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## **FAMILY FIRMS AND NETWORKS**

- **The Role of Trust and Commitment:**  
A case study of two Finnish furniture networks

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## ABSTRACT

The overall purpose of this research was deepen our understanding concerning the development of relationships in networks between family firms, especially in furniture industry. The aims of this study were twofold. First, describing two networks: how the relationships are created and developed? Why the studied family firms have intentions and interest to inter-firm co-operation and joint ventures and what are the critical factors for the future success in networks? The other research question was: How the network approaches and models support the subjectivist network phenomena and what new theory and praxis provide to network approaches and methodological discussion? The empirical material for the research was collected by interviews of two networks and their managers.

All the 18 family firms were interviewed during the 1996-1997. The method used in this study was case study. The research approaches lied mainly on network approach and the metaphor of networks as relationships. The key concepts of developing the relationships were determined and described as mutual orientation, investments, resource dependence and bonds.

The central view and results stressed that relationships are created and based in mutual orientation and social exchange between the firms in networks. Firms are lacking resources and seeking new markets in order to improve their own competitiveness. Commitment and trust are the critical factors effecting the development of relationships and business transactions in co-operation. Theoretically the network approach provides an subjectivist focal perspective into the context of family firms and their networking.

The network theories were strongly supported in their social exchange context. Case study provides a rich methodological approach to interpret and deepen understanding of family firms reality in the context of their “real-life” business environment.

Key words: entrepreneurship, family firms, family business, co-operation, networking, network approach, joint venture

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# 1 INTRODUCTION

## 1.1 The background of the study

Rapid global competition, feasible manufacturing systems, contractual terms and new forms, and creating value to customers have given rise to voluntary coalitions, alliances and networks.

Relationships between industrial companies, organisations and institutes have been neglected by researchers in the fields of both economics and management for a long time. There have been studies of how business is transacted between companies and institutions but little if any attention has been given to the continuity and complexity of interaction between business organisations. However, the situation has changed radically during the last two decades or so.

The existence and role of the relationships between companies have received growing attention. Business relationships and networks have been the object of many studies in Europe (e.g. Håkansson & Johanson 1993; Kumar 1996; Axelsson & Easton 1992; Cook & Emerson 1984; Gadde & Håkansson 1994; Johannisson 1987; Jarillo 1988, Andersson & Håkansson & Johanson 1994; Lorenzoni & Ornatì 1988; Ford 1980;1990; Andersson & Narus 1990; Piore & Sabel 1984; Miles & Snow 1986;1992; Easton 1992; Alarinta 1998; Vesalainen & Murto-Koivisto 1994; Tikkanen 1996; Halinen 1994; Alajoutsijärvi 1996).

These studies were conducted from various perspectives and they show some interesting common traits. Generally, the studies point out a picture of structural networks. How the relationships are important to companies, age, generation, resource allocation and dependence and value-added partnerships. They also provide some interesting indications about processing as a feature of creating relationships and networks. The nature of the interaction processes within relationships: how they will build up, develop and dissolve and what kind of effects they have on the parties involved.

The network has received growing attention both in the academic field of the small firm and family business research. The approaches and concepts to conduct the studies in the area of small business networking seems to vary in interorganizational theories. (e.g. Axelsson & Easton 1992, Chaston 1995; Lazerson 1995; Harrison 1993; Fletcher & Hardhill 1995; Hatfield & Pearce 1994).

Yet the notion of networks has also embedded in social context and is discussed in social sciences, especially sociology and anthropology, in describing the structure and dynamics of social structures systems. Perhaps the most important cause of this variation of approaches in the social sciences has arisen from theories of organisation and metaphors of culture. (e.g. Aldrich & Zimmer 1986).

This study relies on a network approach which is based on the IMP group's model of Industrial Networks added with perspectives on transaction cost, value chain and resource dependence. Navigating among diversified and rich research approaches provides efficient choices for the analysis of family business relationships. The number of business firms in many industries has entered into a variety of co-operative inter-firm relationships. The driving force of several different forms and arrangements has been based on limited resources of SME's for R & D, production, marketing, export, financing, knowledge and value-added information to interplay in various forms of co-operation.

Many small business studies pointed out the local business environment, its climate to be a substantive promoting factor to new firm creation and the distinction of the industrial districts and the growth of the firms. (see e.g. Harrison 1993; Lazerson 1995; Havusela 1999; Hietala 1997). Ostrobothnia region in Finland is widely known of its great number of different industrial businesses and positive business environment. Moreover, the small scale furniture (e.g. wood processing industry, carpenter) industry has an important role as an employer and source of livelihood for the district.

The overall purpose of this study is to deepen understanding of the co-operation and network development between the family firms.

The other purpose is to describe some cultural characteristics in family business networking that are critical to network relationships development. Investigating the development process of the two networks as a focal network study in Finnish SME furniture manufacturing firms is an opportunity to analyse and shed light to factors effecting the relationships, structures, processes and positions of the actor firms in network development.

### **1.1.1 The power of small business in economy**

Entrepreneurship, enterprises and family business have been widely focused on academic research during the last decade in Europe. It has also been widely noticed that small firms have an important and powerful role in the global economy. Small firms provide jobs and employment to 69 million people in Europe and most of the firms are “micro-firms” which employ at most 10 people in the firm. (e.g. ECSB survey 1997 (eds.) Landström, Frank & Veciana 1997; Storey 1994; Penrose 1995; Bridge, O'Neill & Cromie 1998; Poutziouris 1996)

Compared to the US economy small firms have also an important role in the nation`s economy. According to Zimmerer and Scarborough (1998, pp. 21-22) “... of the 22 million businesses in the United States today, approximately 21.75 million or 99 percent, can be considered “small”. Small businesses also produce 48 percent of the country`s GDP and they provide directly or indirectly the livelihood of more than 100 million Americans. (see e.g Zimmerer & Scarborough 1998; Astrachan & Shanker 1996; Neubauer & Lank 1998; Koironen 2000).

For this study it is worth to notice that many family business researchers give a large and versatile picture of the importance of family business to the economy. ( Brunåker 1996; Dyer 1986; Kets de Vries; Koironen 1998; Koironen 2000; Lank 1994). According to Donckels and Fröhlich (1991) and Koironen (1998; 2000) most of the small and medium-sized enterprises (SME`s) in Europe are family businesses.

It is also worth to notice that family businesses are not always easy to study. Many family enterprises are quite secretive, jealously guarding their privacy held and vary of communication with outsiders. (see e.g. Kets de Vries 1996). In other words, the research area is broad and the methodological approaches and definitions varied. The suggestions to further understanding of the phenomena of the family business is based on need for more sociological -psychological and organisational theories into family business research. (Brochaus & Smurfit 1995).

Still there is no single, uniformly acceptable definition of the small firm. Many of the so called “economic and statistical” definitions vary. According to Bolton Committee (1971) small firms are characterised by three criteria:

- 1) they had a relatively small share of their market place
- 2) they were managed by owners or part-owners in a personalised way, and not thought the medium of a formalised management structure
- 3) they were independent, in the sense of not forming part of a larger enterprise

The Bolton Committee`s (1971) definitions of small firms has faced some criticisms and some other approaches; e.g. European Commission has defined term “small” into three components:

- 1) micro-enterprise : those with between 0 and 9 employees
- 2) small enterprises: those with 10 to 99 employees
- 3) medium enterprises: those with 100- 499 employees

In this study the family firms can be identified as “micro and small businesses”. The studied firms represent of 1-60 employees and their market shares are relatively small in both domestic and abroad, the family business is managed by one or more owner-founders or family members (e.g. siblings) and management is kept “simply and non-formal” although the family firms are operating in several legally contracted partnerships e.g. in joint ventures and other alliances. The small family firms represent mainly the second generation firms, owned and managed by the owners of the family.



These reflections and comments are evidently true if we review to second or third-fourth generation managed family firms and their growth (Gersick & Davis & Hampton & Landsberg 1997; Dunn 1999) or the culture and the management strategy of the family firms (Dyer 1986; Ward & Aronoff 1994; Sorenson 1999; Hoy & Vesper 1994) or the transition and its management in family firms (Bridge, O'Neill & Cromie 1998; Koironen 1998, 2000). The life-span and success factors (Stavrou 1999; Greiner 1997; Alcorn 1986) and the role of trust, commitment, communication and (Hubler 1999) "family plan" have also committed interest in academic research.

Wynarczyk et al (1993) cited Penrose (1959) and argued with three aspects small firms difference to large firms: Uncertainty, innovation and evolution. The central distinction between large and small firms then is the greater external uncertainty of the environment in which the small firm operates together with the greater internal consistency of its motivations and actions. The role of innovation has its roots in Schumpeterian (1934) ideas, that small firms play "*gales of creative destruction*". (in Storey 1994, pp.12-13). Curran et al. argue that "smallness" is a multi-dimensional concept which is closely linked with legal independence, type of activity, organisational patterns, and economics activities (in Storey 1994).

Small business has also been focus in many studies and literature in Finland. The field of the SME research is broad and the objectives of these studies vary a lot. To start up ones own enterprise and to develop the enterprise (Koskinen 1996; Haahti 1989; Hauta-aho 1990) and types of entrepreneurs and strategic goal setting (Routamaa & Vesalainen 1987; Huuskonen 1992) and the growth and strategic development of the small enterprises (Kettunen & Marjosola 1978) individualism and the culture (Vesala 1996; Havusela 1999) values and attitudes of the entrepreneurs and towards the entrepreneurship (Haahti 1992; Peltonen 1985) and family business studies in different approaches as values, knowledge, attitudes, preconditions, transition (Koironen & Peltonen 1995; Koironen 1998; Koironen & Tunkkari 1999; Koironen 2000) and intrapreneurship (Pinchot 1986; Koironen 1993).

Aldrich points out (1986, pp. 32-33) an interesting phenomena of the family operated business. The interchangeable individuals of the professional business is in sharp contrast with the family operated business strong dependence on a few individuals.

*“...An important difference between family and non-family businesses is in the attitude to growth; growth objectives are limited by the extent of the family’s financial resources and management abilities “.* (Abbas et al, 1989, p.17 in Brunåker 1996).

The personality of entrepreneur seems to have an important role in the family firm success. The small-scale entrepreneur is often seen as an individualist, a lonely “wolf” going his own way guided by his own aims and ambitions. However, the small-scale entrepreneur works in an environment where pursuing his own lonely path is not possible. Entrepreneurship and individualism are thus connected with economic development and prospering (cf. Vesala 1996)

McCelland (1961) also points out that entrepreneurs have high need for achievement that drives to entrepreneurship. The achievement motive and entrepreneurial spirit has a major force to economic growth. (1961, pp. 190-191) Also Cyert and March argue that *“ organisations do not have objectives, only people have objectives”*. (in Ansoff 1965, p 35).

The small business and family firms have an important role in economy. The continuity of the business and transition to next generation is also embedded to competition and co-operation in economy. Not all the firms are growth orientated or successful, and many will not survive to second generation either. In this study the interest relies in the small family firms networks and inter-firm networking. In competition and co-operation the relationships and transactions are core issues in business survival. The causes and effects on networking is interesting phenomena for its own right.

### **1.1.2 Family firms and networking as a focus of the study**

Reasons and objectives behind co-operation have been widely dealt with in recent research (Tjoswold & Weicker 1993; Bronder & Pritzl 1992; Gulati 1995; Chaston 1995; Lazerson 1995; Hannan & Freeman 1977).

One might argue that networking is the state of art of small firms and family firms if looking at many studies in regional co-operation development in Finland and in

Europe. (Vesalainen & Murto-Koivisto 1995; Frönclich & Donckels 1991; Curran, Jarvis, Blackburn & Black 1993)

Networks involving small firms have a number of particular features. Melin (1987 p 31) points out that “...*networks can mean both social and interactions among organisation..*”. Scott (1985) points out social and inter-organisational perspectives as the twin dimensions of network analysis. In the context of small business, the network concept requires development within both of these dimensions. These approaches germane to small business as the small firm owner/manager will identify himself strongly with the firm and, conversely, the small firm tends to strongly identified with its principal. ( in Szarka 1990)

Johannisson (1987) divides the network types to three categories. Production networks which are based on transactions and contracts. Secondly to personal networks which are based on friendship and mutual trust. Thirdly, to symbolic networks formed by social bonds based on community ties and conformity to collective values. Johannisson (1987) points that, the social network is formed by family, friends and acquaintances. Culturally induced values, attitudes and behaviours are of a prime importance in explaining the nature of the relationships that are formed not only within the personal network but also within the exchange and communication networks.(in Szarka 1990, pp. 10-22)

The limited resources of SME`s in product development, marketing, exports, financing and the development of information systems have increased interest in forming and developing different types of co-operation. From the viewpoint of company management, a background factor has been the worry about the company`s progress, about its competitive ability in certain chosen target markets and about adjustment to the constantly changing operational environment. Generally it can be said that SME`s in different parts of Europe and especially in the Nordic countries are looking for new co-operation partners in order to improve the effectiveness of different business operations and to remain competitive. (e.g. Easton 1992; Tikkanen 1996).

In business-to-business marketing researchers have ever since the 1970s and 1980s observed that in industrial marketing long-term customer relationships are not

maintained on the basis of products, sales or transactions but on the basis of good long-term relations (Alajoutsijärvi 1996; see also Halinen 1994).

The Interaction Approach differs from the marketing-management tradition with the central object of analysis in the former is a long exchange relationship which is characterised by mutual dependence. Connected with this relationship are joint expectations concerning the future and mutual adaptation. Mutual interaction approaches were developed by European researchers forming the IMP (Industrial Marketing and Purchasing) group in 1982. (see e.g. Håkansson, Mattsson & Hammarqvist 1982; Axelsson & Easton 1992).

So far lot of studies were found to characterise the importance of network phenomena in family business.

## **1.2 Research questions**

The overall purpose of this study deepen understanding of the co-operation and network development between family firms. The purpose is to describe and identify some common characteristics in the area of family business and networks that are critical to successful networking.

The focus is on furniture industry on two networks. The other is joint venture and the other is vertical integrated subcontracting based network. This study thus serves also the practical issues as the theoretical purposes in networking research and in family business.

The overall research problem of the study will be pursued through the following questions:

### ***1. To describe the two furniture networks***

- How the relationships are created and developed?
- Why the studied family firms have intentions and interest to inter-firm co-operation and joint ventures?

- What are the critical factors for the future success in networks?

## ***2. Introduce some theoretical and practical network characteristics for the future studies***

- How the network approaches and models support the subjectivist network phenomena?
- What new theory and praxis provides to network approaches and methodological discussion?

This study relies on network-approach. The Uppsala school (IMP-group) network model is central in analysing the study. Enlarging the terminology related to the field and the level of examination of the networks sheds light to other alternative approaches which will be introduced in the frame of reference. A case-study examination makes it possible to ponder new perspectives in the light of co-operation theories and their practical implications.

Next will be introduced the basis for the study and some characteristics on furniture industry in order to give some background information of the area under research and factors effecting the development of the industry.

### **1.3 The basis for and incentive to the study**

The starting-shot for the investigation began 1995, when one subcontracting network was target of the study. Small first and second generation family firms were participating in a one subcontracting based furniture network and the focus was in a hub-firm which “orchestrated “ the operation and marketed the final products. This hub-firm had been operating for nearly 30 years in the furniture branch. (Rinta-Pukkila 1995).

The interview rounds were carried out during 1996-1997. If all the enterprises subjected to interviews for this study are counted, there are altogether 18 interviews, 2160 minutes of recorded interviews, some 300 pages of fairly dense print.

In addition, The Ostro-Bothia furniture catalogue (1996, 1997) was used, which provided basic information (e.g. turnover, size of the company, employees) on the enterprises. Also the SME barometer bulletin provided a basis of comparison with the current state of the Finnish furniture industry as described in the introduction chapter 1.4.

The empirical part of this study focus on two network cases. The purpose has been thus to serve the rich and deep interpretation and concentrate to investigate a focal networks in their real-life context.

A qualitative approach and a case research method are justified when the object to be studied is quantitatively limited. Yin (1994) states that the means provided by case research are at their strongest when a complex phenomena is subjected to questions of “why“ and “how“ and is examined in a real-life context, where the dividing-lines between phenomenon and context are unclear (Yin 1994, pp. 6-13). Also, this study does not attempt to propose or present generalisations concerning the domain as a whole.

#### **1.4 Description of the furniture industry in Finland**

In Finland the furniture industry is mainly focused on the domestic markets. This illustrates well the dominance of small-scale enterprises and their operation on the local markets. The majority of the furniture manufactures produce fixtures or furniture made to order. Only 10% of the country’s furniture manufactures direct their operations to export markets.

In the Ostrobothia region alone there are 302 industrial furniture enterprises whose production is mainly directed to the home markets. (Toimialaraportti 1998)

The size of the enterprises does not vary much in the other EU countries either. The enterprise size in Italy and Finland is on the average similar (5-7 persons/enterprise) ; on the other hand the enterprise size in Denmark is clearly bigger. Both in Italy and Denmark networking is common and more extensive than in Finland. (Toimialaraportti 1998).

The recent trends in European furniture industry 1999 shows recovering from the collapse in early 1990s. Year 1999 was a positive year for the majority of the furniture industry in Europe, even, the growth rates were moderate. The furniture production increased in most of the EU countries, except in Germany, Finland and Slovenia. (Ryynänen 2000).

Especially the development of co-operation and access to the export markets are, according to the findings of many inquiries, opportunities that have enabled the furniture industry to rise out of the quagmire. A special feature in examining the branch's enterprise sizes is that the majority of our industrial product system are enterprises employing fewer than 5 people, with an annual turnover of FIM 1 – 60 million. (Toimialaraportti 1998).

Enterprises which have been successful in their branch have nevertheless been able to start exports or increase its proportion. This development has naturally enough been supported by conditions favourable to the exchange rates of the Finnish mark and the increasing demand on the part of nearby European markets. Still the future prospects of furniture manufactures have been improved in the course of the bygone year. The amount of subcontracting has decreased, the utilisation of capacity within the branch has diminished, the attitude to investments is still cautious. (Toimialaraportti 1998).

### **1.5 The structure of the study**

In chapter 1 of the study are the background of the study and the overall research area in family business and networking introduced with some characteristics of the SME furniture industry in Finland. Also the research questions, basis for and incentive to study are discussed.

Chapter 2 introduced the frame of reference of the networks, co-operation and inter-firm relationships with the analysis of the central theories, approaches and models used in network studies. The central theories lies on Industrial Network approaches and studies conducted and introduced by Uppsala School (IMP group).

Chapter 3 introduced and developed the substance of the network themes and

introduced the theoretical frame of reference of the study. The focus is on family firms and their co-operation in networks. The purpose is to describe and interpret some of the characteristics and “critical areas” in developing and managing the network relationships.

In Chapter 4 focus is on the scientific and research approaches and methodological planning for the case study.

In Chapter 5 introduced the empirical studies and the results of the study with discussion of the central themes in network approaches.

In Chapter 6 analysed the empirical results towards the chosen theories in this study.

Chapter 7 draws conclusions and discussion of the study and reflects the empirical findings towards the theories and comments the reliability of the study in whole. In the end of the chapter introduced some suggestions for the future research.



## **2 CENTRAL APPROACHES, MODELS AND CONCEPTS IN RESEARCHING SME NETWORKS**

### **2.1 Introduction**

In this chapter the overall purpose is to create a theoretical framework for analysis and interpretation for studying the networking and inter-firm co-operation. At first, introduced the central theories and models of networks and co-operation in researching industrial networks. The other purpose is to describe the network research area in four metaphors as networks as relationships, structures, positions and processes. Reflections and comments relies on many studies conducted in the area of network research during the 80's and late 90's.

In the end of this chapter introduced and structured the theoretical framework of this study. The purpose of this framework is to summarise the literature review in such a way that it can be a guide for the interpretation of the empirical study.

In this research central research tendencies in industrial networks is based on the IMP – group's works. (see e.g. Håkansson & Johanson 1982; Easton & Axelsson 1992; Ford 1980, 1997)

Furthermore, in order to deep and enlarge the theoretical framework the resource dependence and transaction cost theories will be shortly introduced and that provide more views to markets and hierarchies and the complex environment where the firms transact and compete.

The introduced chosen frame of references relies on Axelsson and Easton (1992) and Pfeffer and Salancik (1978) and Williamson (1975) approaches and perspectives researching the industrial networks. Next will be introduced the resource dependence approach and transaction cost approach and their relations to co-operation, competition and networking.

## 2.2 A Resource Dependence approach (Pfeffer and Salancik 1978)

Increasing specialisation in small market niches has tended to encourage inter-dependency between firms in the value added chain.

The resource dependence is concerned more with internal adaptations and the politics that occur inside organisations. Resource dependence has tended to adopt much more a focal organisation perspective and, thus, deals with issues theoretically and empirically from organisations. (Pfeffer 1982, pp. 180-182).

