

**Business Networks:
a collaborative form of organizing**

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Business Networks: a collaborative form of organizing

In a dynamic and more competitive world, organizations are increasingly establishing relationships with other organizations in order to face better the challenges of competition. Different forms of collaborative arrangements can be established. This report provides an overview of the way organizations establish relationships with other organizations. It focuses on business networks.

The Survey

We surveyed seventeen different collaborative arrangements in different industries in Australia. Results show that in business networks the role of the broker, and the chair, are critical success factors for the network's continued existence. The broker is important in the early life of the relationship, while the role of the chair is important in a network's functioning once it is established. Networks tend to have a low number of members, and in the past most of them had enjoyed relationship between them previously. Network members recognise certain level of conflict in the network. In general business networks take the form of joint ventures.

Summary of Findings

- The majority of the networks do not involve a broker. The broker stops acting as a facilitator between members once the network has been created.
- Satisfaction by members with the contributions made by the broker to the network is low and it is limited to areas such as information provided, access to government funding, motivation, and facilitative skills.
- In the majority of the networks, most of the members have had previous relationships with other network members.

- The level of collaboration between members has increased during the life of the network.
- Network strategic plans typically demand that members commit time, money and knowledge to the formation of the network.
- Network members perceive that they contribute resources equally to the network.
- Network members basically share knowledge and technology within the network.
- There are few contacts between members outside the formal network meetings. These contacts are mainly through the telephone.
- There is an increasing use of information technology. Several networks and individual members have access to the Internet.
- Business networks are a good forum for sharing information and discussing ideas and organizational problems. Members believe that there are no issues that are difficult to discuss between them.
- Network decision making is done by a majority of votes.
- The majority of members are network founders.
- Business networks take different legal forms; the most common is as a Pty. Ltd.
- Members have different expectations on joining a network. The most important expectations from members are that they will increase access to knowledge, access to expanded markets, and reduce costs.
- Most of the networks have monthly meetings.
- Members recognise the existence of moderate levels of conflict within the network.

- Members typically do not consider that there is one critical organization whose participation is vital for the network.
- Participation in a network, typically, has not resulted in members' expectations being met.
- Members do not regret being a network member and they would be interested in being involved in another network.
- Members believe that networks do not always follow their strategic plans.
- Members believe that networks should discuss the existence of, and admit competitors to, the network as members.
- Members believe that they can share their organizational problems with other network members. Contact between members is frequent.
- While members believe that they can trust other network members, members are not convinced that any network member could act alone on behalf of the network. There is a perception that this kind of action could lead to opportunistic behaviour.
- Members are convinced that their network is effective.
- Participants in networks share the knowledge gained with their employees.
- Members consider that their organizations take some risks by being in a network.
- Networking has facilitated members' access to knowledge, grants or funding, technology, skills and new markets.

1. Introduction

This report is based on a survey carried out for the AusIndustry Business Networks Program during 1995-1997 on networks as forms of collaboration. Seventeen different networks participated in the survey. The report provides an overview of the way organizations establish relationships with other organizations. Its purpose is to contribute to the understanding of business networks as a form of organizing.

For the purposes of this survey, the forms of collaboration studied empirically are 'soft' and 'hard' networks. In general, we understand a network as a long-term relationship where organizations, as actors, come together to achieve negotiate outcomes. A 'soft' network represents an informal group or a 'loose' arrangement. A 'hard' network, by contrast to a 'soft' network, is a much more formal way of organizing relationships and the level of commitment and obligation is set out in written form.

The survey collected information on characteristics of the network, number of members, level of conflict, and extent of organization learning. The topics covered include:

- Why networking?
- Types of organizational arrangements
- Benefits and costs of networks
- Results
- Implications and recommendations

2. Why networking?

The practice of forming interorganizational networks has been gaining popularity with many firms in recent years. Organizations have to choose between doing business alone or joining together with other organizations to establish different types of relationships. These relationships differ from both

market and hierarchies (Williamson 1985); they are neither spot-market contracts nor permanent incorporation within the organization structure and forms of calculation of other businesses or organizations. Typically they take the form of collaborative arrangements such as networks.

Several advantages have been claimed for firms that adopt a network form. Lower overhead costs, increased responsiveness and flexibility, and greater efficiency of operations, have all been advanced as benefits for firms that network. In addition, proponents of interorganizational networking claim that it can regulate both complex transactional interdependencies as well as facilitate cooperative interdependence among firms.

