,
159, 162, 164, 211–13,
215–19, 231

involvement, 17, 94, 131, 162, 172,
202
customer, 160–2, 164–9

IT. *See* information technology (IT)

K

knowledge, 8, 9n, 10, 13, 14, 42,
45–8, 50, 51, 54–6, 59, 60,
68, 72–5, 77–8, 81, 83–6,
92–4, 100–4, 106, 111–17,
122, 128, 131, 132, 134, 143,
153, 159, 164, 165, 172, 189,
193, 195, 216–18, 220, 221,
223, 227–43, 250, 253,
260–2, 270, 271, 277, 280,

285, 286, 293–6, 298, 305,
311, 316, 339, 343, 349, 360,
363, 364, 368, 373

L

legitimacy, 15, 16, 86, 88, 104, 110,
301–11, 369

lobbying, 283–98, 311

logic, 115, 143–6, 152, 156, 184,
185, 254, 364
network, 49

M

management, 23, 28, 29, 31,
32, 90, 103, 116, 129, 144,
179, 184, 193, 194, 198, 200,
202, 205, 252, 254, 256, 257,
260–2, 277, 285, 287, 291–4,
296, 297, 305, 309, 316, 345,
360, 362, 366, 369,
373, 374

market

economy, 12, 41, 42, 45, 51, 52,
58, 149
network, 56, 57, 59, 60

MNC, 85, 86, 88, 90, 92–5, 99,
101, 103, 114

N

netquake, 15, 315–28

non-business actor, 12, 85–8, 91, 93,
94, 196

non-governmental organisation
(NGO), 12, 29, 83, 84, 88,
90, 92–4

O

online purchasing, 211–24

P

performance, 15, 59, 100, 101, 103,
115, 194, 201, 204, 253, 309,
311, 334, 335, 342, 345,
347–51

planned

economy, 12, 41, 42, 44–51, 55, 60
networks, 48, 49, 56–60

practice, 47, 92, 142–5, 147, 153,
214, 228, 249–63, 281, 287,
290, 291, 294, 306, 333–5,
337, 345, 359, 360, 363, 365,
372

private relation, 13, 99–118

process, 12–15, 23, 27, 33, 42–4,
46, 47, 49, 51, 53–5, 57, 59,
60, 67–70, 72–7, 76–81, 87,
88, 100–4, 114, 121–7, 129,
132, 134, 141–5, 147–56,
159–62, 165, 167–9, 171–3,
178, 183, 186–8, 194, 199,
215, 219, 229, 231, 233–5,
240–2, 250, 251, 253, 254,
257, 259, 260, 262, 269, 271,
273, 276, 278, 284–7, 292–4,
297, 301, 303–11, 316, 317,
326, 338, 339, 343, 347, 348,
362, 365, 368, 373

R

reactivation, 15, 270–4, 276–8, 281
remains, 15, 47, 52, 53, 73, 85, 95,
144, 167, 168, 213, 215,
269–81

retailer, 68–72, 75–7, 79, 80, 150,
165, 166, 168, 171, 211–14,
216–24, 367

S

service, 8, 10, 13, 30, 67, 71, 75, 83,
84, 86, 89, 90, 92, 94, 107,
122, 124, 127–9, 134,
141–56, 160, 165, 167, 170,
179, 181, 194, 195, 217, 222,
276, 277, 370

social network, 68, 99–3, 109,
213–16, 219, 335, 337, 339,
346, 364

strategy(ies)/strategic/strategise, 14,
15, 26, 32, 44, 51, 71, 85–7,
121–35, 144, 159, 187, 194,
223, 249–63, 271, 283, 284,
287, 289, 291–4, 296, 297,
302, 309, 310, 339, 343, 360,
361, 368, 370

T

technology/technological, 3, 4, 9,
11–14, 16, 17, 22, 28, 47,
52–4, 69, 83, 85, 89, 90,
92–5, 101, 104, 143–7,
149–52, 154, 159, 162, 164,
168–73, 177–89, 194, 207,
227–43, 272, 277, 318, 341,
348, 349, 371

termination, 269–74, 276–81, 315,
319, 328

transfer, 13, 14, 54, 80, 128, 152,
154, 179, 216, 227–43

transition, 12, 41–60, 132
network, 57–60

- triad, 14, 193–207
- trust, 7, 14, 15, 53, 54, 72, 79, 104, 195, 198, 204, 206, 221–3, 233–5, 241–3, 259, 284, 293, 295, 296, 301, 307, 308, 310, 311, 317, 318, 334, 337–9, 341, 342, 346, 347, 363, 364, 366, 367, 371
- turbulent, 13, 55, 57, 59, 60, 115, 373
- network, 12, 52–4, 59