Resource dependence theory (Pfeffer & Salancik 1978) also argues that organisations are externally constrained. According to Aldrich and Pfeffer (1976) “*argues for greater attention to internal organisational political decision-making processes and also for the perspective that organisations seek to manage or strategically adapt to their environments*” (Aldrich & Pfeffer 1976, p 79).

Organisations are not internally self-sufficient, they require resources from the environment and, thus, become interdependent with those elements of the environment with which they transact. (Pfeffer 1982 pp.192-193). As Evan (1966) used the term organisation set to describe the set of organisations with which a given focal organisation transacted and argued that role pressures occurred in an organisation set.

The resource dependence theory suggest that organisational behaviour becomes externally influenced because the focal organisation must attend to the demands of those in its environment that provide resources necessary and important for its continued survival. As Pfeffer and Salancik summarised, “*the underlying premise of the external perspective on organisations is that organisational activities and outcomes are accounted for by the context in which the organisation is embedded*”. (Pfeffer 1982, p 193). According to Pfeffer (1982) there exist two elements in the resource dependence argument. One is that organisations will respond more demands to those groups or organisations in the environment that control critical resources. Resource dependence describes the development of inter-organisational power and argues that this power affects the activities of organisations.

The other element is that, the managers attempt to manage their external dependencies, both to ensure the survival of the organisation and to acquire, more autonomy and freedom from external constraint. The other part of resource dependence theory traces the various strategies of organisations and their managers to cope with external constraints from resource interdependence. (Pfeffer 1982, p 193.) In other words, the basic assumption is that firms and organisations use relationships in order to gain access to resource which are vital to their continuing existence. (Easton 1992, p 5; Pfeffer & Salancik 1978, pp. 45-46)

Firms access resources not only through suppliers and customers but also through e.g. banks, shareholders, government, distributors etc. The resource dependence model brings to the study of industrial systems a vision of the multiplicity of relationships and the dominant role of resources in determining behaviour. Resource dependence perspective differs from the industrial network perspective by concentrating on the actions of a single firm. (Easton 1982, p 5).

Many empirical researches have examined the interdependence confronting the organisation. In general, two types of interdependence and their effects on organisational strategies have been considered:

- 1) competitive or co-operative interdependence and
- 2) symbiotic interdependence, such as e.g. buyers and sellers of some product or service.

Inter-firm co-ordination can also be accomplished through the movement of executives across competitive firms within the same industry. The movement of personnel within an industry can tie set of understandings about the industry. (Edström & Galbraith 1977, in Pfeffer 1978, pp. 198-199).

Pfeffer (1981) has also reviewed evidence on the effects of power on the selection and removal of executives. The literatures of commitment, selective attention and perception, and socialisation all speak to the effect of point of view and background on information gathered and used and types of decisions made. Pfeffer (1982, p 203)

According to Pfeffer (1978) “ *organisations are only loosely coupled with their environments, and ... power is one important variable intervening between environments and organisations ..*” (Pfeffer & Salancik 1978, pp. 229-230)

These different perspectives provide interesting comparison to other theories. The comparison with Williamson`s (1975) transaction cost theory indicates that both theories are operating largely at the level of individual firm. The market failure perspective considers the small firms problem, is to be critical element explaining vertical integration and the resource control which means also many potential transaction partners to the firms. The primary difference between the transaction cost theory and resource dependence theory relies on assumptions about the motivation for the vertical integration.

There is pre-assumption of competitive pressure to force efficiency on organisations. The resource dependence argues that the principal concern motivating integration is the attempt to reduce uncertainty and that this uncertainty reduction will be pursued even at the expense of profits. Resource dependence is more concerned with the power and politics both within the firm and between the firms, that the power maintenance and power acquisition is important. Structural autonomy and freedom for the external constraints and the ability to affect other firms motivate the various co-optive strategies used by firms. ( Pfeffer 1982, p 206)

Fundamentally, resource dependence sees such inter-firm linkages as linking firms together to manage various kinds of interdependence, including transactions interdependence and financial interdependence. ( Pfeffer 1982, p 206).

### **2.3 The Transaction Cost Theory (TCA by Williamson 1975)**

Transaction cost theory studies the structures of the transaction costs between enterprises (Williamson 1975, 1985). According to this theory there are three different kinds of structure solutions: markets, which are determined by price, hierarchies, whose leadership is authorised for instance through ownership, and the hybrid structures between the two.

Williamson states, that transactions between suppliers are not without friction and that, as a result, costs arise which are dependent on the particular nature of the transactions. These costs, in turn, help determine which organisational form - free markets, vertical integration or bilateral governance - is most likely to emerge assuming firms to seek minimise costs. (Easton 1992, p 7).

The TCA's ultimate task is to recognise and develop effective transaction structures. The optimal structures are formed through the joint effects of various contingency factors. The most typical contingency factors of the TCA are transactions and the properties of the markets, especially frequency, importance, complexity and uncertainty. The TCA offers a contingency model for exploring structures and control systems between enterprises which implement transactions. Since there are fairly few contingency factors in the TCA, it is relatively simple to use for causal explanations and even for predictions. The TCA perspective is objectivistic and deterministic. (Williamson 1975, pp. 11-24).

The theory has its own limitations too. TCA does not clarify the ability of enterprises to cope with transaction costs nor does it offer precise structural solutions. The theory does not take into account the processes in development in the relationships between enterprises either. However, the weaknesses of the theory which are hidden under the thinking in terms of economic efficiency should be remembered.

It is assumed that the relationships between enterprises are based on trust and the development of trust, which helps enterprises to lower transaction costs as a defence against opportunistic behaviour (Johansson & Mattsson 1987; Andersson & Narus 1990).

The development of institutional economics which gives transaction costs a major role in determining vertical market mechanisms, comes closest to addressing the same issues as the industrial network approach. It assumes that transactions between suppliers are not without friction and that, as a result, costs arise which are dependent on the particular nature of the transactions. These costs, in turn, help determine which organisational form, free markets, vertical firms seek to minimise costs. (Easton 1992, p 7).

Johansson and Mattsson (1986) argue that the similarities are more superficial than profound. The transaction cost approach focuses on the single relationships not the bounded rationality (in Easton 1992).

#### **2.4 The Industrial Network Approach (Axelsson and Easton 1992)**

The industrial network approach has emerged as a separate and viable paradigm in its own right. It shares with other approaches a belief that the existence of relationships, many of them stable and durable, among firms engaged in economic exchange provides a compelling reason for using inter-organisational relationships as a research perspective.

As a research tradition the network approach is fairly young. The researchers endeavour to understand the complex relationships among enterprises mainly through deep-probing descriptions of networks. Taking the context and the time into account is a very typical feature of this approach. Individual occurrences and factors that determine them cannot be understood without some knowledge of their context. The configuration therefore provides good and ample opportunities for methodological research options. However, the paradigm is socially rather cohesive and there are many shared assumptions between the different views and perspectives.

The network approach is closely connected with the Industrial Marketing and Purchasing Group's research and researchers (see Axelsson & Easton 1992; Håkansson & Snehota 1995; Gadde & Håkansson 1993; Håkansson & Johansson 1992).

It is concerned with understanding the totality of the relationships in an industrial system. The aims of the network approach are descriptive, not explanatory. The researchers propose that the relationships between enterprises can be understood from the standpoint of the individual enterprise and from the holistic standpoint of the whole network.

Theories of social exchange are primarily interested in explaining the operation of network phenomena. According to Cook and Emerson (1984).. " *the primary focus*

*of social exchange theory is the explanation of the emergence of various forms of social structure, including networks and corporate groups....* “ The concept provides an idea of indirect relationships where A may effect C through B because there are connected exchange between all three parties.

Research of communication and social networks has been largely inductive in character. The unit of analysis is commonly the individual in a social context and the network is defined in terms of patterns of communication or social interactions occurring regularly between and among those individuals. This perspective gives an idea to rely on social, long term relationships between the individuals in and between the firms.

The branch of economics described as industrial organisation theory has also addressed similar issues to those dealt with by the industrial networks approach. It is concerned with the structure of industries and the relationships among firms in those industries. Relationships between suppliers and customers are assumed to be atomistic and they have direct power to firms as “extended rivals” as Porter (1985) states it.

So far, the resource dependence approaches and transaction cost theories have links and alternative perspective to provide to industrial network approach. In summary, one can notice, that the mixture of different approaches are characteristics to networks phenomena and to inter-organisational studies. The network researchers have in fact developed four different angles, in other words, metaphors to describe network approach as relationships, structures, position and process.

## **2.5 A Model of Industrial Networks ( Håkansson & Johansson 1992)**

A model of industrial networks consists of three basic groups of variables: actors, activities and resources (Håkansson & Snehota 1995, p 28). These concepts construct the unit of network function. Actor bonds connect actors and determine how the actors perceive one another and form their identities in the networks.

The actors can be people, parts of different organisations, organisations and their combinations or groups of enterprises which control activities and resources.

According to Håkansson & Snehota (1995, pp. 39-41) every relationships have the network function: activity links are important in the activity pattern, resource ties in the resource constellation and actor bonds in the web of actors.

The aggregated structure is an organised web of conscious and goal-seeking actors. Håkansson & Snehota (1995, p 40) states that “ *the structure of business networks has certain peculiar organisational attributes. The actors (firms) have no common goal, but there exist some shared beliefs about activity pattern as well as the resource constellation...*” A networks have no clear boundaries, nor any centre or apex. Change in the substance of any of the relationships affects the overall structure.

The essence of the network function of business relationships is that as they arise they form a structure of actor bonds, activity links and resource ties where third parties integrated. How the relationships develop and unfold is important for the features of the actors organisation pattern and resource constellation and thus on properties of the network structure such as stability. The emergent structure has in any given moment a limiting effect on its actors at the same time as it provides the base for future development.

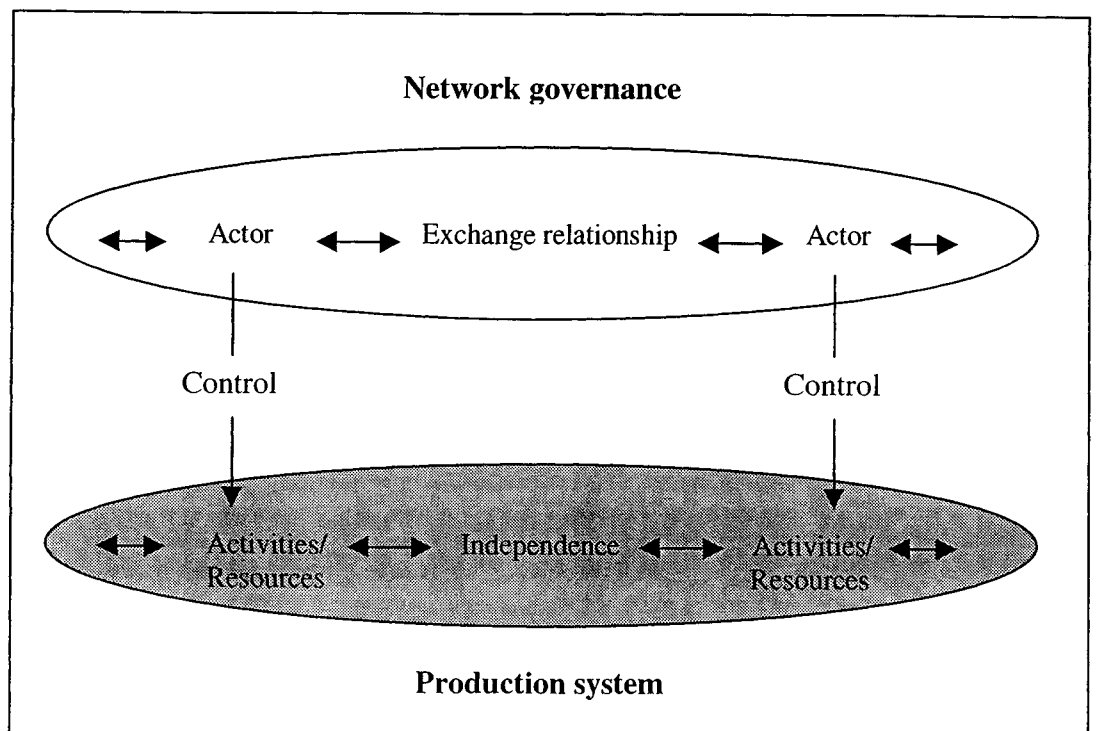


Figure 1. The relations between actors, activities and resources (adapted from Håkansson and Johansson 1993, p 36)



According to Mattsson (1988) a network can be seen as a giant global industrial system which forms a complex where all actors are connected by at least one type of chain. In the interaction processes the enterprises increase their resource reserves by combining their resources. As the activities form the network and/or the structure of the economic interaction, they also influence the profitability of the enterprises.

The chain of the operations can also be regarded as a potentially growing function which with respect to the actors' own activity and invested resources form one part of the value chain of the enterprise and/or the network. A typical chain of operations of this kind is for instance to be seen in the subcontracting industry where the enterprises manufacture different components for the value chain of the customer, often the deliverer of the goods.

The operations can thus be seen as dependent on each other in accordance with how the different processes of manufacture are divided among the different enterprises. At its loosest such an interaction relationship between activities occur in the normal customer–seller- relations.

Flexibility is connected with the relationships between activities in the interaction process. The performance outcomes comprise the economic and the functional efficiency and effectiveness of exchange, co-ordination and adaptation processes. The number of different activities is of great importance when initiating co-operation.

The strength of the relationships represents very different dimensions in the inter-firm relationships. The bonds determine unity and identity, and as another dimension can be regarded the form of trust and bonds. In order to progress and develop, the enterprise will have to arouse interest so that external enterprises find the network interesting as one reliable whole. Interaction and network theorists have distinguished technical, planning, knowledge, social, economic and legal bonds and focused on the strength of bonds in particular (Hammarquist, Håkansson & Mattsson 1982, pp. 23-24; Halinen 1994).

## 2.6 Networks as relationships, structures, positions and processes

In this section the concepts of network relationships will be described basing the discussion on Easton's (1992) reflections. The four metaphors are supported also with some other authors perspectives on network concepts. This chapter is important in shedding light to the main issues in the theoretical framework and the description of the studied case firms. Chosen themes or issues are pondered more accurately when creating tools to interpretation and understanding the networks and co-operation development in inter-firm co-operation.

### 2.6.1 Networks as Relationships

The interaction approach provides a rich model of relationships between firms and of inter-firm buying and selling. Much of this richness has of necessity been discarded when an aggregate approach to relationship is required. In this section only those characteristics of single relationships which are thought to have relevance to the structure and processes of networks are discussed.

One analysis of interfirm behaviour distinguishes between relationships and interactions (Johansson and Mattsson 1987, pp.34–38). The relationship elements of the behaviour are rather general and long-term in character. Interactions represent the here and now of inter-firm behaviour and comprise exchange and adaptation processes. Relationships can be presented as comprising four elements: **mutual orientation, dependence, bonds and investments.**

Each of these elements is strongly tied to the others. Mattsson (1988) states that interaction presupposes that the enterprises are ready for interaction contacts and expect a similar attitude from the counterpart. **Co-operation** is required and this depends at least in terms of one view of co-operation, on the relationships between the firms objectives. Co-operation may also be instrumental in that each firm seeks to gain different ends form the same development programme or seeks new markets and wish to develop new processes for instance with the intention of developing new technology.

Hägg and Johansson (1983) also illustrate the importance of relationships. “*Relationships allow of a more effective acquisition of resources and sale of product*”.

Knowledge of the co-operative partners makes it possible better and more precisely to define what they can do and offer, for in either case it is possible to cut costs and increase sales. By the help of relationships it is also possible to create and combine knowledge between enterprises. Relationships furthermore provide continuity and stability with an increased ability to plan, reduce costs and increase effectiveness.

**Dependence** is partly a matter of choice and partly a matter of circumstances. Dependence brings with it the problems of **power and control**. The importance of power can be described as substituting knowledge or technological skills in the sense of utilising for instance subcontracting. If knowledge and skills are not unique in the interaction between enterprises, power is seen as control by the stronger enterprise. Referring to the research by Easton and Araujo (1992) understanding the operations and development of a network also presupposes understanding of the relationships between indirect and non-economic actors.

The direct relationships involving economic interaction are the core relationships in a network, typical customer–seller relationships. A relationship involving economic interaction can be a matter of competitors with a common customer. In networks terms strong bonds provide a more stable and predictable structure and one which is more likely to be rather volatile.

In inter-firm co-operation, the formality and distribution of tasks with regard to a relationship can be identified by means of different bonds. Different bonds determine the strength and operational form of relationships. Referring to the model theories of the industrial networks and network approach, bonds can be divided into bonds concerned with technique, planning, knowledge, and social, economic and legal relations. (Mattsson 1984)

A related characteristics of network relationships is longevity. The original IMP study and the studies of Gadde and Mattsson (1987) carried out a more complex analysis of relationships duration within the context of other relationships. The study

reflects to dynamics of the network. Even a strongly bonded network change if the external forces are powerful enough. A weakly bonded network may continue to exist in the form in benign and unchanging conditions.

The economic rationale for strong bonding is clearly dependent upon the satisfaction with the terms of the current exchange and the presence or absence of alternatives. More formal economic bonds may also exist where firms invest in one another or in joint ventures or provide extended credit facilities.

The strength of co-operative relationships should actually be seen as operational capacity to counteract threatening or disturbing forces. According to Easton and Araujo (1992) strongly bonded co-operative activity develops more permanent and predictable structures which will withstand changes. Loosely bonded co-operation is presumably more vulnerable.

Social exchange has been identified as a significant factor in the overall strength of inter-firm relationships. Mattsson (1988) cites Blau's description of the process. "*Social exchange relations evolve in a slow process, starting with minor transactions in which little trust is required because little risk is involved and in which both partners can prove their trustworthiness...*" (Blau 1968). It is also worth to notice that familiarity breeds affection. Social relations between firms are the resultant of the relations of the individuals involved. Social relationships extend beyond individual firms. Networks will usually have a social dimension characterised by patterns of individual social contacts (Hamfelt & Lindberg 1987). They might also have same culture, i.e. commonly held beliefs about the basis of social activity within the network.

Information is the common currency of inter-firm relations. The collection of information is one of the primary uncertainty reduction activities that firms adopt and networks provide a necessary vector. Firms may be bound legally by contracts or by rather more general articles of involvement or ownership.

The fourth element of relationships is **investment** according to Johansson and Mattsson (1986) "*Investments are processes in which resources are committed in order to create, build or acquire assets which can be used in the future*".

Investments can be all from machine to know-how and people in organisations. It may also be time spent in establishing good social relationships.

One important aspect of relationships is atmosphere. It is inherent in any relationships is the tension between conflict and co-operation. (Ford, Håkansson & Johanson 1986). It is inherent because partners will be concerned that they are receiving an equitable share of the benefits which accrue from the existence of the relationships. Conflict may also arise from absence of mutuality because of changes in the objectives of either party or because the processes of exchanges are not being managed to the satisfaction of one or both parties. Relationships form the context in which transactions take place. Transactions as exchanges and adaptation procedures, the latter is closely associated with the investment elements and the adaptation is to continuous process of change in products or other resource commitments.

Conclusion the notion of relationships in networks and inter-firm co-operation is multiple. The implicit in this whole analysis is the notion that strongly bonded relationships define networks. While this may be true in general it is arguable that other kinds of relationships exist in networks which can have a significant effect on their operation.

Indirect relationships are another very different form of relationships though a crucial when they provide direct link between dyadic relationships and networks. An indirect relationship is most simply described as the relationships between two firms which are not directly related but which is mediated by a third firm with which they both have relationships. Two rather important kinds of indirect relationships are vertical firm to customer and horizontal, firm to competitor through mutual customer.

Indirect relationships also specify the routes by means of which firms gain access to resources. Mattsson (1986) identifies seven dimensions which can be used to characterise indirect relationships. They include distance from a focal firm: vertical or horizontal nature; complementary or competitive; narrow or wide connection; the strength, kind and content of the direct bonds concerned; the interdependency of the direct relations concerned and the value added of a focal firm's direct relationships.

Mattsson (1986) points out that for example the predominance of widely or narrowly connected indirect relationships will fundamentally affect the structure of a network.

### **2.6.2 Networks as Structures**

When there is no interdependence, as is assumed in some economic models, an industrial system will be unstructured and stochastic in nature. The greater the interdependence, the clearer the structure of the network becomes and the more important it is in determining the behaviour of individual firms.

A basic assumption of the industrial network approach is that networks are essentially heterogeneous in nature (Hägg & Johansson 1983). The sources of heterogeneity are easy to describe but less easy to model.