Small and medium size organizations frequently require larger amounts of resources to allow them to be competitive and adaptive to a changing environment than they have available internally. Networks enable extension of the organizational resource base available to firms. Networking is an important strategy that enhances intra-organizational management skill development and that extends organizational capacities.

3. Types of organizational arrangements

The types of relationship that could be established between organizations include strategic alliances, joint ventures, and networks.

According to Bartol *et al.* (1995: 99) a '*Joint venture* is an agreement between two or more organisations to jointly produce a product or service.' The main reasons businesses form a joint venture are to reduce costs and risks, often through developing new technologies. In general, organizations involved in joint ventures take mutual advantage allowing them to go together in an activity that otherwise would be difficult to achieve if these organizations were

alone. Usually joint ventures preserve existing ownership relations rather than jointly consolidating them.

A *strategic alliance* involves 'co-operation between two or more independent firms involving shared control and continuing contributions by all partners' (Yoshino & Rangan 1995: 17). For Parkhe (1991: 581), strategic alliances are 'relatively enduring interfirm co-operative arrangements, involving flows and linkages that utilise resources and/or governance structures from autonomous organizations, for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm.'

There are different definitions of the concept of a network. Williamson (1985) distinguished 'hierarchies' from 'markets', identifying hierarchies (or organizations) as an alternative form for exchange or transaction, from the market, the preferred analytical object of the economics discipline. Taking this pair of concepts, Powell (1990) in an influential article suggests that in addition to the market alternative of hierarchies we should also consider 'networks'. Powell notes that a network is a form of exchange with its own logic, separate from other forms of exchange such as 'market' or 'hierarchy'.

Some of the most frequently cited definitions of networks include the following:

[A strategic network is] an arrangement by which companies set up a web of close relationships that form a veritable system geared to providing product or services in a coordinated way (Jarillo 1993: 7)

... a network may be viewed as consisting of 'nodes' or *positions* and *links* manifested between the positions (Thorelli 1986: 38)

... is a form of exchange with its own logic different from hierarchies and different from markets (Powell 1990)

The emphasis provided by the Australian Manufacturing Council (AMC) sees a network as the combination of a group of enterprises, whatever their size, who use their pooled talents and resources to achieve results impossible to achieve through their individual enterprise (Australian Manufacturing Council 1994).

A network can be a long-term relationship between organizations (whom we conceptualise as the key actors in the network) that share resources to achieve negotiated actions. Organizations typically seek to cope with the uncertainties of their existence in various ways: they strive for a unifying culture, for standard procedures, for adequate resources and so on. Networks have to find some way of managing the firm specific, and frequently distinct, practices that each of their member organizations have developed. Each of the areas that the network deals with represents a potential zone of uncertainty that may only partially be within its power to control. In striving to exercise this control it will require management of those resources that impinge on its arena of operations.

For the purposes of this reasearch, we understand that a network, at the minimum, involves a long-term relationship, between organizations conceptualised as actors, that share resources, and coordinate communication flows, that are connected (linked), in order to achieve negotiated outcomes.

4. Network benefits and costs

To participate in a network has both advantages and costs. According to Buttery & Buttery (1995), the advantages of networks include risk-spreading and resource sharing, avoiding costly duplication of independent effort, enhanced flexibility, market development, economies of scale, specialization, and gaining access to critical resources such as knowledge, information and relationships.

Networks can link multiple partners, often on an international basis, and can be a mechanism for accessing external resources. These resources can include things such as capital, product design and marketing capacities. The establishment of alliances or interfirm cooperation may relate to a need to access basic and applied research, develop innovation processes and capabilities, gain market access or enhance marketing opportunities. Small, independent firms may find that to access export markets it is much easier for them to do so in conjunction with other producers of similar or related goods, for instance. Alternatively, a firm might have a product innovation but lack a vital technological or marketing capacity to realize fully its potential. In these circumstances networks can realize capacities that would otherwise remain unleashed because of the limitations of the organizational resource base of the firm as a stand-alone entity.

The literature thus far has tended to accentuate the positives and gloss over the negatives. In part this is because a deep research based literature is only now emergent. Some of the costs associated with networks are related to sharing of knowledge and information, dependence and financial elements. Dependence occurs through the way that organizations lose some control over all the activities related to the network functioning. Organizations thus lose freedom of action as they become more oriented to network performance; at the same time, network performance depends on that of the members of the alliance. This means that organizations have to subordinate their decisions to those of the network but, in doing so, they run the risk of neglecting firm-specific aspects of their organizational functioning (Gomes-Casseres 1994).

