

# Types and functions of social relationships in the organizing of an international joint venture

Tuija Mainela \*

*University of Oulu, Faculty of Economics and Business Administration, Department of Marketing, P.O. Box 4600, FIN-90014 University of Oulu, Finland*

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## Abstract

This paper examines the use of social relationships in the organizing of a business network in the case of an international joint venture (IJV) developing over time. The organizing process and the multicultural setting of the international joint venture emphasize the actions of and interactions between individuals from various organizations. The IJV-managers' use of their social relationships in business organizing is explored through analysis of narratives of IJV-managers in a longitudinal single case to provide empirically grounded theory. From the in-depth interviews with IJV-managers the business relationships are identified as characterized by four possible levels of interpersonal relationships whose type influences the functions of the relationships and visa versa. One business relationship may contain only one or many of these interpersonal levels and an effective business relationship contains the appropriate interpersonal level for the business issue at hand.

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## 1. Introduction

With respect to the development of any business unit a critical issue is the social nature of all the actions taken (Ghoshal, Bartlett, & Moran, 1999; Granovetter, 1985; Ring & Van de Ven, 1994). All economic actions are embedded in relationships between individuals (Granovetter, 1985). The social relationships bring forth the interpersonal interaction required, e.g., to form a channel for business dealings, to transfer technological skills and to create power structures (Halinen & Törnroos, 1998; Tellefsen, 2002). This means that social interaction is intertwined with the more organizational level market, technological and political interactions in the organizing of any business.

Previous research has indicated that social relationships can be utilized for various business purposes (Axelsson & Angdahl, 2000; Halinen & Salmi, 2001; Hansen, 1999; Salmi & Bäckman, 1999; Uzzi, 1997). A related discussion concerns social capital (e.g. Bowey & Easton, 2004; Coleman, 1990; Nahapiet & Ghoshal, 1998) and focuses on the elements of social interaction, such as resilient social trust, unspecified

obligations and expectations, mutually developed norms and sanctions, as resources in socio-economic activities. The primary interest of the present study is in the use of social relationships, i.e. the behavioral aspects covered in the social embeddedness research.

The greatest part of the existing research on the use of social relationships in business can be seen to rely on the early notions of Granovetter (1973) of the types and functions of social relationships (e.g. BarNir & Smith, 2002; Hansen, 1999; Wong & Ellis, 2002). The relationships are seen to be either strong or weak where the former ties are suitable for transfer of complex or salient knowledge and the latter suit exchange of simple information and search for novel ideas. The advancing globalization, speeding technological development and differentiation of the customers means that the business relationship building often takes place in multicultural and turbulent settings where the managers need to interact and establish relationships with actors with diverse cultural backgrounds and interests (Möller & Halinen, 1999; Möller & Svahn, 2004). This is especially evident in the case of international joint ventures but the use of social relationships in international joint ventures has received scant attention. The social relationships are likely to have more varying types and functions in the business networks than the dichotomist views suggest.

\* Tel.: +358 8 553 2595; fax: +358 8 553 2906.

E-mail address: [tuija.mainela@oulu.fi](mailto:tuija.mainela@oulu.fi).

In the development of an international joint venture is a question of establishing a new business entity for which the managers strive to establish a favorable network position in a new market. Although having the parents to support it, an international joint venture is dependent also on other organizations, like any other firm (Håkansson & Snehota, 1989; Johanson & Mattsson, 1987). Relationships need to be established with suppliers, customers, authorities, financiers and other organizations. Through interactions in the relationships, managers enact workable realities and that way organize the business of the firm in a relationship network (Håkansson & Snehota, 1989; Weick, 1979, pp. 3–6). Organizing is here determined as the collective definition of the nature and roles of the relationships to the joint venture as a result of the interpersonal interactions in the relationship networks.

With respect to international joint ventures both the context-dependent and the social developments seem to be neglected areas of research (see criticism in Mainela, 2002; Parkhe, 1993; Ring & Van de Ven, 1994). The development of a joint venture is usually described as a process that develops through consecutive stages between the parent companies (see Parkhe, 1996). To emphasize the social embedding of business in wider relationship networks, the development process is, in the present study, named as organizing. The organizing concept takes into account that business takes place in constantly changing relationship networks (Håkansson & Snehota, 1995, p. 10). The changes lead to incessant organizing of the joint venture's business as new relationships are built, old ones decay or existing relationships change character. Organizing, as well, emphasizes the role of individuals in organizational developments (Weick, 1979, p. 68): "*The human actor does not react to an environment, he enacts it. It is this enacted environment and nothing else that is worked upon by the processes of organizing*". In the processes of organizing the boundaries of the firm are continuously updated as a result of interactions between the individuals inside and outside the firm (Grabher, 1993, p. 7).

The present study attempts to deepen our understanding of the social embeddedness of business relationship building by exploring the use of social relationships in the organizing of an international joint venture. The study aims to answer the question: How do the international joint venture managers utilize their social relationships in the organizing of its business network? To work towards this goal, the types of social relationships and their functions are both theoretically and empirically examined.

The rest of the paper is structured as follows: First, the social embeddedness of business relationships is discussed in the light of previous research. Then, the research methodology is described. Eleven in-depth interviews were conducted with managers who had been involved with the organizing of a Nordic–Polish joint venture between the years 1989 and 2000. The interview data was analyzed to find out the types and functions of the social relationships that the managers utilized in the organizing of the business networks of an international joint venture. As a result the business relationships are

identified as including four possible interpersonal levels. This results in definition of four ideal types of social relationships used in organizing of an international joint venture: reporting relationships, organizational contacts, personal relationships and friendship relationships. These types of relationships are combined with different business uses and circumstances, i.e. relationship functions.

## 2. Social embeddedness of business relationships

Business relationships are primarily developed for economic advantages. But, organizational behavior is always a result of the actions of the individuals representing the organizations and therefore the social relationships, i.e. person-level ties, inevitably intervene in the business processes. An organizational relationship is actually a complex web of interactive relationships between individuals in the organizations (Håkansson & Snehota, 1989). As Liljegren (1988, p. 106) noted, interaction patterns of individuals and norms as indications of expected behavior at the individual level influence organizational structures, strategies and routines. The present study is focused on the use of social relationships behind the organizing of the business network of an international joint venture and examines social embeddedness in the following through the analysis of the characteristics of the social relationships and their functions.

### 2.1. Types of social relationships

How a firm can utilize its relationships in business depends on their characteristics, which make some relationships more appropriate for certain purposes than others (see e.g. Mønsted, 1995). For example, old relationships are expected to be more suitable for acquiring subtle information and are often used for multiple purposes whereas newer ties are commonly tied to one specific function. Some relationships are purely instrumental whereas others include strong emotional obligations and are supported by trust. The discussion of different types of social relationships in business can be seen to have a basis in the strong vs. weak tie characterization by Granovetter (1973). These dichotomies of social relationships presented in previous research are collected in Table 1.

Granovetter (1973) saw the strength of a tie in interpersonal networks as depending on the amount of time spent on it, on the emotional intensity, intimacy and reciprocity characterizing the tie. Strong ties are suggested to involve longer time and stronger emotional commitments, reciprocal exchange of services and often similarity of the connected individuals. Granovetter (1982, p. 105) also connected weak ties to acquaintance relations whereas strong ties are friendship relationships. He emphasized that the ability of a person to trust another is prevented if there are no personal ties between them. In that case, any cooperative effort becomes dependent on the existence of intermediary personal contact that can assure the trustworthiness of the other. At the inter-firm level the amount of resource exchange, the number of dyadic role relationships in the interaction and the irreplaceability of the

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