Industrial systems exist to match heterogeneous resources to heterogeneous demands. The heterogeneous lies in the firms involved in the network transforming resources to meet needs. Each firm is individual in its structure, employee preferences, history, resources, investments, skills, knowledge etc. The role it chooses or may be forced to play in the transformation process will be determined partly by factors such as these. Uncertainty reduction is one motivation for forming strong relationships though it has been argued that networks also create uncertainty albeit of a different kind.

Thus specialisation, learning by doing and the careful investments of business activities will further develop heterogeneity and create new possibilities for example of expanding the market. One means of characterising the structure of the network is to divide the work up among the enterprises belonging to the network. Thus interdependence is not only a source of heterogeneity, it is also a result of it. They are mutually reinforcing.

The independence of the network is again illustrated by its isolation from other networks, such a structure already suggesting international status. One structural issue in network analysis is that of boundaries. Mattsson (1988) refers to the global structure of networks, which imposes criteria on the analysis of networks, criteria which can be analysed in the context of the interaction and dependence of

enterprises, the chains between enterprises and the geographical distance.

Nets may be identified in terms of the strength of complimentary among the members of the net. (Hägg & Johanson 1983). They may be thought of as local concentrations in the network. The firm may be a member of more than one net which adds another dimensionality problem to the analysis of networks. A net may also be defined by the activities of a single powerful organisation.

Social network analysis has developed a number of concepts. Mattsson (1986) has applied four of these concepts to industrial networks. Structure refers to general level of interdependence in a network.

The networks can also be divided into the tightly and loosely structured. Typical of the tight networks is that there are many ties between the actors and definite tasks. The activities of the individual enterprises are thus strongly restricted by the network. Further typical feature of the tightly structured networks is that new actors joining the network are rare just as the exit of old actors is exceptional. The case is the opposite with respect to loosely structured networks.

### **2.6.3 Networks as Position**

The position of networks can be best studied from the viewpoint of individual enterprises. The history or earlier position in the network relationships determines to a large extent also the future position in the network but at the same time offers new possibilities. The operational role of the enterprise, its power relation to the other enterprises within the network, determines in most cases also the future interaction and power relationships.

Position does not, however, always indicate power even if the internal relationships within the network are hardly ever equal. Enterprises whose activity within the network is a normal customer–seller relationship (for instance subcontractors) can be quite independent and free to move especially when the enterprise is a subcontractor to many different customers. On the other hand, an enterprise tied by strong bonds to other enterprises in the network can be quite vulnerable.

Johansson and Mattsson (1986) have divided the position concept into micro and macro positions:

The micropositions are characterised by:

- A) the role of the firm in relation to the other firm(s)
- B) its [a firm's] importance to the other firm(s), and
- C) the strength of the relationships with the other firm(s)

The macropositions are characterised by:

- A) the identity of the other firms with which the firm has direct relationships and indirect relationships in the network,
- B) the role of the firm in the network and
- C) the strength of the relationships with other firms

Mattsson (1987) provides a link to strategy by identifying four strategic situations in relation to network position as entering and existing in an established network, defending and changing existing positions. Mattsson states that specific strategies the firm might adopt in the last two situations. He argues that all strategies involve network position change whatever or not this particular focus provides the best way of understanding or implementing them.

#### **2.6.4 Networks as Process**

Change is a central feature of much of that occur all the time in networks. Network processes are dominated by the distribution of power and interest structures. It is typical of interaction that some enterprises have better opportunities to acquire additional resources than others, which may be a result for instance of far-sighted management of resources. The evolutionary processes are natural development processes in the network because they belong to the changes in the network relationships or its life cycle. Two dialectical processes in networks are competition and co-operation.

The network approach emphasises co-operation, complimentary and co-ordination. Also innovation leads to strongly bonded networks. Håkansson (1987) identifies three aspects of innovation in a network perspective as knowledge development,



resource mobilisation and resource co-ordination.

The existence of strong bonding demonstrates a high level of co-operation. Hägg and Johanson (1983) argue that competition in the traditional sense is replaced by rivalry for the control of resources. Such rivalry may occur at any level of aggregation. An alternative but complementary view is that competition in networks is a function of the overlap of organisational domains. Complete overlap implies competition, partial overlap implies networking ( Thorelli 1986).

Networks are stable but not static. The continuing processes of interaction between firms are stabilised since they take place within the context of existing relationships. From the standpoint of co-operation it is central to know what drives enterprises into networks and what benefits the enterprises find in the networks. From the process point of view resource balance is what is sought from the networks. The process is also characterised by minimal development. An evolutionary development is natural to the emergence of long-term network relationships.

Industrial systems exists to create products and service. Innovation is a major force in networks and much of the empirical work on industrial networks has been done on new product development (Håkansson 1987). It is argued that the invention and innovation occur in networks not within but between the firms. For the invention to become reality, network mobilisation must occur. Firms must adapt old relationships and internal activities and develop new relationships. Mobilisation requires resources and if such resources are not available or more likely will not be made available by network participants the innovation fail.

In a network where innovation dominates limitation of resources forces firms into increasing technical specialisation. This means that they become increasingly reliant upon other firms which have complementary resources with whom they are driven to co-ordinate their resource activities.

Networks do not tend to optimal efficiency configurations. Mattsson (1986) suggests that lack of balance between resources is an important driving force for investment processes to be initiated in different firms.

Thorelli (1986) sees entropy as the driving force leading to the disintegration of networks. Resources are consumed and structures created in an attempt to arrest the process.

## **2.7 Structuring the empirical findings – a theoretical framework**

Building on the literature presented in chapter two (2.1 - 2.6.4) a theoretical framework is presented in figure 2. The purpose of this framework is to summarise the literature review, that it can used as a guide or structure of empirical findings.

In this section the theoretical framework for the empirical research of two Finnish furniture networks will be constructed. At the centre of this theoretical perspective lies on relationships in networks. The focus of the study is to describe the relationships and inter-firm co-operation in focal networks.

The co-operation and relationships are the central themes in much of the presented literature and for the next sections. The intention is that, the central perspectives of network themes as relationships are described in more detailed in the next chapter (3) and their meanings and importance to the theoretical framework are discussed and based on the earlier network and inter-firm co- operation studies.

Four such perspective in networks as relationships are identified; mutual orientation, dependence, bonds and investments and also some other important perspectives on knowledge, power and control and longevity (e.g. Easton 1992; Mattsson 1986; Johanson & Mattsson 1987; Hägg & Johanson 1983; Easton & Araujo 1992; Gadde & Mattsson 1987; Ford, Håkansson & Johanson 1986). In co-operation the perspectives lie on commitment and trust. (e.g. Johansson & Matsson 1987; Aldrich & Whetten 1981; Aldrich 1986; Emerson & Cook 1984; Jarillo 1988)

These different perspectives generates the pre-understanding “categories” conduct the empirical cases.

The theories and approaches beyond in this study rely on transaction cost theory by Williamson (1975) and Resource Dependence theory by Pfeffer and Salancik (1978) and the Industrial Networks approach by IMP-group. The network model introduced

by Håkansson and Johansson (1993) is used as tool to describe the two furniture networks. From the industrial network approach the chosen metaphor is networks as relationships.

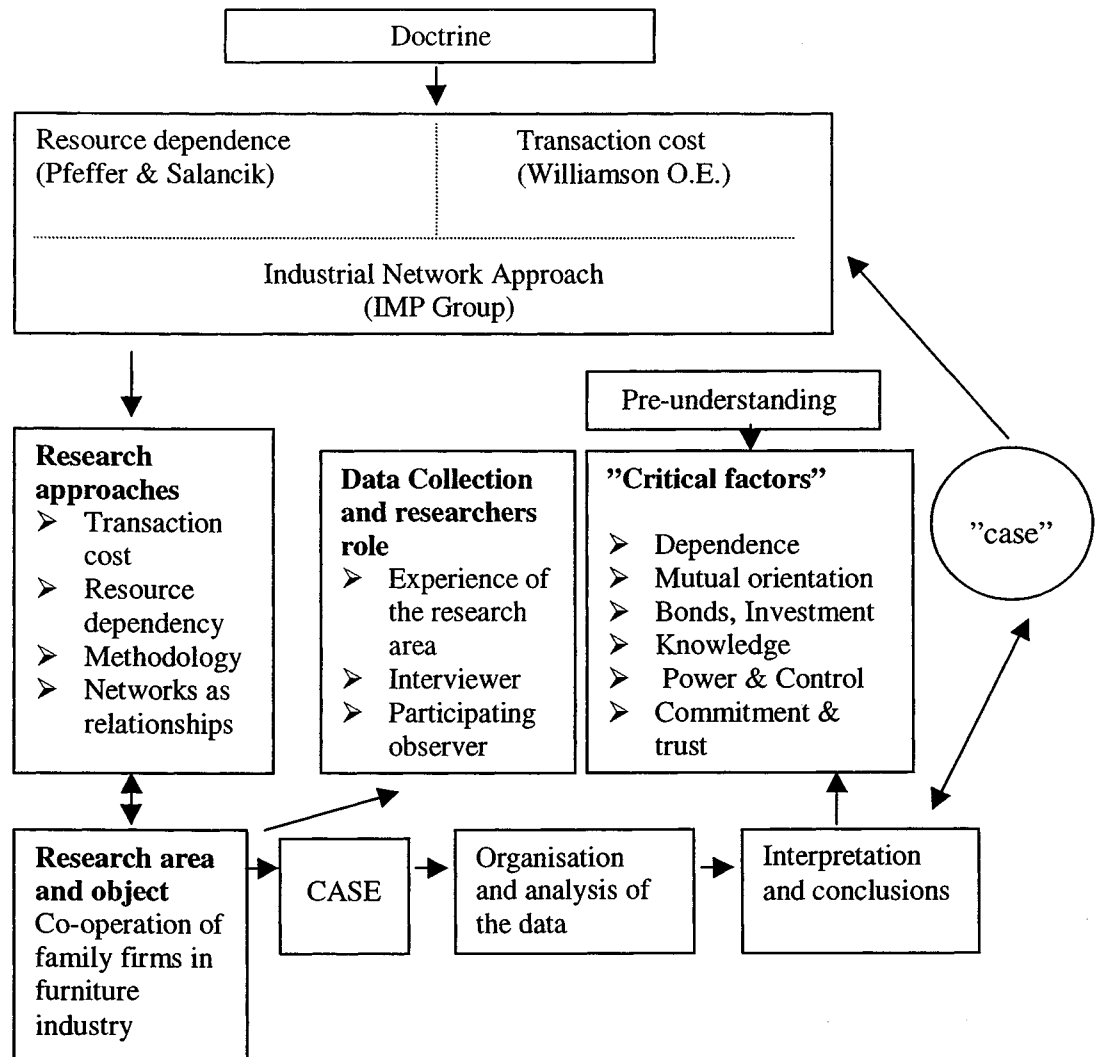


Figure 2. Family firms and co-operation in networks – a theoretical framework

### **3 FAMILY FIRMS AND CO-OPERATION IN NETWORKS**

In this section it is discussed the theoretical framework presented in figure 2 in section 2.7. The purpose is thus to deepen the understanding of the complex network research and to use the empirical findings in the framework conduct the study.

#### **3.1 The theoretical framework and its relation to earlier network studies**

The Industrial Network approach shares with other approaches a belief that the existence of relationships, many of them stable and durable, among firms engaged in production, distribution and the use of goods and services, are in what might best be described, industrial system. Insofar have noticed in the previous literature review, that for such a young paradigm there exist remarkable number of alternative views and perspectives. The paradigm is socially rather cohesive and there are many shared assumptions. (Easton 1992).

There seems to be many routes to discuss network theories. In this study when the focus is to concentrate to focal furniture networks and to describe their inter-firm relationship, it is worth to notice, that these family firms have a long business history in the furniture industry.

Inter-firm transactions, direct and indirect relationships, alliances and joint ventures all are familiar business models used as in subcontracting and joint ventures. One could also argue that small firms, family firms and their inter-firm, network relationships are facing many managerial, social and structural changes and adaptation processes in daily operations. Persons are doing business, not firms, organisation do not have objectives, only people have objectives.

In the field of network research the different authors have tried to describe and make useful the network approach to the research purposes and also for the praxis. What are then the main differences between the schools of network theories is not main issue to this study. The purpose is to locate the small firm research to the field of the network theories and to try to understand the characteristics in different network studies and traditions.

One of the most central perspective lies on describing the relationships in network. Should we describe and understand the interactions as physical as resources and activities or as social interaction between and in network operations.

There is no need to put stress in the analysis of differences between the network authors, but it is worth to notice what are divisions and differences in perspectives in managerial, social and psychological and network approaches. The table 1. below combine and introduce some of these elements. The table is created by Paasche, Pettersen and Solem (1993).

Table 1. Differences between network authors in network research (adapted from Paasche, Pettersen and Solem (1990, p 85: source Avainsektori 1994)

	Benson	Aldrich & Whetten	Cook & Emerson	Thorelli	Uppsala Tradition	Jarillo	Baker
Actors		x	x				x
Resources	x			x	x	x	
Competition	x	x		x			
Selection of actors			x		x	x	x
Focused	x		x	x	x		
Decentralized		x					
Stable	x		(x)	x	x		x
Unstable		x				x	
Complexity		high			medium	high	

In this study main focus is in the critical factors that are important to relationships and network development in the case firms and networks. Co-operation and competition drives firms to strategic choices sometimes dealing the ones own family firms decisions and sometimes in the joint venture decisions or other network forms decisions like in sub-contracting inter-firm relationship and co-operation.

Also the firms past, inertia and the success have an influence and incentive to networking. The furniture industry itself provides an large research area to investigate the local small firms network relationships. The Ministry of Trade and Industry (1998) has done various ad hoc research in the area of furniture industry but not so many studies have conducted in describing the relationships, co-operation nor networking in furniture industry in Finland.

Insofar, relying to previous studies and personal perception of the facts of state of art in furniture industry today, it seems quite well-known fact, that in Finnish furniture industry the networking is still quite low. Anyhow, those firms (Toimialaraportti 1998) which are network-oriented and have successful experience in joint production and marketing operations establishing alliances or joint ventures are also growth oriented and they see quite positive the future prospects in furniture business.

### **3.2 Co-operation and relationships in small firms networking**

In this section some conceptual and empirical findings of the small firms networking and co-operation are introduced. At first will be stressed more weight to co operation performance and factors effecting it. Then, one of the main “categories” and critical factors effecting to small business networking success will be introduced in terms or “themes“ dependence and interdependence, mutual trust and bonds, power and control and investments and knowledge in co-operation.

In the literature very different views have been presented concerning the contents of co-operation and competition. In this study co-operation is investigated from the point of view of small industrial furniture enterprises whose networking is still very limited in Finland.

The terms used for co-operation between enterprises differ considerably among researchers. The most generally used terms for co-operation are partnership, coalition, co-operation, inter-organisational relationship — all synonymous terms. The difference between competition and co-operation is in certain cases fickle frequently especially horizontal co-operation models contain both elements. In the widest sense the inter-firm relationships and networking can be seen as a global net of interaction in which the complex relationships between the actors in the network form one single chain (Mattsson 1988).

Vesalainen (1994) has collected eight different components to describe the definitions of enterprise co-operation as follows:

- The partners in the co-operation are economically separate independent enterprises
- Co-operation is based on voluntary
- The aim of co-operation is to improve the partners' competitiveness
- The rights and obligations of the partners are defined by an oral or written, short or long-term agreement
- The partners in the co-operation place their resources at the joint disposition of all of them
- The co-operation is often directed at the caring for some particular sub-area of the entrepreneurial enterprise
- In other sub-areas the partners retain their independent decision making
- The partners are equal between them and dependent on each other

Enterprises are open structures which have many different relationships with external quarters. In order to be able to manufacture their products, enterprises need different resources: raw materials, capital, a workforce, etc. These needful resources an enterprise will have to find in the environment; it will also have to find markets for the products manufactured. For this purpose the enterprise can use organisations which have specialised in distribution and sales. Enterprises are thus dependent on individuals and organisations outside their own organisations, and these are outside the immediate control of the enterprise (Pfeffer & Salancik 1982).

*“Co-operation is a voluntary and usually long-range agreement between two or more quite independent enterprises. The agreement aims at improving the results of the enterprises. This is to be done by investing resources and personal engagement in a joint project. The enterprises share decision-making, responsibility, implementation, results and risk-taking in connection with projects. In every other respect they remain quite independent.”* (Andersson 1979, p 10)

### **3.2.1 Dependence and interdependence**

Aldrich and Brickman Elam (1995) focus on the notion that success in business depends greatly on the effectiveness of the entrepreneur in developing and using networks. Strong tie networks are critical to the success of small business. Small business owners are in a difficult position in industrialised nations, and strong ties of intimate friendship provide social support enabling owners to weather crises and hardship. Strong- tie relations of long duration are cemented by loyalty and trust and stand as a bulwark against an owner as being exploited by people out for short-term gain. ( Aldrich & Brickman Elam & Reese 1995, p 15)

Interesting and controversy results have been found by Donckels and Fröhlich (1991) *“...family businesses seem to need fewer socio-economic networks, less co-operation with other firms, less subcontracting, and less collaboration with other firms production. It is not clear whether family businesses have more actual independence or whether the owner-managers have a more positive attitude toward independence...”*.

Referring to authors conclusions the interdependencies with the environment culture and the macroeconomic situation are less intense in family business. The main reason for this is the crucial role of the entrepreneur, who in most cases is also the owner- manager. Taking his less pioneering profile into account, it not at all surprising that he/she is less network-oriented. (Donckels & Fröhlich 1991, p 159)

From the viewpoint of small enterprises the form of the agreements has a central effect on how the risks and costs and possible profits that occur are divided. The spiritual level of trust is also important if opportunistic behaviour is to be avoided. The formality of the co-operation on the level of small enterprises depends on the



line of business and on the complexity of co-operative conditions that have to be fulfilled within it, the complexity of the activities.

Cook (1997, p 65) points out the importance of power. "*Power is linked to dependence in exchange formula.*". In the small business context it is clear that where for example, a small firm derives a significant proportion of its turnover and profits from acting as subcontractor to another, often larger firm, the small firm becomes dependent on the latter. In turn, the large firm may acquire power over its sub-contractor. The power can be measured in the terms of larger company's influence on decision-making within the smaller firm areas such as pricing or investments. In other words, domination or control characterises one form of networks constitution. (in Szarka 1990, p 13)

Relations based on control do not produce the same results as co-operation, especially from the point of view of the small firm. Where networking is limited to sub-contracting relationships, the long-term viability of the highly-dependent small subcontractor can be poor (Sallez 1989). The dominant contractor can squeeze the profits of the small firm to the minimum: the latter's capacity to invest is thereby reduced. This restricts its ability to improve viability by, for example greater specialisation or own product development (Brusco 1986).

Arocena (1984) argues that the success or failure of new firms depends on the networks developed and exploited by their founder. Lazerson (1988) stresses the importance of personal ties in network formation. Network as system allows small firms to specialise in those components of the value chain in which they have competitive advantage, bonding out those activities in which they are disadvantaged to network partners, who do have strengths in the relinquished (Jarillo 1998, see e.g. Porter 1980)

Anyhow where the network is dominated but a single firm and relationships are of traditional sub-contracting kind, competition on price is the rule. Co-operating firms know that, whilst, optimal networking is an effective strategy to reduce, sub-optimal networking will increase risk by increasing their dependency on e.g. potentially unreliable supplier.

To overcome the danger of dependence traditional risk reduction strategies can be implemented (Lorenz 1988). The firms are also depend on the “outside” development in industry and ever changing market. Co-operation and networking do not exclude competition, on contrary, successful co-operation leads to an enhancement of competitiveness. (in Szarka 1990).

Small firms have number a particular features. They are usually based on personal contacts, not official links, they are informal and are not openly advertised. They are flexible, being build up and maintained, specifically to suit the purposes of their members. It is often these networks that give their member entrepreneurs the potential to react fast to a new developments. Having “know-who” competency or networking skills can therefore be essential. (Bridge, O`Neill & Cromie 1998, p 116)

The degree of dependence is connected with critical resources which determine the relations between the enterprises and its growth. (Norman 1975, p 77).

In the co-operation between enterprises it is possible to distinguish dimensions referred to in the literature which represent both managerial and socio-economic conceptions of how co-operation should be conceived from the point of view of continued development and success and how the viewpoint of an individual enterprise limits or creates new possibilities of intensifying co-operation.

Since no control exists, there can also be no guarantees that the needed resources are always and conveniently available or that the produced commodities will find their way to the assortments of the distributing agency. In a strategic sense the aim of co-operation is that by uniting greater competitive advantage is achieved in relation to outsiders than an enterprise could achieve on its own.