5. Methodology

The different research activities undertaken in the process included the adoption of plural research approaches in order to have more than one bearing on as many substantive issues as possible. First, we began the research process

with an extensive literature search and review; second, we participated in a number of relevant congresses; third, from September 1996 to the present, we have attended monthly meetings in different networks. It is in these meetings that members discuss those issues that are most important for them at that moment. It is here where one can perceive and analyse the dynamics of a network.

The main instrument used in the collection of data was a questionnaire that went through several development stages before being stabilized on the final form.

We also collected data through direct observation. In these conditions, we attended, as observers, different general annual network meetings.

5.1 Qualitative data

Qualitative data collection and analysis followed grounded theory building techniques (Strauss and Corbin, 1990).

We conducted various face-to-face interviews with different actors involved in networks such as: network chairpersons, network members, brokers, staff of Australian Business Limited (Former Australian Chamber of Manufacturers), and staff of the Liverpool Council.

5.2 Quantitative data

We developed several different questionnaires that we piloted with network members. After the initial interviews, we realised that the questionnaire should be modified. Working from the literature, and from the experience gained in the research interviews undertaken, we developed further questionnaires, which, in the final form, shifted some data collection items to a more closed-

schedule quantitative format. This final questionnaire contained 200 items, both qualitative and quantitative.

The changes allowed us to contact a bigger number of networks; do better interviews because they were less time consuming for the interviewees, and that provided better quality data. With the information collected, we have been able to conduct subsequent personal interviews with a better understanding of networks and their members.

We contacted the CEOs and members of seventeen different networks in the manufacturing and in the service sectors around Australia, made up as follows:

- 7 'Soft' Networks in NSW
- 9 'Hard' Networks within Australia
- 1 'Independent' Network in NSW

6. Results

6.1 Brokers

An important element in the network is the role played by brokers. Since the development of the Danish network program in the 1980s, it has become increasingly conventional to try and create networks as a conscious tool of public policy; using brokers to facilitate network formation and functioning. The ability of the manager or broker to promote relationships within the network, according to this model, will be crucial for the effectiveness of the network. Brokers, ideally, should be the force that keeps the network focused on achieving its' goals. The broker both orchestrates the coordination processes of the network, as a 'project manager', and works as the 'architect' whose job is to design the structure.

An additional role that the broker plays is that of ‘psychologist’ or ‘counsellor’, where he or she deals with the everyday conflicts that arise between people in the network.

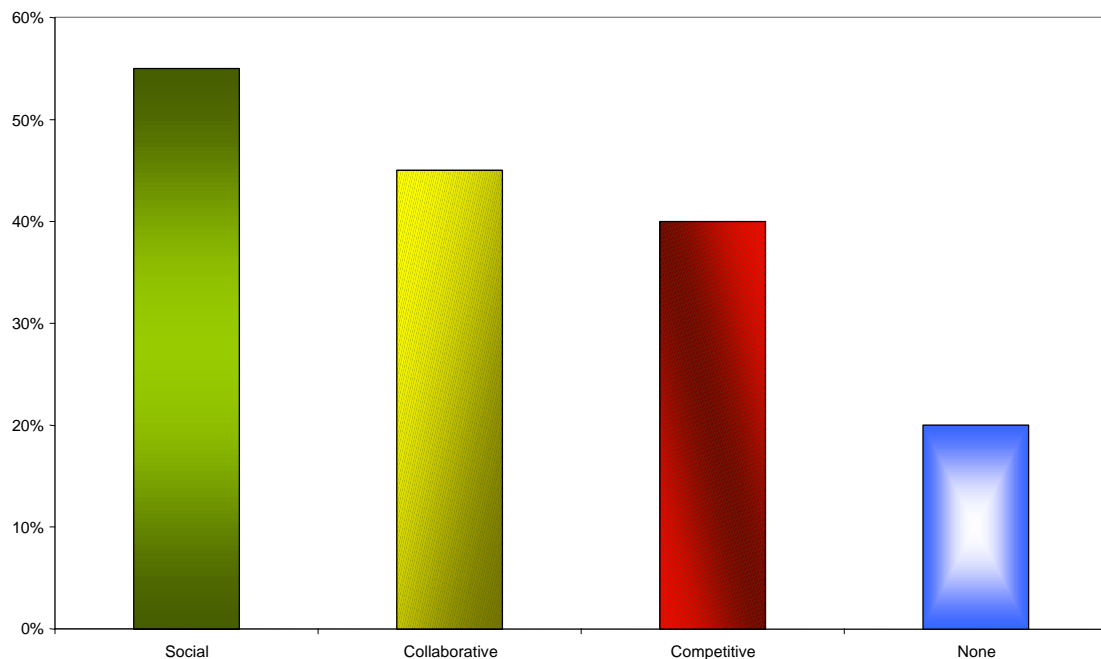
Networks do not involve a broker after they have been created. The broker is present only in the initial stages of the network.