In the furniture branch the value chain of the main contractor and the subcontractor is a typical form of this kind of division of labour involving shared costs and joint profit. (Norman & Ramirez 1993). According to Norman and Ramirez (1993) the importance of strategy in the readily changing competitive environment is no longer to place activities on the chain. Besides, enterprises do not only add value but develop it a new. *“The focus is not in the company or even industry but the value-creating system itself, within which different economic actors, business partners,*

*allies, customers, work together to co-produce value...*” Ikea is more than a link on a value chain. It is the centre of a constellation of services, goods and design. The goal is not to create value for customers but to mobilise customers to create their own value from the company’s various offerings.

According to the network approach the enterprises on the value chain should remain faithful to the inter-firm agreements rather than defend traditional hierarchical ownership relationships. Why then should enterprises join together? To stabilise themselves and get access to bigger resource reserves or to reduce business costs and risks? In the networks the enterprises seek new resource facilities, by the help of which they can better than before concentrate on developing their core capacities. In the coalition the business costs do not increase the investments due to specificity of the reserves. The coalition continues its activity starting from the point to which the individual enterprises or shareholders have brought it.

The specificity of the assets recurs in the co-operative enterprise or coalition where its effectiveness lies. In the furniture industry the strategic coalition offers a riskfree alternative but gives ample opportunities for reducing the individual enterprise’s business costs. The independence of the enterprise remains, the investment of the enterprise’s own capital in the co-operation is fairly small and investment in other physical resources is limited.

### **3.2.2 Bonds and Mutual orientation**

Starting and developing co-operation is a voluntary task that needs commitment in one way or another, for especially the co-operation between industrial enterprises contains both normal customer–seller relationships and more and more complex business interrelationships connected with production and marketing in furniture industry.

Hägg and Johansson (1983) have studied networks, defining a net formed by local actors as co-operation, which can be considered a net of mutually supplementary resources and strengths as part of a larger network unit. This is indeed essential in terms of the network involving a line of business and its environment. Because of

this, nets can be seen as built up vertically or horizontally, which means that two actors do not necessarily interact.

Lazerson (1995, pp. 35-59) studied Italian knitwear industry and states that a modernised form of putting-out, composed of inter linked microfirms, is compatible with high living standards and organisational efficiency. The success of the system rests on technological and marketing factors, the presence of cohesive family units, co-operative relationships between business and community actors, and an institutional environment supportive of small, family-run firms. The small firms are indeed embedded in local networks of both large and small firms on which they depend for job experience, supply, subcontracting and customers. The firms also set out the nation and country and seek new partners that are non-local suppliers and competitors. (Young & Francis & Young 1993).

The virtual enterprises or networks consist of independent enterprises-suppliers of goods, customers, brokers who pool their technological know-how, marketing skills and costs, and who also admit each other into their own networks. The aim of virtual entrepreneurial co-operation is to combine the core potentials of each enterprise to form a single unity, which benefits the customer.

Also adaptation to environmental changes can be enjoyed since fewer employers' connections need co-ordination (Miles & Snow 1986). The network enterprises' close links to external actors give access to advantages like new know-how (Powel 1987), goodwill (Gerlach 1987), risk sharing, scale and scope of economies (Johnston & Lawrence 1988).

An industrial district can be defined as *"...a socio-economic entity which is characterised by the active presence of both a community of people and a population of firms in one naturally and historically bounded area.."* (Becattini 1989, p 38 in Fletcher & Hardill 1995).

Also Dei Ottai (1994) points out that in an industrial district "people and firms" tend to merge". Sharing a common culture and where trust as a collective capitalist largely a byproduct of the common culture. For many socialised industrial districts

the desire for recognition and economic advancement trends to be manifest in the aspiration to self-employment. (Becattini 1989, p 38 in Fletcher & Hardill 1995).

For example Andersson and Narus (1990), Johansson and Mattsson (1987) and Jarillo (1988) see transaction costs as a result of lack of confidence in the co-operation. *“Uncertainty raises the costs of executing market transaction in the transfer of goods or services when opportunistic thinking is present”*. In the imperfect world, opportunistic bargaining and high uncertainty make it more difficult for the buyer of the goods or services to evaluate the supplier’s actions, and high asset specificity makes opportunistic supplier decisions particularly risky for the buyer. (Williamson 1975).

In the market, short- and long-term relationships can be divided into two contractual exchange systems, temporary and permanent. The advantage of permanent relationships lies in their long-term character and they involve investments. Temporary relationships on the other hand are prone to lead to opportunistic behaviour in the markets. Van de Ven (1992) states that choice in relation to structure depends on two factors, which are risk and trust in the enterprise exchange. The co-operation between enterprises can thus assume different forms of organisation depending on whether the relationships are formally or informally agreed on. Trust brings lots of benefits to firm. When both sides trust each other they can share information and invest in understanding business. (Kumar 1996).

The manner in which the co-operation is organised does not seem to be the most relevant criterion for successful co-operation. In the shaping of the industrial small-enterprise networks, the forms of co-operation vary depending on the line of business. The objective of co-operation in the furniture branch can, on the basis of the literature presented above, be defined as the combining of resources and the sharing of expenses.

The size of the enterprises and factors related to the enterprise as a whole are of importance when it comes to what kind of co-operation an enterprise would find it profitable to join in order that the above mentioned objectives should be fulfilled. It can be speculated how the networking of small enterprises operating in the countryside and for instance how co-operation between large and small enterprises

will develop.

Johannisson (1987) presents three network types that outcomes close to fulfilling the needs outlined. These are, firstly, **production networks** which occur within and between trading organisations and contracts. Secondly, he presents **personal networks** which are formed by ad hoc friendship ties and are based on **trust**. Thirdly, he conceives of **symbolic networks** formed by social bonds based on community ties and conformity to collective values. Johannisson `s terms the core of the exchange networks is the trading partners of the firm – in the “production networks”

The social network is formed by family, friends and acquaintances. In the small business context, these may be taken to be contacts. The social network has two components The first is the personal networks, considered as concrete contacts with specific individuals. The second is wider cultural dimension in which the actors are immersed. Culturally induced values, attitudes and behaviours are of the prime importance in explaining the nature of the relationships that are formed not only within the personal network but also within the exchange and communication networks. ( Johannisson 1987)

Congruence of aims and mutual trust can underpin network formation. (Thorelli 1988; Jarillo 1988). Trust leads to co-operation, the opposite of control. By co-ordination is understood a situation in which a “leading” firm (Lorenzoni 1988) or a “hub-firm” (Jarillo 1988) orchestrates the value-adding chain.

In the network the relationships among the actors play an important role. Usually the actor controlling the most critical resources will rise to be the leader and power wielder. According to Tjoswold and Weicker (1993), those who have more power help other enterprises to learn and to find new ways of implementing business plans, and they also motivate others to work harder.

Johansson and Hägg `s (1987, p 73) study of contacts between spin-offs ventures and their mother company shows that trading links are cemented by relationships marked by “*common spirit*”, which makes them part of the same culture. In other words,

better understanding of the causes and effects of network constitutions requires more research into overlays of exchange, communication and social networks.

One might argue that management is one of the critical issues in the success of inter-organisational relationships. There exists some evidence of this presented by Miles and Snow (1992) and the Finnish researchers Vesalainen and Murto-Koivisto (1994). Both studies brought up some ideas of management mistakes in orchestrating, operating and designing networking. Also insufficient experience in working together is more critical to small entrepreneurs in management than technological aspects.

### **3.2.3 Power and Trust in Co-operation**

As knowledge has become a crucial asset in modern systems, the ongoing creation of new knowledge has become a key process when trying to increase/sustain competitiveness. (Maskell & Malmberg 1995, p 3). Sometimes the process of knowledge creation takes Schumpeterian proportions and in such cases: “...*reforms or revolutionises the pattern of production by exploiting and invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products by reorganising an industry...*” (Schumpeter 1934 in Maskell & Malmberg 1995, p 4.)

In studying the success factors in SME co-operation, the various aims set up for co-operation by the enterprises should be observed. Numerous examples have been cited of entering and setting up aims for co-operation (Tjoswold & Weicker 1993, pp. 11–21; Contractor & Lorange 1988; Bronder & Pritzl 1992; Vesalainen & Murto-Koivisto 1994). Different alternatives have been suggested for the organisation of co-operation between enterprises and the managing of co-operation: from the managerial viewpoint the management of transaction cost (Williamson 1975) or from the viewpoint of the value-chain theory, which is part of Porter’s competition theory.

Ownership and control concentration around the family nucleus could prove to be a risk for the perspectives of a groups growth in the long run, not mainly because of

financial constraints, but because of availability of symmetric entrepreneurial ability in the different units composing the group. A continuous and sustained growth of groups is only possible if the owner family can generate an inside quantum of entrepreneurs skills in line with growth opportunities. ( Balloni & Iacobucci 1994).

Porter (1980,1990) argues against encouraging joint ventures between domestic competitors, because this reduces the incentive to maintain a competitive advantage. However collaboration and development of long- term relationships with customers and suppliers can help reduce costs and enhance competitiveness. (in Bridge, O'Neill & Cromie 1998, p 201).

Williamson's "make or buy" has cropped up in many different studies as a result of pondering whether it is more profitable for the enterprise to produce a product itself or to buy the product on the market. Enterprises enter into co-operation in their attempts to reduce costs involved in exchange. According to the Transaction-Cost theory it is easier to seek co-operation than look for co-operation partners and negotiate with them over agreements and, furthermore, supervise the implementation of the agreement (cf. Williamson 1975, 1980; Alchian & Demetz 1971)

Transaction-Cost theory has nevertheless been criticised for instance for not taking sufficient account of the context of the business and the process between markets nor sufficiently of the importance of social relations as a regulator of transaction costs. Resource exchange theory views organisations (e.g. new firms) as entering into transactional relationships with environmental factors, because they cannot generate all necessary resources internally. (Pfeffer & Salancik 1978).

Bronder and Britzl (1992) classify elements of formality in co-operation as dependent on time and the allocation of resources. The formality of co-operation is defined in terms of enterprise type (legality), communication and information systems, reciprocal control and the structure of the enterprises.

Jarillo (1992, 1988) also proposes that in the constantly changing world operative costs lead to virtual co-operative groups. Referring to the literature, it seems indeed that the possibility of small enterprises increasing their market share does depend on



improving their competitive power by concentrating on their core know-how in a network that suits the enterprise.

At any rate bargaining power is of central importance when it is a question of how the exchange relations are embedded or bonded and how they will be distributed in the future when the continued existence of the individual enterprise or of the co-operation is developed. Many researchers regard the part played by the power of negotiation as the most important factor in the growth of the exchange system and of co-operation exchange (see e.g. Harrigan & Newman 1990 in Jarillo 1992).

Notwithstanding the present popularity of co-operative organisations, there is also ample proof of failure in co-operation. An important factor from the standpoint of successful management is the position of the enterprise in the network and how the enterprise utilises this position in relation to the other members of the network. The aims typical of small enterprises, the gathering of resources and the sharing of economic risks are also in this case the kind of 'critical' factors to which it is worth while paying closer attention.

Thorelli (1988, 1993) has presented five factors which are connected with power. They are substantial market share, adequate logistics arrangements and ability to innovate, unique knowledge, agreements and share in the network and the achievement of trust among the other actors.

The solidity of the co-operation is, however, almost impossible to measure. According to Easton and Araujo (1992) solidity should in fact be examined as an operational capacity to be used against threatening or disturbing forces (in Easton 1992). Social relationships have been recognised as having an important effect on the development of relationships between enterprises. Cultural values and the environment are also of great importance (in Easton 1992).

The possession of existence resources can put a firm into a dominating position. Indeed, Matsson (1986) and Johanson and Mattsson (1987) argue that network positions are predicated on the ownership and availability of assets. To explain this in small firms context Jarillo (1988, p 35) states that "*...the hub-firm in network enjoys lower costs because it captures economies of scale from its associated firms.*"

Decision-making is part of the exercise of power. Lorenzoni and Ornati (1988) have divided co-operation into three degrees, which are dependence, power and control. In the network the leading enterprise organises assignments for the other enterprises. By means of co-operation additional value is created for the actors and actions and in order to make this succeed the enterprises have to have a common objective, mutual trust and united action. Co-operation presupposes for instance a leading firm (Lorenzoni & Ornati 1988) or a hub-firm (Jarillo 1986, 1988) which orchestrates the value-added chain (Johnson & Lawrence 1988).

According to Jarillo (1988) highly significant advantages thereby accrue namely a lowering of costs, superior performance and last but no means least, a sharing of risk. As with any form of venturing, certain preconditions for success obtain: these include good judgement and timing the identification of suitable partners, appropriate skills, outlook and values and a favourable environment.

If look more accurately the environment where the small family firms operate it is worth to notice the importance of two favourable developments such as flexible specialisation and regional agglomeration. Whereas in the past many sub-contracting relationships lie on power of the leading firm in simply followed instructions on design and manufactures, the need to adjust to changes in market-place has driven the relationships between the sub-contracting partners more equal. As Lorenz (1988) points out greater trust required to make partnerships a success.

The major explanation for the presence or absence of local synergies arising from networking strategies relates to the interplay between co-operation and competition in a region. Lorenz (1988) and Pyke (1988) have all indicated that where firms situated in close proximity undertake joint projects leading to mutual dependency, the bonds of the exchange networks draw the trading partners closer together and the more savage elements of market competition are reduced.

The capacity and willingness to undertake co-operative ventures may well be the factors that most promote sustaining networks. It also worth notice when looking at the furniture industry and many small family firms operating in it, that networking and the forms of networking varies lot in shape in the industry. In this light it is

interesting to see, how the network really worked out-do they really pay off, what are the expectations of the results of these firms in networks.

The mobilising resources to pursue opportunities requires entrepreneurial contacts, knowledge and confidence. Mobilising resources also involves asking others to raise money, labour and effort for venture with an uncertain future. Entrepreneurship is thus inherently a networking activity. If the firm have made a strategic decision to extend the networking e.g. in joint ventures, it will be so that time and money will be cut a lot. The nature of links between the firms in networks leads and effects to many possibilities to gain success to family business and joint partnerships.

From the standpoint of the management of business activity, co-operation involves concentration on physical operations, resources, knowledge, skills and information, which are connected with the partners' tasks in the co-operative relationship. (Paasche, Pettersen & Solem 1993, p 79; 1994).

### **3.3 Reflections and comments**

The co-operation and relationships in networking provides an rich and versatile starting point to small firms research and conduct the focal studies in describing furniture networks.

Co-operation and relationships in networks are bonded many common and supported elements which affect to an each other. This is evidently important understand when investigating small firms operations in real-life context. The ever increasing competition in the field of industry and markets challenge the small firms to seek resources and partners in order to develop their operations and increase the competitiveness.

The forms of co-operation, alliances and networking varies lot in and between the industry. One might argue, that the local environment and entrepreneurs social networks also have an important role to enhance the and cope the changes in firms and networks. Not all firms are not growth oriented, and not many of them will survive to next generation either. The independence and interdependence are also matter of strategic choices for small firms access to resources and knowledge.

The inter-firm dependence on one another's resources in creating a value chain or the social relations between firms such as mutual orientation and shared vision and goals are here essential. In interaction the minimisation of costs and risk-sharing drive enterprises into co-operation, where markets and hierarchies direct the rational decision-making of enterprises between co-operation and competition.

It seems that entrepreneurial culture affects co-operation by shared values, beliefs and attitudes. Commitment and trust are important factors to maintain confidence and mutual orientation in co-operation and networks. These preconditions are not easy to supply for firm or network which have no common culture or earlier business contacts in history.

The literature review provides rich and complex challenges to study the networks and co-operation. The family business and its characteristics combine the focal net study with the phenomena of networking. Hence, in order to make the broad and versatile network concepts operative in the context of small family firms in this focal study, two conditions have to be fulfilled. The first is to identify the existence of a net. The initial stage involves describing networks in terms of the inter-firm actors or members. The second stage is to establish what goes on within these networks.

## **4 METHODOLOGY**

### **4.1 Research interest and the choice of research paradigm**

The philosophy of science studies the general nature of scientific research, its aim and results, and it endeavours to analyse, criticise and evaluate the rationality of the decisions made (Niiniluoto 1984, p 44). The ideas of the philosophy of science have been developed in interaction with scientific activity and have given rise to two main directions, positivism and hermeneutics. The philosophy of science and methodology set a preconditions for researchers pre-understanding requiring knowledge from theories and research work. (Niiniluoto 1980, p 15).

Science, according to Tamminen (1993, pp. 22-43) is the achievement of knowledge, know-how. The results of scientific activity are structures of knowledge, which, when realised, produce a certain feeling. This presupposes that intuition and a critical investigation lead to the same result, and, on the other hand, that the message offered as scientific is also approved in the science community. In intuition we use existing knowledge without knowing that knowledge controls interpretation; in reasoning the cognitive structure of our previous criteria of approval will be present. We experience knowledge if the final results seem (intuitively) right and the conclusions seem reasonable.

In this study the scientific approach relies on relativistic/constructionist science where the reality is seen as a social constructed and human beings intentionally creating their own reality. (see Easton 1992; Arbnor & Bjerke 1994)

The different concept of scientific approaches conceptualise reality in different ways. The network approach share a common ontology, the theory of the existing, the theory of the nature of being. The network viewpoint in enterprise research is tied to a many-level ontology, to the thought that there are systems at different levels between which prevail regular interactions.

The choice of a research paradigm is determined by the aim the research attempts to achieve and what we are interested in. In this case we speak of the focus of interest, which reveals the point of view of the research.

Mäkinen (1980, pp. 34–35) has followed the ideas of Habermas and presented the following classification of research interests:

- a technical (technological) research interest strives to explain objective regularities in which case the focus of interest is the necessary ascertainment and expansion of instrumental operation
- an understanding (hermeneutic practical) research interest in order to understand relations that take place by means of different forms of language, in which case the type of research is interpretation
- a liberating (emancipating, critical) research interest generally clarifies social regularities, so that by mastering and using them it is possible to become free from binding and blind regularities
- a new creative research interest helps to promote things, striving in the right direction to build up what is desired.

The research interest in this study is purely hermeneutic, for it endeavours to **understand and interpret** the relationships and networking in family firms and the networks and interpret the critical factors both with regard to doctrine building and the case enterprises. It can furthermore be ascertained that the research interest is also partly practical, for in connection with the research there is also, at least to some extent, an attempt to provide more knowledge of the networking relationships and problems in it and also show some suggestions to further research of the network phenomena in family business and in furniture industry.

In scientific research it is presumed that the researcher has something to say. Kettunen (1974) points out: “...*some new knowledge or supplementary knowledge or contribution. Every research is nevertheless based on some previous doctrine, on the assumption that the knowledge is at the disposal of the scientific community. It is, however, important to find a foundation of the research, its concepts and methods in a doctrine which enlarges, changes, or overthrows the existing theory. In this way it*

*is possible for the scientific community to make sure of the research validity...“*  
(Kettunen 1974, pp. 34-38)

According to hermeneutics the starting-point for understanding is pre-understanding, which there is an attempt to deepen in the hermeneutic circle through a dialogue between theory and empiricism. (see e.g. Gummesson 1991; Yin 1994).

#### **4.2 Qualitative research approach**

Qualitative research has separate and distinguished histories in education; social work communications, psychology, history, organisational studies medical sciences, anthropology. and sociology. (Denzin & Lincoln 1994, p 15)

The qualitative research provides a possibility to gain a holistic view of the issue under study. (see e.g. Tikkanen 1996; Brunåker 1996). The other aspect of the qualitative research is that the researcher has its own perception and principles of the world ; the ontology (what is the nature of reality) and epistemology (what is the relationships between the inquirer and known) and also for the methodology (how do we gain knowledge of the world). (Denzin & Lincoln 1994, pp. 12-15).

If networks and networking are primarily cultural phenomena, then a more qualitative approach will be required than has previously been utilised. (Curran, Jarvis, Blackburn and Black 1993, p 14).

Research in the area of networking have encompasses in organisational marketing, business to business marketing and organisational buying behaviour two different traditions. The first and original approach has taken its lead form buyers and sellers and is generally associated with writers in the United States. The second tradition has its home in Europe, that has been influenced by work outside the marketing area and focuses on the “space” between organisations. Both traditions have had room for a variety of approaches. (Easton 1992, p 3).

In qualitative research quality is a different concept from what it is in quantitative research. Researchers speak of the **validity and reliability** of their research. Validity and objectivity most often measure quantitative quality and not so much qualitative

quality. In any case a distinction is trivial, the principle being in both research approaches the same. Quality is in fact secured in the process of the whole research process.

The research will have to proceed systematically, according to plan. The research will have to be meticulously accounted for, that is, careful documentation is to be kept up so that when reading the research results it is possible to make sure that the research has been done by the researcher. The whole research process has to be qualitatively satisfactory from beginning to end.