Members satisfaction with contributions made by the broker to the network is low and satisfaction is limited to areas such as information provided, access to government funding, motivation, and facilitative skills.

6.2 Collaboration

In the majority of the networks, most of the members have had previous relationship with other network members. Only 20% of the members did not have any relationship with other network members. The level of collaboration between members increases during the life of the network

Figure 1: Previous relationships

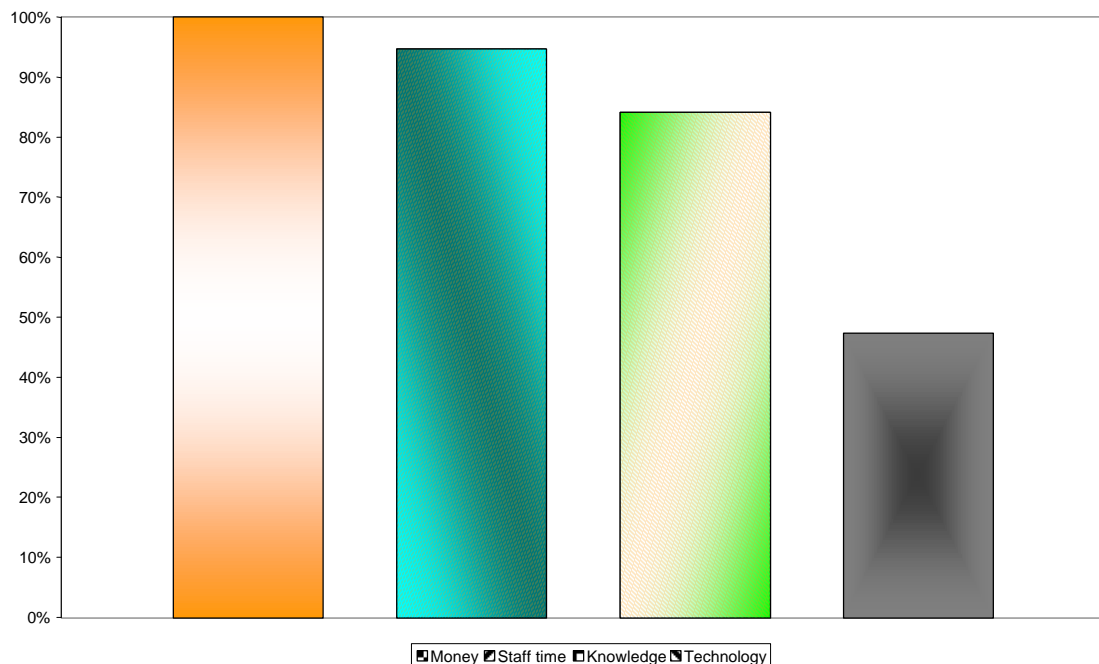


6.3 Commitment and contributions

Organizations have to commit certain amounts of specific resources to the network, from the outset. 'Commitment captures the perceived continuity or growth in the relationship between two firms' (Anderson et al. 1994). Network commitment involves a perception that the relationship between firms will continue to grow.

According to the strategic plan, members have to commit to the network time, money and knowledge for the formation of the network. Members believe that these resources are contributed equally to the network.