Gummesson (1991, p145 ) defines the quality of research in the following manner:

*“Getting acceptance for scientific work is partially an intellectual achievement and partly an ability to communicate and handle the social and political interaction with superiors, peers, and others who exert an influence over your career...both aspects offered quality, the intellectual dimension and the social dimension, have to be handled satisfactorily, and in combination.”*

Kettunen (1974, pp. 14–15) also takes part in the discussion of the value of scientific research by stating that the assessment of the researchers themselves inevitably influences the research. The researcher should be aware of his/her own assessments and their influence on the procedure of the research. The researcher’s values can exert an influence on the carrying out of the research for instance in the following respects:

- *at what problems the researcher aims his/her research*
- *the conclusions of the research*
- *the making of observations (even the presentation of facts)*
- *the interpretation of test results*

Yin (1994, pp. 32-33) states also criteria for judging the quality of research designs. Four tests have been commonly used to establish the quality of any empirical social research. Because case studies are one form of such empirical research, the four tests are relevant to case study research. They are reliability, credibility and validity.



Yin (1994, p 33) has cited Kidder and Judd (1986, pp. 26-29). The test could be seen as validity as Kidder and Judd (1986) analysed them:

- *Construct validity: establishing correct operational measures for the concepts being studied*
- *Internal validity (for explanatory or causal studies only, and not for descriptive or exploratory studies): establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships*
- *External validity: establishing the domain to which a study's findings can be generalised*
- *Reliability: demonstrating that the operations of a study such as the data collection procedures can be repeated, with the same results*

Silverman (1993) speaks of matters in terms of validity and reliability and means above all securing quality in the gathering of material during the research process (Silverman 1993, pp. 144–79). In the same manner Cassel and Symon in their book speak of reliability and validity in the light of the following definitions (Cassel & Symon, pp. 31–32, quoted in Kettunen 1995):

*“Reliability. It is just as important as in structured quantitative interview the findings are not simply the product of the researcher's prejudices and prior expectations. This can be argued against in two ways. First, researchers should explicitly recognise their presuppositions and in the analysis of the data make a conscious effort to set aside (as in the technique of bracketing in phenomenology). They should allow themselves to be surprised by their findings. Second, at the stage of coding for themselves or categories, interrelated comparisons can be used.”*

*“Validity. In qualitative research. A study is valid if it truly examines the topic which it claims to have examined. In qualitative research, the concern is for the validity of interpretations—whether a researcher's conclusions that X is the main theme to emerge from an interview is valid. The involvement of other people—colleagues, interviewees, expert judges and so on—is crucial to considerations of validity in interpreting data from qualitative research interviews.*

Interpretivist persuasions aligned with ontological hermeneutics transcend the phenomenologist's concern with "capturing" the actors point of view, with verification, with discriminating between emic and etic perspectives. Taylor (1971/1987) points to the bid to go beyond dualism of this kind: He claims that if our interpretations seem implausible or if they are not understood by our interlocutors, "...there is no verification procedure we can fall back on. We can only continue to offer interpretations; we are in an interpretative circle." (in Denzin & Lincoln 1994, p 121).

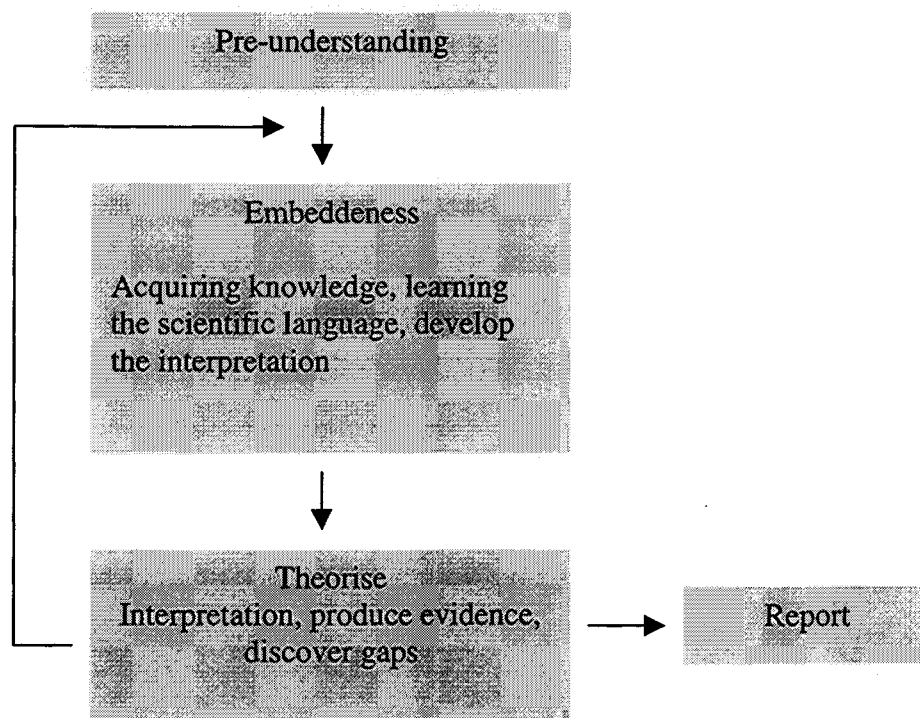


Figure 3. The hermeneutic circle ( adapted from Tamminen 1993, p 90)

The hermeneutic circle here is an "...ontological condition of understanding; it proceeds from a communality that binds us to tradition in general and that of our object of interpretation in particular; it provides the link between finality and universality, and between theory and praxis..."(Bleicher 1980, p 267 in Denzin & Lincoln 1994, p 121).

The researcher has profited from the object of the study and the field it represents by gaining professional experience. Besides, the researcher has gained a vision of the field of research on the basis of the doctrine underlying the study. The aim of the study is according to the basic scheme to provide the researcher with the combination of an intuition regarding the object of the study and a reasoning based on the case enterprises.

This study continues the research tradition of the European researchers and so called Uppsala School (IMP- group) work. The focus of the research is the focal network not the individuals or firm either, even the firms and their relationships are the core of the process to study. Industrial network approach provides thus rich model and metaphors to interpretations the phenomena of networking between the family firms and inter-firm relationships.

### **4.3 Case study as a research method**

The methodological approach of the research is reflected in the research strategy chosen, the research grasp. Methodology is concerned with scientific methods. Such methods involve different techniques, procedures and instruments used in the collecting of material for research, in its presentation and analysis and in the drawing of conclusions. Broadly interpreted methodology refers to all the processes, principles and approaches which are used in dealing with a research problem and producing answers to questions proposed. The methodological choices for the research always reflect the researcher's expectations, interests and objectives. The core discussion can be said to cling to theory and to the assumptions and goals connected with the perspectives applied (see e.g. Tamminen 1993; Denzin & Lincoln 1994).

The present study is centred round the conception of the network. It is generally thought that utilising a network point of view presupposes a crossing of the borderlines of science. (Easton 1992). The frame of references and the research traditions provide an complex field of the methodological and scientific alternatives to different research approaches.

Studying and interpreting the networks thus starts from the need to understand the whole of the object of research and the activities related to it. A researcher who uses the network approach will have to be ready to extend the area of research beyond the interest group thinking. However, there are a few difficult aspects connected with networks which will make research into them difficult. The many dimensions and the social invisibility of networks bring with them a number of methodological problems which can be approached from the perspective of the case-networks description. (e.g. Tikkanen 1996)

Gummesson (1991, pp. 21-28) point out the importance to access to research area. *“Access refers to the ability to get close to the object of study, to really be able to find out what is happening... that the access gained through qualitative research normally is substantially higher than when using the quantitative research...”*

The research environment and the chosen research object largely determine what methods and procedures are used in the research. The method is a way of approaching a problem and on a more detailed level the procedure determined by the method and the technique determined by the method. On a higher level methodology is indicated. The purpose of method is to show how knowledge is acquired, taking into account criteria of validity as well. The procedure again is the series of operations by means of which an attempt is made to fulfil the task defined by the method, thus producing a state of knowing (Tamminen 1993, pp. 51-53; see also Arbner & Bjerke 1977).

The case study method has been an essential form of research in the social sciences and management. It has been used in research involving business and organisational issues, education, child development, family studies, evolution, technology development and research on social problems. (Yin, 1994). Eisenhardt (1989) identifies other uses for the case study method to provide description, test theory and generate theory. (in Chetty, 1996, p 73).

Yet the case study method is a valuable research tool and its major strength is whereas the survey method focuses on verbal information only. A further strength of the case study method is that data can be collected from variety of sources, both

qualitative and quantitative. These include documentation, archival records, interviews, direct observation, participant-observation and physical artifacts. (Yin 1994).

Methodologically the previously mentioned views lead to so-called qualitative research methods. In collecting the material this means observation, interviewing, text interpretation, partaking in activities etc. Silverman (1993, pp. 27–28) has the following views of the advantages of research from a qualitative methodological point of view:

- *the research can be guided by theoretical ideas and not by technical considerations about measurability etc.*
- *the research produces richer theory than results based simply on the measurements of relations between variables*
- *theory is allowed to develop more effectively and economically and taking into account the theories and interpretations typical of the theories of the field concerned.*

In a fairly similar manner and in a little more complementary manner Yin (1994, p 13) says about his own variant of case research:

A case study is an empirical inquiry that

- *investigates a contemporary phenomenon within its real-life context, especially when*
- *the boundaries between phenomenon and content are not clearly evident and in which multiple sources of evidence are used. Both single and multiple cases can be studied.*

Yin gives a good description of the questions and approaches by means of which answers can be found in doing case research (Yin 1994, pp. 6-9): “*We can identify some situations in which a specific strategy has a distinct advantage.*” For the case study this is when “*...a how and why question is being asked about a contemporary set of events over which the investigator has little or no control.*”

Table 2. Case Study Tactics for Four Design Tests (in Yin 1994, p 33).

Strategy	Form of research question	Requires control over behavioural events?	Focuses on contemporary events?
Experiment	How, why	Yes	Yes
Survey	Who, what, where, how many, how much	No	Yes
Archival analysis	Who, what, where, how many, how much	No	Yes/no
History	How, why	No	No
Case study	How, why	No	Yes

Accounting for the existing object reality and its historical development and analysis takes place on the basis of dialogues used with the correctly chosen actors, by first expounding their subjective conception of reality. How well this succeeds depends on how well the actors have been selected. The selection can take place by random sampling, by subjective sampling or by individual samples. For practical reasons it is often most useful to choose the actors by individual choice and, in addition, to choose the actors that would be of the most importance to the research or in a problem-oriented fashion those whom the research problem specifically concerns.

In this case study the networks have been studied in many perspectives rather than the influence of a single or narrow variables. The participant observation and recorded evidence improve the reliability of the study, as well it enlarge the material for the analysis.

#### 4.4 Using interviews

In this study the choice of actors was based on the researcher's knowledge of the field and professional experience, using as an aid the Ostrobothnia furniture industry register. Most of the studied family firms had been in business more than 20 years

and operated now in second generation. The case sample group consisted of 10 family firm managers.

In collecting information both questionnaires, participating and non-participating, structured and unstructured observation have been used. In this way many researcher have attempted to improve the validity of their research and improve the drawing-up of a composite picture by combining different ways of gathering information. Also in mapping out the background information, written documentary material (enterprise registers) has been available as an additional aid to the collecting of information.

Techniques for collecting data are direct observation, interviewing and testing. The information gathered can be both secondary (earlier material) or primary or collected for the purpose of the investigation in the manner referred to above.

In collecting data, questionnaires have been used as well as observation (committed and non-committed; structured and unstructured). The majority of researchers in network research have tried to improve the validity of their research and to make it easier to form a picture of the whole by combining several methods of data gathering. The mapping of background information (enterprise registers etc.) has also been utilised as written documentary material in addition to the information gathering methods.

Adapting Tamminen's research loosely (Tamminen 1993, pp. 93-100) interpretation can be based on participants' observation, interviewing and testing.

*“Participating observation is conscious and systematic participation in the life of whatever is to be studied, in such a way that material is gathered directly by means of participating without the researcher changing reality perceptibly. In this way it is attempted to reach the reality typical of the object studied as it were from inside.”*

The following problems are connected with the participant's observations (Eskola 1968, p 135):

- *the specific task which the researcher has to perform in the group binds him/her locally*
- *the observer will have to make most of his/her observations in connection with public events*
- *the norms of the group restrict the participating observer*
- *The empathy and identification with the group can sometimes disturb observations*

Gummesson's (1991, p 52) requirements are stricter. He thinks that access to matters is in fact not possible unless one is engaged in them oneself. He regards matters as best under control when the researcher him/herself is engaged in the tasks he/she is studying and works in the organisation as a consultant and researcher simultaneously; in other words does action-research.

In a genuine interview the objective is to discover the interviewee's subjective reality, not the researcher's own. The issues is then studied as an open system. Tamminen (1993, p 100) gives the following precepts for a genuine interview:

- *no leading questions*
- *no previously planned questions*
- *no criticism*
- *not too sensitive questions in too great number*
- *tolerance of silence*
- *concrete topics*
- *avoidance of forbidden questions*

Tamminen (1993, p 100) has the apposite remark: "*As researchers love their own ideas and as the interviewees dislike not being guided at all, it is common to use theme interviews.*"

In theme interviewing the list of themes made up by the interviewer serves as a guideline for the interview. Subtypes of theme interviews are structured and semistructured theme interviewing (Smith 1975, quoted in Hirsjärvi & Hurme 1982, 2000; see e.g. Hirsjärvi, Remes & Sajavaara 1997)



The advantages of theme interviewing can be thought to be the fact that it is possible to concentrate more precisely on a given theme, to which more extensive aggregates of questions are tied, which can nevertheless in the course of the interview be flexibly adjusted while new questions relevant to the theme can be added. In collecting interview material Silverman finds the greatest interest in his view of what the interview is about and on what basis the material is actually gathered (Silverman 1993, pp. 90–107). *“Interviewer and interviewee actively construct some version of the world appropriate to what we take to be self-evident about the person to whom we are speaking and the context of the question.”*

In studying network co-operation using theme interviewing as a method, it is necessary to get deeper into the problem dealt with than for instance relying on questionnaires or pilot research.

#### **4.5 Data collection**

The empirical part is realised as a case research. The research material was collected by theme interviews. For the interviews a series of questions or a skeleton of themes comprising matters to be dealt with in the interview was prepared. The interviews were mainly held in some office on the premises of the enterprise and the interviewee was usually the managing director and owner of the enterprise or an entrepreneur.

The interviewees differed considerably from each other as regards to openness and talkativeness. To create better contact the process often began with a visit to the factory, which involved getting acquainted with the people working there, the products and the machines. An interview often took more than 120 minutes.

The attitude to the research and the researcher was positive. Sometimes it was hinted that the questions touched the borderlines of business secrets, sometimes the answers were recorded straight off, sometimes there was a request that the tape recorder be switched off. In the course of the interviewing it became clear that the interviewees in fact clearly wanted support for their opinions and criticism.

In the research no “editing“ occurred in the sense that things would have been

presented in a more favourable light or negative aspects would have been covered up. Absolute truth does not of course exist in research of this kind. This is typical of a case study and especially when it is a question of enterprises of different types which are examined in the context of some comprehensive theory.

The interviews were tape recorded and usually transcribed on the same day in written form, and a memorandum was made. The memoranda contain a verbatim account of what the interviewing involved.

In the research the two case networks are described and interpreted. The introduced theories and concepts provides a rich frame of reference to conduct the interviews.

The following themes for the interviews are:

1. The “business “ history of the family firms and their network operations
2. Motivation and exiting to focal co-operation and networking
3. Networking forms and experiences of co-operation and networks
- 4 Management and control in the family business and in the networks
5. Future prospects and possibilities of co-operation in networks and in industry

In the next chapter will be introduced the empirical case studies.

## **5 EMPIRICAL STUDIES**

In this chapter the empirical studies in section 5.1. describe the design or structure of the representation, section 5.2. and 5.3. introduce the networks and the governance of two networks: actors, activities and resources, in section 5.4 the summary of the case descriptions is presented.

### **5.1 The setting**

In section 5.2. materials from the interviews with ten family firm managers (owners) from two network cases are introduced and described as the cases R.A.N.S.U (joint venture) and S.E.L.M.A (the subcontracting based hub-firm). All family names and places and network names has been changed. The text within brackets is added to improve readability.

The perspectives and stories of these two network cases have similarities and differences in business relationships in the forms and context in business transactions. These elements and factors have effect how to introduce, at most, the governance of the networks with separate stories. These stories are true and based in the recorded interviews. In other words, the interpretations follow according to the themes asked in interviews and the structuring of the interpretation runs with approach relationships categories: dependence and interdependence, bonds and mutual orientation within co operation and power and control and the knowledge

The empirical part of the study entails two different case studies. The purpose of the studies is to investigate co-operation between the five small industrial furniture enterprises and their network operations. Finally, by the help of case analysis it will be possible to interpret the connections between the network theories and empiricism and bring out the critical areas of co-operation.

### **5.2 The R.A.N.S.U ( marketing based joint venture)**

The R.A.N.S.U is a marketing based joint venture founded by five furniture family firms in Ostrobothnia region in Finland. All the firms were even before the

foundation of the joint venture engaged and embedded in occasional, several mutual transactions e.g. in subcontracting, alliances and buyer-seller relationships in the industry. The firms have proximity advantage because they are situated quite close to each other geographically and the owners of the family firms knew each other personally and have done lot of co-operation in many business context.

The co-operation was intensified during the time when they were engaged in a fairly extensive joint furnishing project in Moscow, the capital of the Soviet Union. One enterprise operated as the main contractor, the others as subcontractors to that enterprise.

The successful co-operative project promoted the further development of the co-operation of the enterprises. In 1992, the firms decided to jointly participate in the furniture fair at Cologne. The results of the joint presentation led to the idea of planning a joint product assortment, for which financial product development support was then sought from the Finnish Ministry of Trade and Industry. A grant was given in the spring of 1993 and the enterprises had the opportunity to test the marketing potential of their joint collection at a fair. The original idea of the family firms belonging to the network R.A.N.S.U was to transact as loose export circle as possible. However, when the first orders were received and transactions within the actor firms started and the joint invoices the firms realised what a difficult form of operation they had to cope with.

The loose export circle as a form of entrepreneurship did not convince investors either, which meant that the founding of a co-operative enterprise was inevitable. A separate marketing based joint venture (limited company) was founded in 1993.

The R.A.N.S.U joint venture consist of five independent family firms. They have different roles as an actor, variety of activities and resources in the joint venture. Firm A answers for the manufacture and organisation of all upholstered furniture in the production net of R.A.N.S.U joint venture. This involves the sampling and choosing of fabrics, the upholstery of cushions as well as assembling of chairs. The firm A is above all responsible for the quality management (TQM) in the whole production chain of the joint venture.

Firm A is also responsible for the export operation as the owner of the firm is the export manager in the joint venture as well.

The Firm B produces all the solid wood products which belong to the joint collection of the joint venture.

Firm C delivers edge-glued panels to the other independent family firms of the joint venture.

Firm D manufactures the chairs which belong to the tables in joint assortment of the joint venture and Firm E manufactures the edge-glued panels for the joint venture.

The share capital of the joint venture was FIM 250,000 which was equally divided between the five manufacturing firms. The family firms have at times had to finance the joint venture floating capital deficiency, which has involved an additional contribution of FIM 50,000 as an investment from each firm. The aim of the joint venture for the firms is to offer a high-standard complex furniture assortment and give customers the impression of one single big enterprise. The articles of furniture which make up the joint assortment have been treated with ecological beneficial and natural substances.

The co-operative enterprise planned to market its selection of furniture mainly in the German-speaking areas of Central Europe and in Scandinavia. However, the collection also quickly aroused interest on the Finnish market among retail businesses even if the enterprises themselves guessed that their products would prove too high-priced for the domestic markets. The shareholder enterprises nevertheless aim to further develop the joint venture to the extent that the resources which remain after developing their own family firms will allow it. The aim of the individual family firms has been to expand the market areas at a favourable cost. Each enterprise belonging to the group has even before, during the past fifteen years, carried out some small-scale export business.

In the founding phase of the joint venture, FIM 2 million were budgeted for product development, the enterprises contributing half and the Ministry of Trade and Industry the other half. The joint venture employed an outside product planner as well as an

export manager to take care of the operations connected with the export markets. Of the expenses for the export manager, the Finnish Foreign Trade Association pays 65% and the family firms (joint venture) the rest. Also of the other costs accruing from the export operations, the Finnish Foreign Trade Association pays 70%, which means that all in all the financial support contributed by the Foreign Trade Association is about FIM 1 million annually. An export manager is working on the premises of the joint venture co-ordinating orders and operation. For the domestic trade an agent is engaged.