Figure 2: Plan commitment



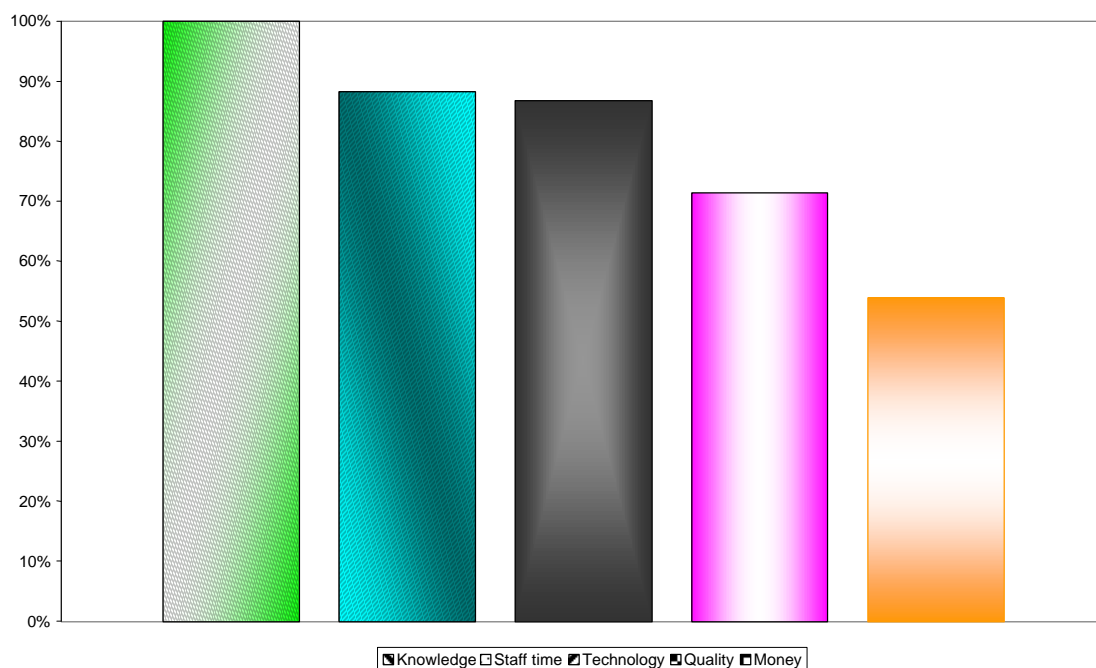
In reality, however, members' commitment to the network is contributed in different ways.

6.4 Configuration

Configuration refers to the way the network is organized and how it works. It also includes the size of the network measured in terms of number of members.

A network might have any feasible system of flows through it: one organization may be highly central, with the others clustered around it in dependency relations; there may be no single centre - the network might be effectively de-centred, or there may be rival and competing centres within the network. Whatever shape a network may have will depend on the way that power flows through it. We can think of a network that is highly centralized in its flows, where most traffic within the network routes through a central organization or other agent, an individual actor, such as a broker, for instance. Such an agent becomes a 'necessary nodal point' in the network- if things are to be done they must be done through the routines and auspices that this agent provides.

Figure 3: Members commitment



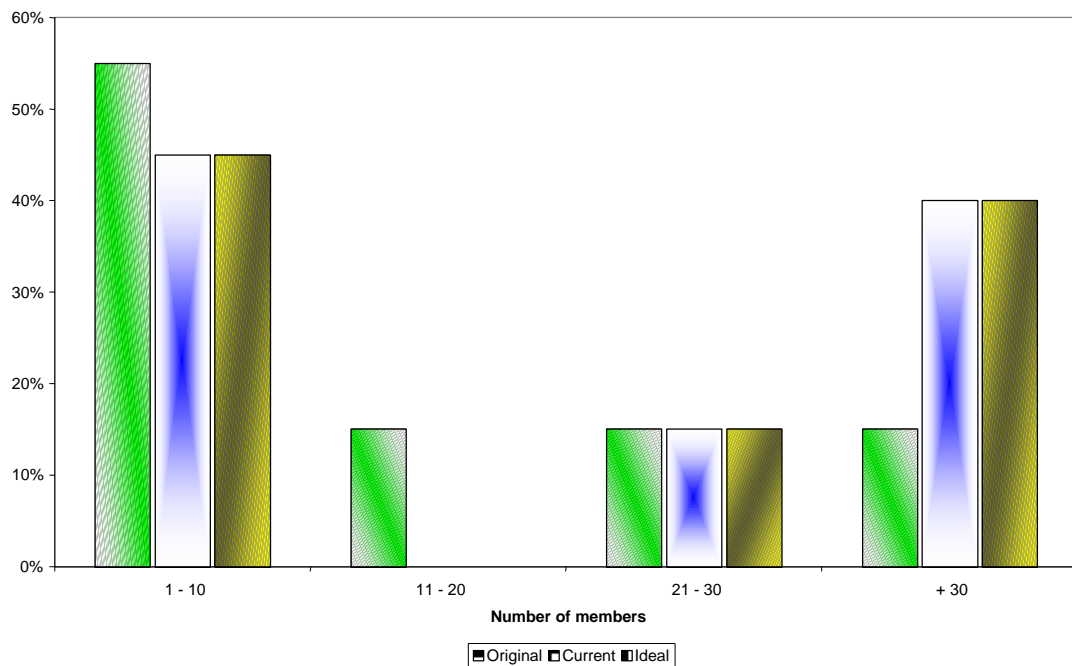
Network circuits may have greater or lesser necessity attaching to their existing nodality. There may be a high degree of necessity attached to the existing way in which power flows. Or there may not. It may be more conventional, or the achievement of a particularly charismatic leader, rather than a necessary aspect of the network structure. Where the firms in the network are much more evenly matched in terms of their size and other resources, then the shape that