All the family firms involved in the R.A.N.S.U joint venture have made considerable investments in their own enterprises by expanding the production areas, buying new machinery and rationalising transport arrangements. Concentrating on their own core skills and to some extent reducing the unprofitable elements in their own business activities have made the development of the co-operative joint venture possible.

When a year had passed after the founding of the joint venture, the result of the co-operation was negative. The reason for this was, partly, that access to the export markets had not succeeded as planned and costs had accrued to a greater extent than had been calculated with respect to product planning and marketing.

During the first actual year of activity a turnover of FIM 3 million was reached, while the target had been set at FIM 5 million. Through the co-operation, four of the shareholding enterprises have sold products for FIM 500,000 and the fifth enterprise for some FIM 200,000. In addition, about FIM 200,000 went to an outside enterprise.

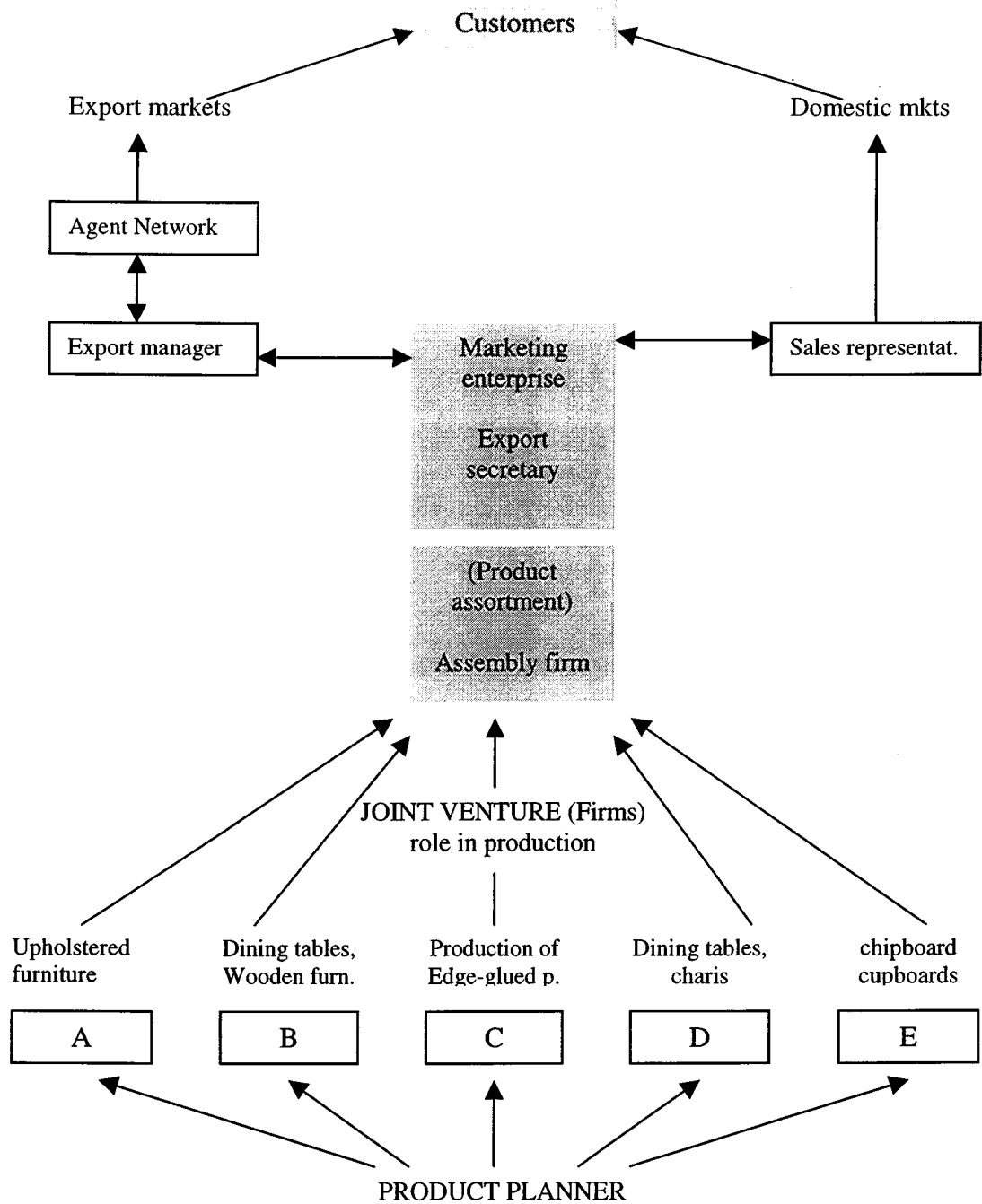


Figure 4. The network of R.A.N.S.U. Joint Venture

The R.A.N.S.U. joint venture consist of five family firms. These firms have different roles and aims in the production within the joint venture, that markets the products. The R.A.N.S.U joint venture will be illustrated and described as in industrial network model as actors, activities and resources in above figure 4.

### 5.3 S.E.L.M.A ( hub-firm orchestrated subcontracting network)

The S.E.L.M.A. is a vertical oriented network comprising five local subcontracting family firms concentrated on the manufacture of upholstered soft furniture. The hub - firm, S.E.L.M.A has behind 35 years' experience of retail sale and small scale manufacturing of soft articles of furniture.

The S.E.L.M.A. hub-firm consists of five subcontracting firms, which fulfil the following tasks in the subcontracting network: A is furniture factory manufacturing sofa frames; B the dressmaker's, furniture factory manufactures leather upholstery covers and cuts, plans and sews; upholstery business, C functions as model master and dressmaker's; D sells plastics, upholstery materials, fabrics; E furniture factory produces furniture legs and lists and does lacquering jobs.

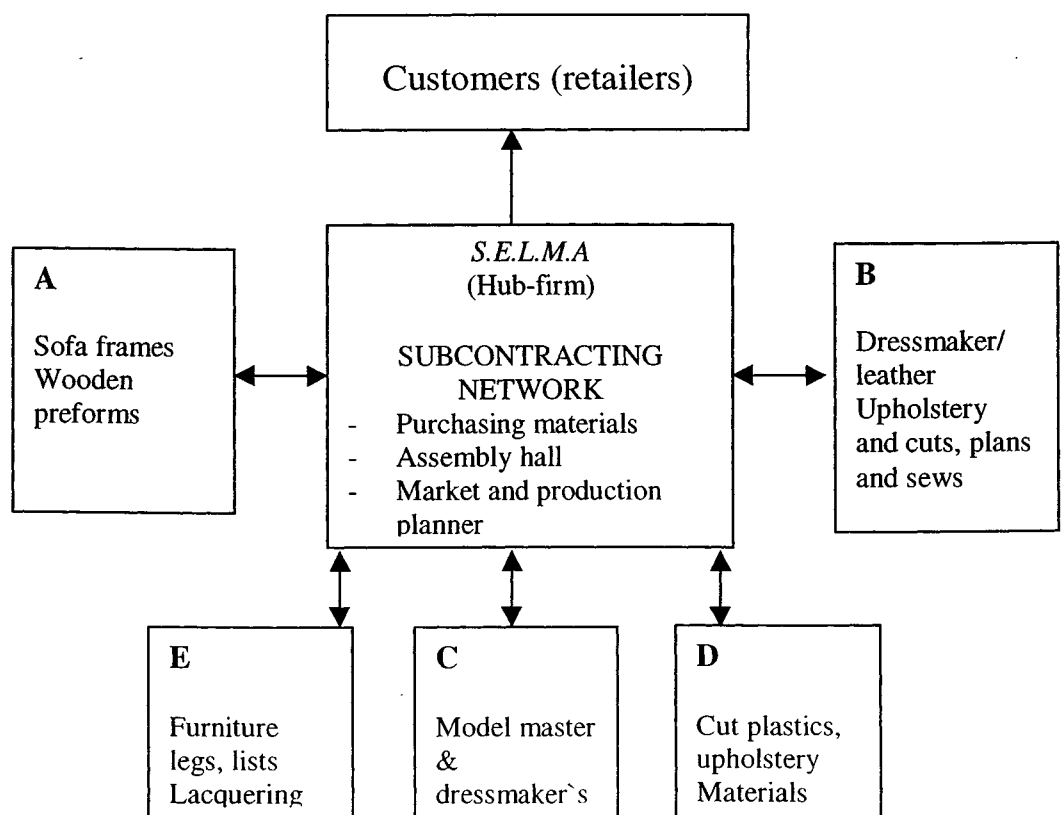


Figure 5. The network of S.E.L.M.A. subcontracting network



The subcontracting network operates under rather loose agreements, which makes it possible to buy for instance wood pre-forms, the upholstery materials needed for the assembly of frames and the fabrics from outside the network, if the economic circumstances are more favourable for this. In the network the enterprises operate as independent units. From the business economy point of view the relationship with the main contractor, S.E.L.M.A. is dyadic. In the network resource dependence is especially sought keeping the costs down and in marketing.

There are no written agreements on co-operation between the members of the network, nor have the enterprises invested any capital in each other's enterprises. The endeavour is in fact to keep the co-operation as loose as possible, for the S.E.L.M.A. network resources available are unequal and none of the actors are so far interested in founding e.g. joint enterprise.

The subcontracting network's co-ordination is handled by S.E.L.M.A which procures part of the materials and divides them among the subcontractors, assembles the product and manages the transport to the customers. The planning of the products, the product development and the marketing are managed by S.E.L.M.A

Some of the firms do not believe that there will be an increasing demand on the domestic markets and are therefore willing to direct their efforts to export markets. Others are of the opinion that there are not yet enough resources to start export operations with a network form; aggregate like this. Part of the enterprises would increase their production capacity by offering to the markets new models and developing the activities of the network more in agreement with the "Italian model" (cf. Lazerson 1995/ putting-out).

In this network, the preconditions for successful co-operation should be favourable, for no real problems have as yet arisen which might cause disturbances to the co-operation and make the production more difficult. Among the entrepreneurs a trustful and open spirit prevails. Perhaps the reason is that there are no real competitors in the network and that all the partners have worked together rather closely before in connection with various furnishing projects.

#### **5.4 Summary of two network descriptions**

The family firms in these two network cases are from 1 to 50 employees and with an annual turnover of FIM 5–60 million. Most of the firms represent also the second generation family firms and they have previous experiences in participating in different networks and alliances. In this study, the owner–manager is normally the person responsible for the large-scale development of the enterprise.

The examples of networks described above show that tendencies towards different co-operative patterns have already emerged, especially as regards the combination of resources and the marketing of products. Nearly all the firms subjected to interviewing have had some co-operation before. Most of them have had intense co-operation based on subcontracting for decades and some had had equally long co-operative activity that could be characterised as a normal customer–seller relationship.

According to interviews the family firms participate in very different business networks. The majority of the family firms in both of the networks do not believe in the growth of the domestic markets. This can be seen especially in the strategic choices of the enterprises with respect to the domestic markets and in their various ways of approaching export markets.

To the above-mentioned reflections should also be added the examination of the branch's internal development and changing business environment in order to make it easier to understand and describe the development and the development possibilities of SME in furniture industry in Finland.

Even if there are only a few examples of experiences related to networking in the empirical part of this study, the research results should be critically regarded. On the other hand investigations that describe and compare a few small enterprises' co-operative efforts can be regarded as useful when differences are sought in the ways co-operation is processed and the factors affecting such a process are pondered. The relationships and co-operation forming seem to have some common trait in both network cases. Transactions and resource dependencies are the core factors and starting point of the joint venture and subcontracting.

## **6 DEVELOPMENT OF RELATIONSHIPS IN COOPERATION IN TWO NETWORKS – R.A.N.S.U. AND S.E.L.M.A**

### **6.1 Identifying the networks as relationships and co-operation in family firms**

In this section 6.1. development of the relationships in two networks are described with the central themes illustrated and identified in the frame work. Section 6.2 contains a discussion about the credibility of these relationships and inter-firm co-operations in the studied case networks.

Since co-operation and competition are very close to each other in real life, it is important to find out what factors drive family firms into networks, how the processing proceeds, what aims the firms set up for the co-operation and what real advantages and possibilities co-operation brings with it to the participating members.

What often makes analysis difficult is the fact that the enterprises starting to co-operate are seldom equal for example with regard to their financial basis or skills or know-how. However, from the standpoint of setting up objectives, the most important thing is probably the assessment the enterprises have made themselves concerning each other's possibilities of participating in the network and how the changes that occur in the exchange affect their position in the network. Are the actors of the network for instance all capable of increasing their production capacity in case of a large number of orders or how will it be possible to cope with a period of depression when the number of orders can be reduced to zero?

A third dimension is constituted of the challenges, results of knowledge, skills and specialisation which a competitive network should be able to meet in order to remain in markets that are constantly getting tougher.

In addition, there is reason to analyse the profitability of co-operation from the standpoint of entrepreneurship, how small entrepreneurship and the culture in which we have been in the habit of conceptualising small entrepreneurship will be able to change, expand and make use of their individuality and how it is possible to effectively manage co-operation in the complex environment in which the small firms operate.

In the next section the empirical findings that have influenced the emergence, development, profitability and pitfalls of co-operation on these two network case are discussed and interpreted.

The overall purpose is to bring out the “critical factors” that family firms are facing in their network development. The themes asked in interviews were focused and characteristics on the concept on relationships in networks. According to this, the motivation to networks, bonds and mutual orientation, power and control in transactions and in network management resource dependence and inter-dependence between the focal firms are the subject of this study.

This study will not focus on the use of the Industrial network model division of network governance. The actors, activities and resources were shortly identified in the earlier chapter 5 in section of the network stories and description.

## **6.2 Motivation and interest to co-operation and networking**

In the R.A.N.S.U. marketing based joint venture and in the S.E.L.M.A hub-firm based subcontracting network the co-operation started on the basis of lively business activity and intermittent subcontracting. For R.A.N.S.U the central force leading to co-operation was the thought of utilising solid wood in joint assortment when marketing especially for export markets. Small-scale market research was carried out and the product development was started in 1993.

The collection was tested for instance in the furniture exhibition in Cologne in 1993 and at the Habitare Fair in Finland. Other contacts with West European markets convinced the entrepreneurs that markets could be found for their products in Scandinavia and Central Europe. The collection was marketed as a pro environmental ecological product whose design and character of traditional regional handicraft and a breath of Slavic design gave the product its own colour.

The firms participation in the domestic fair increased the demand for the product in Finland. When the first orders started to arrive from the export markets and later also from the domestic markets, the organisation and financing of the activities had to be

decided. The biggest problem was not the operative production of the product but especially how the expenses accruing from the production of the collection were to be divided, who would take the responsibility for marketing the product and whether a special marketing unit would be necessary for the products.

Each enterprise had to manage its own business activities and the field of customers connected with it. In connection with the joint collection came new challenges and problems. The enterprises had to decide, had to make a strategic choice with regard to the development of the assortment and its enlargement and find the money to finance its own participation.

*“ . . . isn't just a matter of a certain group joining together, a certain solidarity and homogeneity are extremely important . . . ”*

Whether to join short-range projects or to be lulled in safe target markets - that's the question. According to investigations, occasional project groups work out well, but the operation returns to its previous tracks unless the enterprises find markets that are useful to all partners or the co-operation leads to qualitative breaks, for instance when some actors of the network suffer because of the other actors. The project groups frequently co-operate in marketing and procure objects suitable to each other's capacities.

*“... in this co-operative undertaking, when our own capacity has not been enough, it's been usual to buy help from another firm in order to keep up the sale....”*

As motives for starting entrepreneurial co-operation the enterprises in the net regard achieving more competitive prices and procuring new customers. Also raising the enterprise profile was for instance in the R.A.N.S.U network felt as a competitive advantage reached through critical mass and it was found to be a good bargaining power in regard to export markets. The expansion of the markets by utilising the know-how of the value chain and the procuring of critical market information were considered to be more important than simply maximising the profit. From the comments of the entrepreneurs it can be understood that the need for additional business and generally the extending of business in the direction of export was a common motive to all, which the operation of the joint venture strives to achieve.

*“...here in exporting we constantly have to emphasise these holding companies . . . the agents will often be obliged to verify ... R.A.N.S.U's possibilities of supplying and performing on the export markets R.A.N.S.U. is as big as we are all together....“*

*“. . . we have a large assortment (tables, beds, cabinet combinations etc.) . . . now we just have to have persistency and money enough to start the marketing . . .“*

From a subsequent perspective it can be said that the family firms followed a very natural route when deciding on the R.A.N.S.U. co-operation solution. It can be pondered whether the development of the co-operation on a joint collection of furniture primarily took place on a marketing basis or whether the prerequisites for the manufacturing of the models was due to already existing resources, which were simply mobilised on the basis of a few signals from the market.

When describing the networking development of the small enterprises, the **personal relationships** between the entrepreneurs are brought into the foreground, and the co-operation is seen to be built on strong bonds, connections that can be firmly trusted. Weak bonds are therefore the results of loose bonding, usually in the form of intermittent relations with consultants and of casual ordinary business relations which involve no emotional investment on the part of either party.

In the network examples of this study the entrepreneurs' personal relationships have been of great importance to the formation of the co-operative enterprise. The geographical proximity of the firms has also contributed to the flexible arrangement of logistic co-ordination and the occasional convening of the group. The entrepreneurs themselves are of the opinion that the co-operation was founded on strong will-power and the vision of developing new competitive products by utilising the productive capacity and the professional know-how of the different enterprises.

One important factor to the emergence of the idea of co-operation was also the shared feeling that the domestic market demand was getting weaker. Also the fact that the majority of the firms had operated on the export markets before encouraged the thought of entering the export markets as a co-operative enterprise.

*“...the enterprises should have a common purpose ... we are not all equally strong here (R..A.N.S.U.) but we have on the whole a common entrepreneurial culture and a long entrepreneurial history ... the resources and the volume of production are small ... we discussed those Italian and Danish models of productive co-operation ... so let's concentrate on manufacturing parts ... that is in my opinion where the future lies ... but these matters will have to be discussed at length ... they haven't developed in ten years down there in Italy either... “*

Would it be wise to join short-range projects or would it be better to trust in reliable target markets. According to the study temporary project groups are effective, but the operations go back to their old tracks unless the enterprises can find markets that are useful to all partners, otherwise there will be quality gaps in the value chain, which means that the work contribution of some of the actors of the network will suffer because of the others. The project groups in most cases do co-operative market work and now and then subcontract their capacity to each other.

*“...to get into the markets with new articles is really difficult ... we have about ten agents all over the world ...“*

However, the entrepreneurs experience their lack of marketing skills and knowledge of the markets especially in the export markets. Especially, the lack of resources and of people possessing marketing skills is obvious. On the other hand it could be asked why marketing is felt to be so far removed from the other activities of the enterprise that economic and spiritual resources are not invested in them to such an extent that, by using additional resources and outside expert help the matter could be prioritised as equally important as the planning of production strategies.

*“... there is a lack of entrepreneurs with a marketing spirit ... there is enough know-how ... products are made ... but who gathers skills and knowledge together ... trained employees are needed in the small enterprises...“*

The objectives and strategies of the entrepreneurs in a network are mainly similar, which appears from the fact that the partners are ready to fight to the bitter end to achieve a common objective. Still, the realistic opinions about how and when the

resources invested in the co-operation will flow back as profit are not mutually consistent.

*“...Considerable amounts both on the personal and economic resources have been invested in R.A.N.S.U. joint venture... I think that none of us has given so much time to any other matter ... even though we are so deeply engaged in our own business ... but we will still have to wait a few years before the results (in the form of money) will start flowing into the co-operative enterprise ... I would think that joint venture will reach balance in about a year...”*

*“...in this co-operative enterprise (R.A.N.S.U) the distribution will then in time take place in proportion to the number of shares owned ... but we can be pretty certain that no profit can be expected within the next ten years . . . this is a tough game ... if we can buy from outsiders more advantageously what we produce here in this chain ... well then, we'll buy it from outsiders ... this is not any kind of mother-child relationship....”*

In this study of network enterprises it can be stated that for both the R.A.N.S.U (joint venture network) and the S.E.L.M.A (sub-contracting network) the procuring of critical mass has been one of the most important forces promoting networking relations. To the R.A.N.S.U. network the most central thing has been at the lowest possible transaction costs to gather resources needed for the establishment of a joint collection and to find markets for the collection.

Establishing a marketing enterprise for this purpose has required capital and in addition capital for practical operational activities has been needed to keep the marketing enterprise effective. The composition of the group, i.e. the number of actors participating, is also of great importance with regard to the way in which the co-operation works in practice and how the entrepreneurs can communicate with each other and decide about matters connected with the co-operation.

An enterprise consisting of five partners seems indeed to be the optimal network size when it comes to the need for invested capital, decision-making and management and, in connection with these, **for bonding and trust.**



*“the idea of co-operation has gradually developed in the course of years ... we have had mutual co-operation and always manufactured things for each other according to need and always when there has been available capacity... we have known each other all our lives ... then there was this depression in the 1990s in Finland and it affected this furniture industry...”*

*“... from the very beginning we started from the idea of export markets ... but of course we also sell on the domestic markets ... but we don't lay equally much stress on the home markets ...”*

Core skills are certainly experienced as an important resource which increases competitive power. The R.A.N.S.U network enterprises have each reserved for itself the most suitable role in the network co-operation. These product-centred roles have then been gathered into one value chain which is linked to the value chains of the marketing enterprise. Each enterprise can thus concentrate on its own core skills and these skills can be developed in the most effective manner at the same time that the competitive ability of the whole network is developed.

*“...This is a R.A.N.S.U. conception we all believe in ... we believe in the same things ... and we believe that this co-operation will not affect all of us equally, that is the cold truth ... we are aware of the problems involved in the activities and are able to predict problems that the future will bring ... we speak the same language, a dialect, we understand each other well, for the entrepreneurial culture is similar ... we know each other as human beings and we know each other's enterprises . . . we have never competed with each other...”*

The development of co-operative relationships can be interpreted as a long-term, evolutionary process, which has been influenced by earlier normal inter-firm customer–seller relationships, the geographical closeness of the enterprises, the difference between business ideas, the combinatory possibilities of resources and the trust between the enterprises concerned.

*“...I'm pessimistic with regard to these co-operative patterns forcefully imposed ... if a permanent development is to take place, then everything ought to happen a little at a time ... I don't know. Sometimes you feel that here we are too eager to keep up a*

*social group .... the group should decide on its own what is to be done ... and money is the dominating factor ... generally when some chain is established ....“*

The business idea, the objective and the strategy of co-operation are essentially related to what kind of results can be expected and how the resources invested in the co-operation produce additional value to the actors of the network and the network as a whole. The results of co-operation are not seen in a short perspective as a rapid inflow of money to the owner-enterprises.

This is something the R.A.N.S.U network actors have experienced since the co-operative enterprise has not yet yielded even “a penny“ of pure profit to the participating members, but they have all had to invest more money to supplement the marketing enterprise’s lack of working capital. Co-operation is thus often seen as an investment in the future. By procuring resources, by adding value to the co-operative partners’ value chain, better possibilities will be achieved of increasing individual enterprises’ knowledge for the development of their own operation.

As was established before, co-operation does not treat all the actors of the network equally and it is therefore understandable that all actors of a network do not want to invest profit derived from the co-operative operations for the development of the co-operative enterprise but invest it instead in the development of their own enterprises.

This does not seem to have been a problem to the network actors subjected to this investigation, for they were already aware of this so-called problem when they entered the co-operative enterprise. The profitability of the investments did not cause any conflicts among the members of the S.E.L.M.A. network either for none of them have invested outside capital in each other’s enterprises. It seems indeed that it is more important to the entrepreneurs how they themselves assess the success of the co-operation in terms of duties and results than how external quarters emphasise it in terms of quantitative volumes.

In analysing the network cases that form the object of the empirical investigation, two important circumstances can be observed which have contributed to the birth of the R.A.N.S.U. joint venture. The first factor is that the family firms are not competitors in a productive context. The other is that the individual resources of the

firms would not suffice for all those activities which the network business idea, an effective competitive production and marketing would presuppose when operating on the domestic and foreign markets.

### **6.3 Networking forms and experiences of co-operation in networks**

According to interviews, entrepreneurs of both S.E.L.M.A and R.A.N.S.U networks, how they will emphasise the development of their own enterprise in the future in relation to the development of the network enterprise. The interviews gave no clear indication of which of the two the enterprise was going to concentrate its strategic know-how, that is resources on.

On the other hand the question concerning **adaptation and adjusting operations** is made more difficult by the fact that the lack of concrete **profits**. The co-operation has brought to the entrepreneur have been different for different family firms and therefore the question of how much each will contribute from the resources of the basic enterprise to the future co-operation seemed to be more unclear than how to co-ordinate co-operative processes on an operative level in order to make the production more effective or in order to enter new markets.

The situation opens up different ways of interpreting how the entrepreneurs have been linked with the production in value chain to deal with their own needs, visions, values and resources, and how to meet challenges from the markets in order to avoid the disadvantages or possible failures that threaten the co-operative efforts, or how such negative factors could be predicted in time.

Another point of view concerns how the multiple role of the business affects the willingness to **invest and the preservation** of relationships, for investment aims at creating competitive methods, and adjustments might lead to additional cost due to lost sales opportunities and new network relationships. In the opinion of the interviewees the assessment of the phenomenon of adjustment and investment is qualitatively difficult. The views of the entrepreneurs concerning this clearly indicate how co-operation as a process may easily fail in the process of co-operation.

*“... this ... the multiple role of the business... could even be a strength ... we can produce just exactly the kind of board that the customer wants and ... but it may be that in time ... it will be necessary to choose one or the other the enterprise's own board manufacture business or the business related to co- operation R.A.N.SU ... from the standpoint of the enterprise I don't, however, see any contradiction here...”*

*“... our operations have always been one awful mess, but still we have been operating for 63 years and there has never been any risk of the firm going bankrupt... and we just have to believe that this mode of operation, like ours, can continue ... and we have been advised to concentrate on just one product - no doubt a good piece of advice as such - but who will manage to sell millions of that one product?”*

*“...when things are quiet ... no orders coming ... and this doesn't seem to work, then we decide to go in that direction ... it is necessary now and then to check whether we are going in the right direction ... resources are so limited that no false steps can be allowed ... this means that we plan our operations too little in accordance with our own and R.A.N.SU.'s patterns.”*

The interviews made it quite clear that in the frame of the enterprise's own value chain activities multilateral talks are held regarding everything from improving quality to increasing capacity and finding new markets. However, a considerable number of the family firms entrepreneurs were of the opinion that a passive acceptance of the fact that co-operation with the following value chains, for instance retail shops and agents, is almost non-existent.

*“... we do try to make these products for that business line, but co-operation with the businessmen is minimal ... we meet once a year at the fairs .. spend 10 minutes with each customer ... there is no understanding between customer and seller... the businessman decides ... what the customer wants and presents the product in such a manner that the customer wants it...”*

According to interviews the adjustment of activities demands from a flexible co-operation above all a combination of human and economic resources. The principle of interaction between enterprises, for instance the idea of applying benchmarking of

the activities in the value chain as well as the above mentioned contact with the sales network with regard to the final product, represents the most genuine adjustment process just as the whole networking process does.

#### **6.4 Commitment and Trust**

Creating trust among actors is important, for also the flow of know-how, the values of family firms and the development of co-operation between the network actors are critical resources based on **commitment and trust**. The degree of commitment and trust is most frequently impossible to measure, for generally these qualities are tied up with earlier episodes between the enterprises.

*“... in this joint venture (co-operation) is based on the transaction... first we have to commit the general and mutual agreement of the business-to business rules and conditions of the purchase ..”*

*“.. in this joint venture ( R.A.N.S.U) the advantage is that we all have known each other ( family firm owners) for a long time... the idea of the co-operation and inter-firm co-operation looked interesting and the entrepreneurial spirit... belonging together .. you are the same team and that ... homogenous are important.”*

On the basis of the present study, strong commitment and trust on the personal level and the enterprises' operational level will promote co-operation in all areas of business activity. For instance in the S.E.L.M.A network commitment and trust have especially in the subcontracting chain worked well with regard to the quality of the production as conflicts concerning planning, product development and marketing have been dealt with smoothly through negotiations and no knowledge about internal conflicts within the chain for instance with respect to marketing strategies have leaked out to competitors.

*“ ... it is not worth to try ask or engage your enemies to partnership ... commitment to all general things in operation... the degree of commitment is low if one will not invest (your) own money .. “*

The creation of trust is a common competitive factor of the whole value chain. Commitment and trust are of importance also to the way in which the structure of the network changes and to the extent to which the actors are in the future ready to invest in the relationship.

The enterprises which enjoy trust procure customers for their partners. Also the entrepreneurial culture, a common language, attitudes, values and mode of behaving are the critical factors for partners when co-operation is begun. The importance of culture is great. The small enterprises form their own clans that outsiders will not easily be admitted to. The clans also control their own, that is, nothing will remain secret inside the organisation, and opportunistic behaviour will not be tolerated.

Another side to this is, however, that commitment and even trust requires some sacrifice as well. Entrepreneurs do not dare to present any of their bold visions to the other actors and they may not dare to discharge an actor sponging on the rest. In both the networks considered here such traits might be found. **Values and attitudes** are difficult to change; one man is trusted as the guide and changes are controlled.

What makes the cultural dimension interesting in the study of enterprise networks is the fact that culture is rooted in uncertainty, traditions or other external factors or may be the opposite of rational thinking and decision-making. In other words, culture makes it difficult for people to control their position and achieve their objectives.

*“... the relationships should not take self-evidence ... you could have equal position and relationships between the actors ... there is also the main contractor or brokers who put lots of stress to their business associates , subcontractors or so.. .I would say ... it is dead end- way ... “*

It is not possible to understand and study the concept of commitment and trust typical of network relationships and the development of co-operation without taking into account the various stages of development of interaction and relations that have occurred in history. It is clear that a new co-operative relationship has not reached the same trust characteristic of a relationship as a long-lasting interrelationship has created.

*“ I will not like to be dependent .. either way ... “*

This seems to be one “critical factor” in co-operation that the empirical scrutiny brought out clearly. At the same time the matter can be turned round to confront the object of scrutiny with other network relationships outside the co-operative enterprise. To achieve the trust of customers is not a very easy task to accomplish either. The combination of commitment and trust as one of the most significant competitive factors to which belongs a considerable amount of knowledge and operational trust on the personal and enterprise level.

*“ Co- operation is surprisingly low with the retailers or customers... “*

What was particularly important to the family firms interviewed was that the operational capacity had been tested in different interaction episodes; in other words, they had gained some experience of each other’s behaviour. The entrepreneurs stressed capability for instance by not wanting to change subcontractors or marketers constantly but thought long-term relationships more favourable to all parties.

*“... personally I have to say .. that I buy lot of from my subcontractors and I always look forward to long-term relationships ... I really understand that I have to pay feasible amount of money of the products - otherwise I do not have interactions with the subcontractors...”*

*“... the resources are bounded and we have not afford to slips ... this is all about that we do not make strategic planning for us (firms)... “*

Could the control grow less when the co-operational bonds grow stronger and the investments in the co-operative enterprise increase ?. This has also bad consequences from the standpoint of the strategic planning. Too strong confidence in the smoothness of things causes disastrous axiomatic assumptions for example of how the benefits and investments concerning operations should be examined. This cannot be understood simply by measuring the effectivity of the invested resources and the productivity, for the failure or incapability of even one enterprise in the value chain to carry out its part of an assignment affects the reliability of the group. Control of

the profitability is all the more important, when the business idea of the co-operation implements the strategies that have been set up for the co-operation.

*“...I see lots of resources , not yet utilised resources ... and I am concerning about this region ( South-Ostrobothia region) ... we have competence ... but articles what we produce... are they right ... selling with low prices (dumping) in a way or other it could be important to this whole industry to improve the quality of the production in carpenter tradition and bring the fame to it ...”*

## **6.5 Power and Dependence**

In the co-operation between enterprises, power wielding and dependence are closely connected. This comes out especially in the control of critical resources and in the defence against outside networks, but also in how the interactive results of the co-operation are distributed among the enterprises. In co-operative efforts it is rare to arrive at a pure consensus which could be the result of differently weighted resources, especially the relations between investments and results.

Examining the R.A.N.S.U. network it seems clear that the conformity of the co-operation is founded on non-formal business relationships in the framework of subcontracting, where the enterprises sell each other products and also sell components needed for the manufacture of the joint furniture assortment directly to the R.A.N.S.U enterprise. In practice the agreements arise as a result of mutual business deals. On the other hand the enterprises have a legal contract involving the co-operative enterprise's operational principles in regard to the R.A.N.S.U marketing enterprise.

Procuring legal security can also be regarded as partly a factor determined by the statutes of governing stock companies.

Power can influence the decisions of actors. In the same way, decision-making and power are closely related concepts. When the entrepreneurs in the network were interviewed e.g. according to S.E.L.M.A that decision-making was based on power. This was partly due to the fact that S.E.L.M.A as the hub-firm of the subcontracting network., would often have to make strategic decisions on the part of the whole



group concerning both production and marketing decisions that cannot be expected to be based on consultation with the other independent individual actors of the subcontracting network..

*“...we have partnership agreement... but it focuses on this economic issues , but the forms or procedures how to interact or transact in this co-operation we have not been agreed on any agreement ... if you have mutual values... it will work between the family firms...”*

In the R.A.N.S.U network the use of power, decision-making and management is usually more consensus-oriented between the enterprises, because the enterprises are equally strong in relation to the co-operative enterprise. The interviews did not reveal whether any enterprise in the R.A.N.S.U group had so-called ostensible power by which the co-operative enterprise's matters are managed in a strategic manner.

On the basis of the research results, the management and decision-making at the operational level was distributed for instance in such a way that each owner–manager in the network enterprise in turn serves as the chairman of the board and the directing of the co-operative enterprise's production and marketing is shared by two of the network enterprise's managers. In the interviews different ties between enterprises emerged.

In this study the network enterprises according to the interviews allow operational freedom, and in accordance with this these enterprises should have better qualifications for adjusting and adapting themselves to the markets or generally to the changes that are taking place in the environment. If the situation of some other small enterprises that were studied is considered, it turns out to be the opposite although these enterprises are still more independent when it comes to choosing their markets and value chains.

The most crucial factor that explains power and decision-making is to be found in the difference between products and in the uniqueness of the relationship and, through this, in the competitive capacity, by means of which the enterprise defines the extent to which its business can be determined by the external markets, the co-operative enterprise or the subcontracting circumstances.

It seems not relevant for instance what the co-operative relationships or the normal customer–seller interaction relations are legally or operationally and how these determine decision-making. The problem lies rather in how well the enterprises in the co-operation pattern manage to meet the challenges coming from the markets by changing their strategies and in this way find new markets and prove their trustworthiness in the new competitive situation.

This came out in the interviews with the enterprise managers for instance through the view that if the voluntary engagement in the joint strategy is not strong enough, whether the ties are otherwise loose or strong, there is greater likelihood that the enterprise goes meddling into other interaction relationships which might injure the existing relationship.

*“... if one customer is allowed to grow too strong ... and begins to command what should be done ... the amounts ... and how much such-and-such a product should cost ... the master is soon in the position of the servant ...”*

*“... these machines are on loan from the enterprise ... no agreement has been signed, nor do we pay any rent for these machines ... we invoice them for the work costs of the products we manufacture for them ... and this works all right ... from the main contractor we get precise instructions, designs for the models to be produced...”*

The differences regarding how the production is distributed in the value chain and how the individual enterprise's benefit is reflected back to the chain once more adding to the effectivity of the interaction relationships, decreasing costs and developing the activity of the chain, depends on the structure of the chain. In the traditional value chain all the activities affect the value gained by the customer. The value chain of the enterprise is part of the more extensive flow of activities which give rise to the value structure.

*“We are not used do business in “ street lights”... the actors or customers who knows us .. are our customers ... we really do not have to market our products .. ”*

In the furniture industry the subcontracting culture is still quite young in Finland. This was stressed in nearly all the interviews when asked to what extent the enterprises do or make use of subcontracting. As a reason for the limited extent of subcontracting was mentioned that the earlier experience of the effectivity of subcontracting, the independence of the deliveries, the quality and the subcontracting agreements, had not come up to the expectations and conceptions of trustworthy and mutually useful co-operation. Especially the small enterprises in the furniture branch experience the subcontracting relationships as a form of co-operation still to some extent restraining and dominated by the main contractor.

*"... deliveries don't seem to work and it's partly due to this chain job .... deliveries that have been promised are delayed ... then these information breaks ... the subcontractors should keep things going in the way that's been agreed . ..."*

*"... the worst drag on co-operation is that no network economy has been developed ... in the lacking product market this works ... perhaps the whole word subcontractor should be changed, so that one wouldn't feel so subordinated ..."*

Of the case examples, the relationship between S.E.L.M.A and its subcontractors could be regarded as successful on the social plane. The collaboration in the chain is straightforward and open, for no one of the interviewed enterprises felt being in what could be called a henchman position or felt that the main contractor (hub-firm) makes them compete with each other.

In the subcontracting organisations the planning of strategies and the decision-making usually take place on the level of the individual enterprise and not on that of the co-operational organisation, and the stronger the bonds in the subcontracting organisations is for instance with the main contractor or the final product market, the harder it is for individual subcontractors to distinguish resource-based core competencies, check business plans or form new marketing strategies.

*"...it is not reasonable to demand more of your subcontractors nor this joint venture than we have capabilities ... but these competencies and capabilities should , in first hand , you have to estimate and value your partners when starting any kind of transactions..."*

This emerges as a central feature on the basis of the empirical material in the context where the entrepreneurs defined themselves as actors in the co-operative pattern in question and say what their attitude is to the marketing-and-customer-based value constellation. How the entrepreneurs manage to combine these to an interactive strategy influenced by the subcontracting episodes that prevailed in the past. Could an effective value chain constantly innovate and introduce new methods of implementing co-operation in order to achieve more effective and competitive structures of organisation and to create a stable competitive advantage for their customers as for instance IKEA, the giant in the furniture branch, has done systematically, starting in the 1960s.

Particularly the marketing co-operation of R.A.N.S.U is based on the fact that its operations are focused on the narrow sector of the demanding and specialised production of solid wood. But has this strategy been the correct one, intended and realised? Do the products in the market differ from the other products found in the domestic and export markets and what value do these furniture products offer to their customers? How long is the life span on selected target markets and to what extent will it be possible by means of the joint venture type of co-operation to make this value chain still more competitive?

Has the network co-operation strategy become more of a productively oriented market strategy and has this had the effect that the co-operation they have initiated, based on trust and openness, has not in fact brought the results that were expected of the structure? Is it a question of the enterprise managers' lack of strategic leadership talent or of inability to depart from the traditional, in order to create the dynamism of special know-how and value directed to the final user of the product?

The constantly changing market situation makes the planning of strategies important but at the same time more difficult than before. When studying theories and empirical solutions one gets the idea that what is important is not what model the different processes involved in the co-operation between small furniture enterprises adopts, but how it could be made to function effectively, competitively and constantly while the small enterprises at the same time develop their whole field of operation.

Taking these factors into account one can only guess whether the small family firms, joint ventures or subcontracting chains operate in such a manner that networking simply does not suit them. One starts thinking what are the factors that prevent real, effective, competitive, open and value-producing co-operation from coming into existence among the enterprises operating in the countryside.

The critical factors which were drawn attention to in the study are some aspects of important SMEs representing some characteristics in furniture industry. Why the entrepreneurs are more likely to compete with their own in contrary to seek partners to concentrate to their own core competencies and improve of their knowledge for niches. Can the intellectual world, the schemes, be changed in network co-operation from personal independence to controlled individualism?

In connection with decisions concerning resources, the entrepreneurs will in any case have to get into social exchange with network partners working in different fields. Every time it will be necessary for the entrepreneur to think of strategies when discussing with people in the outside environment, defending his own values, attitudes and life, which will often involve pitiless pursuit of business profit in a tightening competitive market.

## **6.6 Summary of two network description**

The study reveals many perspectives of development of relationships in networks. The critical factors in development of relationships in co-operation that come out of the discussion and interpretation of the networks are summarised in figure 6. below.

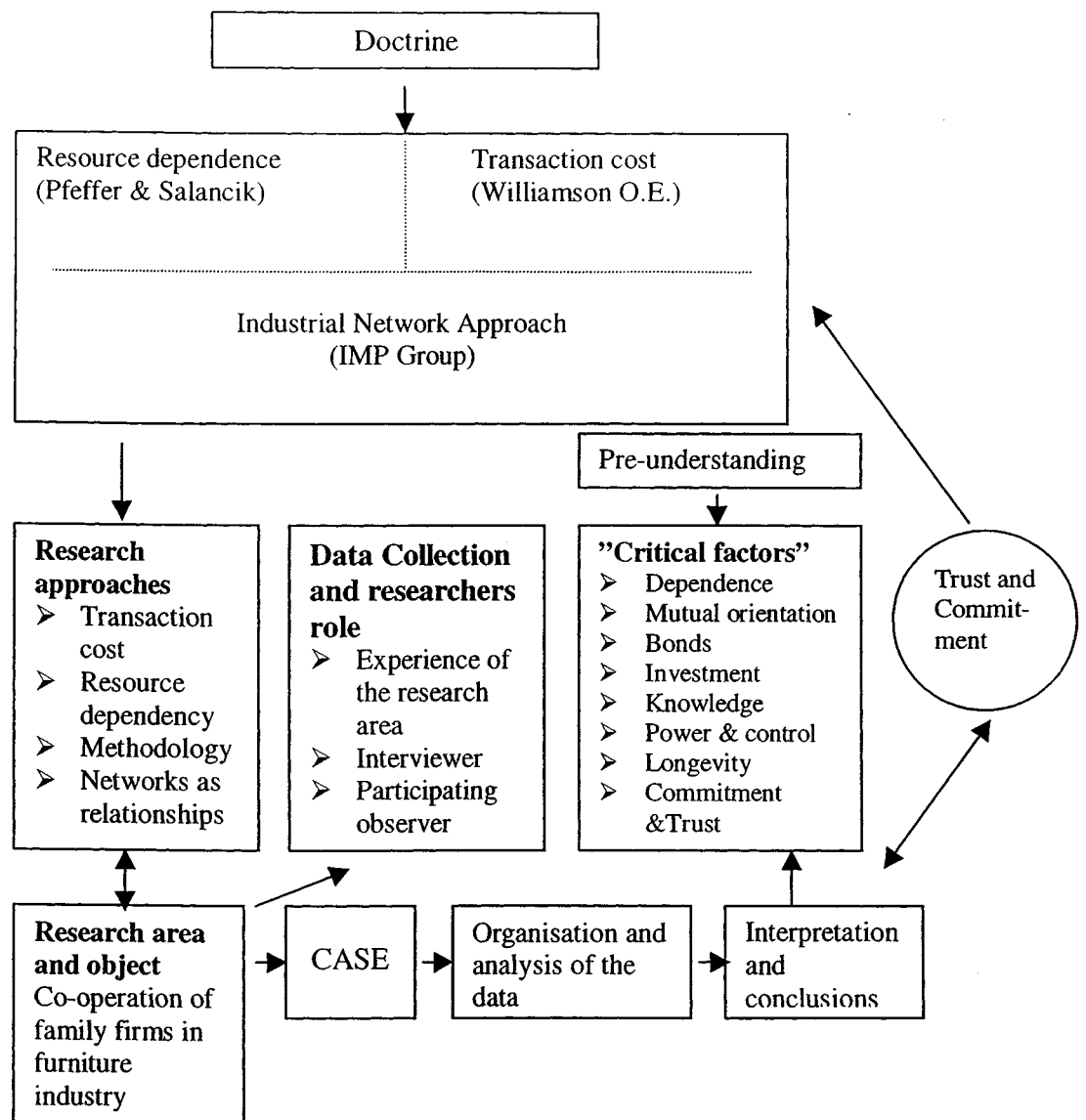


Figure 6. The modified theoretical framework of family firms and co-operation in networks

In this study common values, attitudes, life conditions and geographical proximity of the family firms promote networking. Entrepreneurs know each other's way of operating, manage to communicate in a familiar manner and share views of the position of entrepreneurship in society.

**The mutual orientation and bonds**, the earlier business relations and experience of networking, strong bonds seems to be an important factors effecting to family firms and their network development processes.

The **power** and dependence comes out in both cases when the resources and independence were discussed. One might argue that dependence and interdependence are determining factors to access of resources and core competencies in network. In this study the objectives and interest of co-operation are not similar in both cases either. From the standpoint of focal networks, the objectives of co-operation are seen as the result of a spirit of consensus.

On the standpoint of individual enterprises, the situation is different, and the setting up of aims and objectives even at the level of entrepreneurship displays differences between an enterprise and the joint venture. The objectives are closely connected with the strategy by means of which the enterprise defines its position in relation to its competitors.

In both networks there seemed to be a lack of resources and at the same the fear of resource dependency with the actors or customers. In this respect, the **resource dependence** the internal and external core competencies are not easy to build up or they were not identified in order to drive the firms to networks. Also the reliance of organisations on individuals to maintain strategic links highlight the vulnerability of such organisations with respect to informal person-to-person relationships.

The third result of the discussion was that the **commitment and trust** seems to have an important role in network processing. The networks ideology and experiences in practice as well as capability to respond to ever changing business circumstances are noted. The commitment to long-term relationships shows how the networks fight between the opportunistic behaviour between market and hierarchies. The commitment and trust seems to be an important factor both in social exchange and business transactions in networks.

The third aspect is that the investments are seen in long term relations that require time and money. The forms and terms of networking, concrete profit of the joint production and marketing and overall innovation and product development asks lots of resources from the family firms.

The drawbacks of culture could be adjustment to certain given ways of thinking, to the guidance by one person, to restrictions in independence and self-determination,

due especially in co-operation to the marketing of different, even innovative, ideas. Adjustment to certain lines of behaviour in co-operation may blind participants to the formation of new business relations and because of this to the development of the network.



## **7 CONCLUSIONS AND DISCUSSION**

Section 7.1 presents the research questions and a short summary of central aims and purpose of this study. Section 7.2 presents the main contributions and findings of the thesis. Section 7.3. brings up the issues concerning the credibility of the study. Section 7.4 is a discussion around the future research.

### **7.1 The research questions**

Two research questions were introduced in chapter one. The overall purpose of this study was to deepen understanding of the co-operation and network development between family firms. The aim was to describe and identify some common characteristics in the area of family business and networks that are critical to successful networking. The research questions were: How the relationships are created and developed? Why the studied family firms have intentions and interest to inter-firm co-operation and joint ventures and what are the critical factors for the future success in networks?

The other purpose was also to discuss around the theoretical and practical network characteristics for future studies. How the network approaches and models support the subjectivist network phenomena? What new theory and praxis provide to network approaches and methodological discussion?

The general framework for the thesis is based on Industrial Network approach and the concepts of networks as relationships in development of co-operation. The themes as relationships are introduced and identified in the framework of four metaphors as mutual orientation, bonds, dependence and investments in this study.

The research questions are approached by a literature review and an empirical study of two networks. The literature review has its focus on network theories, resource dependence and transaction theories. The main conclusion of this literature was that networks developed in social exchange and business transactions between the individuals and the firms in net. Relationships vary a lot depending on the forms of the networking and the processes involved. Another conclusion is that networks can be seen as a cultural phenomena between the markets and hierarchies.

Competition and co-operation are the same side of the coin. For family firms the networking provides an opportunity to seek more resources than one can receive by own means. Networks are stable but not static. The shared vision, goals and motives could change and shape the actors' relationships and equality in network.

The empirical study was presented by describing two furniture networks. The one is joint venture (R.A.N.S.U) and the other is subcontracting network (S.E.L.M.A). Description of these two networks gave an insight to real-life experiences of networking development and the governance of the networks as well as the personality, motivation and influence of the family firm manager-owners in the ongoing network relationships. The preconditions to successful networking were structured as a critical areas or factors in theoretical framework in chapter two.

The result of this study is a discussion and interpretation of the four themes (metaphores) in concept of networks as relationships. These themes which were introduced in theoretical framework have been used as a guide or tool to analyse the case study. At the end, the findings are related to theory in chapter seven, in section 7.3.

## **7.2 Main contributions**

Both research questions are summarised and answered shortly and both have focus upon the process of development of relationships in networks in family business. The answers and results of the interpretation are as follows:

### ***1. To describe the two furniture networks***

- The relationships are created and based in mutual orientation and social exchange between the firms in networks
- The family firms are lacking resources and seeking new markets to improve their own competitiveness
- Commitment and trust are the critical factors effecting the development of relationships in co-operation in networks

## ***2. Introduce some theoretical and practical network characteristics for the future network study***

- The network approach provides subjectivist and focal perspective to the context of “real-life“ in family firms networking
- The network theories were strongly supported in their social exchange context. Case study provides a rich methodological approach to interpret and deepen understanding of the family firms network reality in their own business environment

Structuring the development of relationships networks into four critical factors (areas) is the first of three strongly derived main contributions of the thesis. The second contribution of the thesis is the intentions and interest to networks, that was contributed in all four themes (key concepts) in theoretical framework.

That describes and brings out the notion of the preconditions and factors effecting to interest of firms in networking; both social exchange and business interactions as well as resource dependence were derived from the both case descriptions.

The third contribution is the critical factors effecting the future success of the firms in prevailing networks. This thesis was combined to in same weight to previous contributions, but the clearest and the most stressful notion was the commitment and trust between the actors which in this study seems to be most important contribution to focal networks study.

### **7.3 Family firms and development of relationships in co-operation in networks**

The study has clearly revealed how important the social relationships among the entrepreneurs participating in the network are. Empiricism is supported by earlier literature in maintaining that the networks are a result of individuals' social relationships and friendship (see e.g. Paasche, Pettersen & Solem 1993; Cook & Emerson 1978; Aldrich, Elam & Reese 1995; Szarka 1990; Easton 1990).

On the basis of the interviews the most central critical factors of the development of co-operation turned out to be the commitment and trust of the entrepreneurs. Earlier business relations and positive experiences give a better basis for the development of future relationships as well. Through commitment and trust arise better preconditions for procuring critical mass where operative and managerial know-how are united. Culture exerts both a good and a bad influence on the development of co-operation.

When it comes to starting a joint venture, the entrepreneurs themselves emphasise the need for persistence, equality, economic stability, the activity of the production chain, lack of mutual competitiveness between the enterprises concerned and ability to make decisions together on questions that concern the whole group. They frequently recognise as their weakness their lack of knowledge of marketing and especially unfamiliarity with export markets. It becomes clear from the interviews that the training should aim at providing knowledge of marketing that would also be useful in the furniture branch.

The co-operative forms subject to this study were the joint venture and subcontracting network. Characteristics for these forms of co-operation are of a fairly loose structure; only the capital invested in the joint venture and the decision-making and use of power connected with it can possibly affect the operation of the co-operation group.

In either form of co-operation different degrees of usefulness can be found, judging from the literature and the study results: access to the other enterprises' resources, better markets, acquisition of new skills. (see e.g. Miles & Snow in Buckley & Michie 1996).

This refers to resources and interdependency between the joint venture firms and vertical integration of the subcontracting network. According to Tjoswold and Weicker (1993) the ability of entrepreneurs and enterprise managers to co-operate and to deal with conflicts openly and effectively also affects the way in which the entrepreneurs' different aims determine the success of the co-operation. (see e.g. Andersson & Narus 1990, p. 54).

According to Easton and Araujo (1992) the strength of the relationships should be considered as an operative capacity against threatening and disturbing forces. By this they refer to how easily enterprises are ready to leave the co-operative enterprise and move to other co-operative patterns. In other words, strongly bonded co-operative operations develop more permanent and predictable structures and will be able to withstand occasional changes. (in Easton 1992).

In the network economy the enterprises concentrate on their own core skills / know-how and procure the other contributions, components, units, services from outside. Many studies concerning flexible organisation show that the organisation of production jointly with the other actors of the network creates additional value to the actors all along the value chain, develops their skills / know-how and thus creates superior competitive advantages for the actors and their customers. (see e.g. Gulati 1995; Lazerson 1995; Fletcher & Hardill 1995; Balloni & Iacobucci 1996; Wickström & Norman 1994).

Still, there is some concern about the high quality and the big product consignments required. Although the joint venture enterprises had used expertise from outside in the product planning, the development of the quality organisation has not yet been dealt with. Especially the models produced through the R.A.N.S.U. joint venture have not sold well abroad.

The segmentation of the product on the right markets is according to the entrepreneurs the first task if the same models are still developed. For S.E.L.M.A. (hub-firm) the national markets are the most important. Aiming the production at a few customers does not, however, develop the network in its present composition. Engaging new subcontractors becomes a necessity, similarly directing the production to export markets and differentiating the products.

The role of power has been important factor in co-operation development in many studies. One conclusion of this study revealed the importance of **power and dependence** in networks. The objectives set up will have to be so important, so useful from the standpoint of competitive power and the companies' core competencies and so capable of development and market-oriented that the objectives are fulfilled within a reasonable space of time. As regards the cases considered in

this study, the objectives set up with respect to the activities of R.A.N.S.U. joint venture can only be measured qualitatively, for the co-operation has brought its members no actual economic benefits, let alone business profit. (see e.g. Jarillo 1988; Easton 1992; Thorelli 1986; Pfeffer & Salancik 1978; Pfeffer & Nowak 1976)

The exchange in the normal customer–seller relationship (S.E.L.M.A) and between the enterprises in the co-operative enterprise (R.A.N.S.U.) is continuous interaction. The supply has to correspond to the demand and this imposes critical requirements concerning quality control, time of delivery and technology. Both networks display strong confidence in their own skills. That is good, but is the skill sufficient for international markets as well? That is a question that entrepreneurs worry about, each in his own network. In the interviews the abundance of raw materials, the high technological know-how in dealing with the material, the professional skill and the high quality were stressed.

A strong culture can promote or make difficult the expansion of the operation of the co-operative enterprise for instance from domestic to export markets if the partners do not have the ability to change their own principles of acting or do not want to take the customer's views into consideration or lack the ability to recognise them. In other words, culture can dominate enterprises and their decision-makers and prevent the implementation of objectives either at the level of the enterprise or at the level of co-operation in all its forms.

In the subcontracting process the value chain indicates those sources aiming at specification and those cost advantages by means of which one network can operate successfully and another in a more average manner greatly depending on how ways of operation and production can be innovated. In the empirical part of the study, the most critical value-enhancing factor in the S.E.L.M.A. value chain (in the subcontracting organisation) is in the cost control management and in the specialisation with respect to the buyer and the ultimate user of the product. (see e.g. Porter 1985, 1990).

Procuring the competitive advantages that co-operation offers thus depends on the network position of the network partners and on the critical resources that the networks have procured. Since the entrepreneurial activities are not stabilised and

prognostic the decision-making of the entrepreneurs is not always rational, the majority of the network examples, for instance the R.A.N.S.U. network, show that in co-operation a draw is more important than the maximise of an enterprise's gain.

In this study, it is also worth to notice the social culture, proximity, entrepreneurial spirit and atmosphere, trust and commitment in where the family firms transactions are sometimes as important critical factors driving to co-operation and development of the relationships in networks than the economical point of views.

#### **7.4 Key concepts describing the relationships as networks**

The development of co-operation in networks are studied by structuring relationships as networks in four different perspectives; in other words, themes and metaphors. They are mutual orientation, bonds, dependence and investments. Using this framework new and combined categories have been brought out to introduce the complex and rich phenomena of development of network relationships.

The relationships are indeed associated in social and economic transaction between the family firms and their networks. Co-operation is based on resource allocation, inter-firm resource dependence, lowering the transactions cost in subcontracting chain, investments and profit-goals, joint production and marketing. The forms and procedures to co-ordinate and co-operate are ultimately based on the trust, power and commitment between the actor firms. Many of these important key concepts are related and mixed in each other.

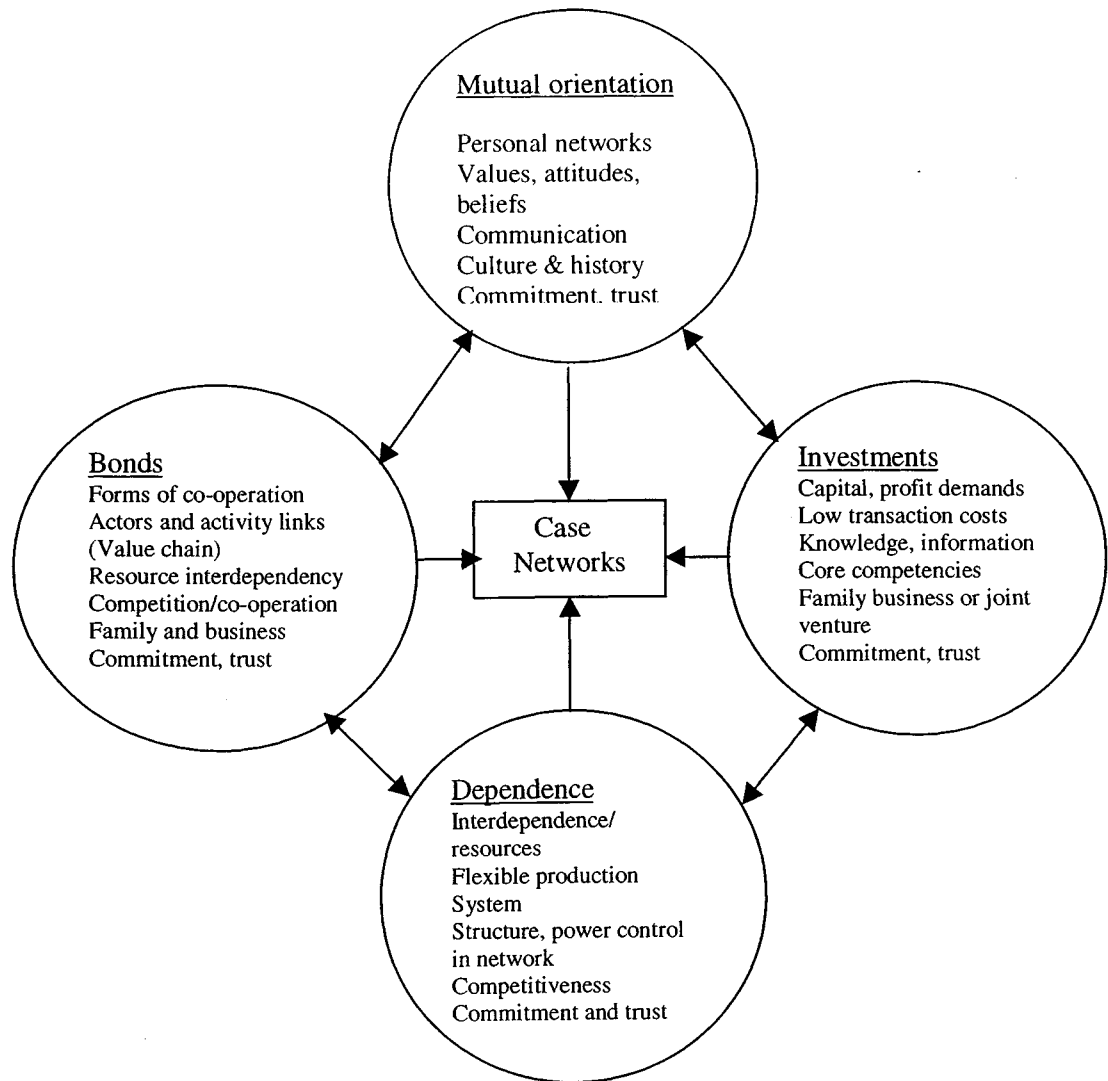


Figure 7. Key concepts of relationships as networks in studying family firms and networks

### 7.5 Credibility of the study

The following structure and procedures have been guiding the process of study and the credibility of the findings. Reporting and choosing the theories step by step in the research process, relating the chosen empirical findings to the theoretical framework, establishing and interpreting the actor firms perceptions in development of the relationships and combining the researchers own professional pre -understanding and knowledge of furniture industry are the evidences of the progress of the study.



The limitations of this study lie in the fact that most of data was collected through interviews. The researcher's pre-understanding and interpretation could have reduced interview memoranda and that could be done in other way, e.g. analysing and interpreting the material in statistical computer methods (ATLAS.TI or NUD: IST) in order to prove the validity of the study. In this case study the sample of 10 family firms and two networks does not attempt to present generalisations of the domain as a whole.

The argument relies mainly on interviews that in order to make a rich and versatile picture of the complex business relationships and the environment where the family firms operate provides lots of rich material for the interpretation process. In other words, the survey might not in this respect bring out so much background information of the family firms and individual entrepreneurs perceptions from "networks reality" nor the possibility of interviewee participate and make further questions during the interviews.

Theoretically, the case study method is very used in network studies. Small firms and networks as a focal studies represent the growing body of literature on networks research methodology. (see e.g. Tikkanen 1996). Easton (1995, p. 411) refers to ideas of methodology as follows "*.. there is also widely held belief that the broader issues of methodology are irrelevant to "practical researchers" decisions on methodology can be made by judicious use of common sense...*" (in Tikkanen 1996).

The purpose of the literature review was to introduce the alternative approaches, models and concepts to study the small firms' networks. In other way, the alternative approaches based on Industrial Network approaches and works of Uppsala School (IMP-group) provides an pragmatic opportunity; practical oriented research questions, which seem to be sensible and useful deepen the understanding of the relationships in family firms networks context.

## **7.6 Suggestions for the future research**

One approach for future studies would be an investigation if the family firms are more network oriented than the manager owned small firms. That would include the

external focus on the level of generation the firms operate and size of the firms. An other focus could be how the family effects the network strategies. In other words, how the family business governance effects decision making in networks and how the values, attitudes and skills of the family members form and promote the success of the network.

A second approach would be a study of the family firms and networks in a situation where the firms are in transition. What are the factors effecting to successful network transition? How the next generation learns the culture of tacit knowledge in network relationships? What are the preconditions to maintain the prevailing networks and to create the new one during transition process?

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