the network takes will differ. How it is actually shaped will depend on the relation between the variables used for the research.

Some flows will be more crucial for some networks than others: they will be the 'strategic contingencies' that the network has to deal with. Whatever agents manage these best will be the more powerful. Other flows in a network may have little necessity attached to the nodal points which transmit them - hence there will be a multiplicity of nodal points with little necessity attaching to any one in particular. In this situation we would expect to find a much more plural distribution of power in the network.

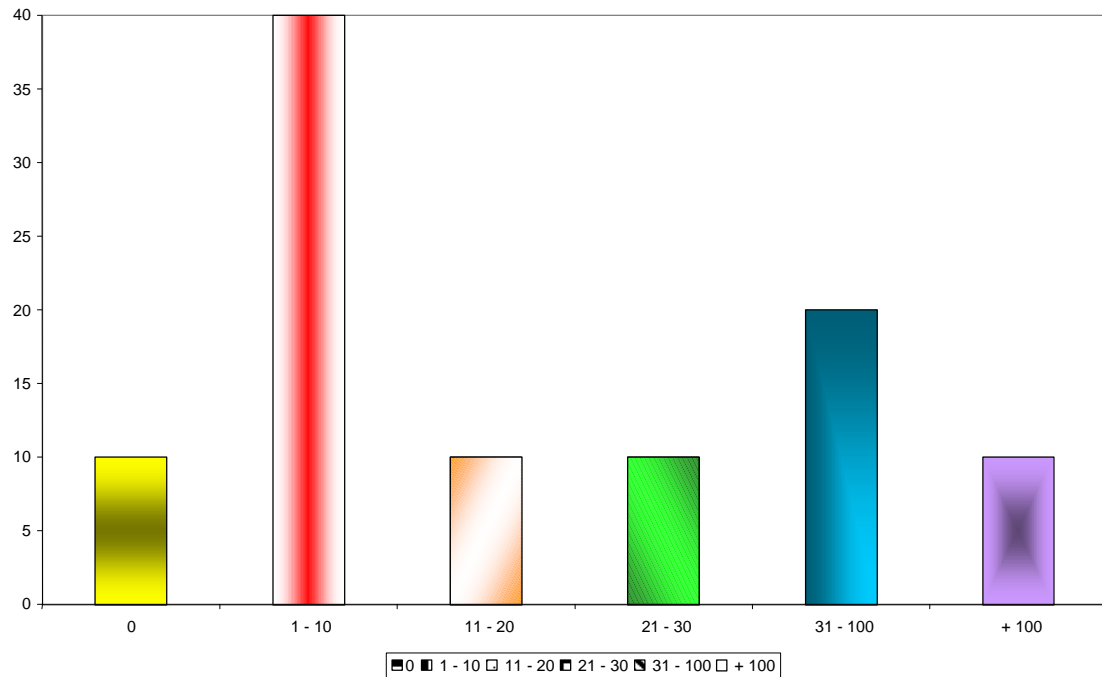
There is not an ideal size for networks but in general one can say that 'hard' networks tend to have a lower number of members. Networks have similar characteristics to joint ventures. It seems that, regarding network size, it should be big enough to create synergy between members, but at the same time, the network should be small enough to make things happen.

Figure 4: Number of members



Organizations involved in networks are small and medium sized firms, the majority of them having less than 10 employees.

Figure 5: Members organisations employees full time



Should networks admit competitors as members?

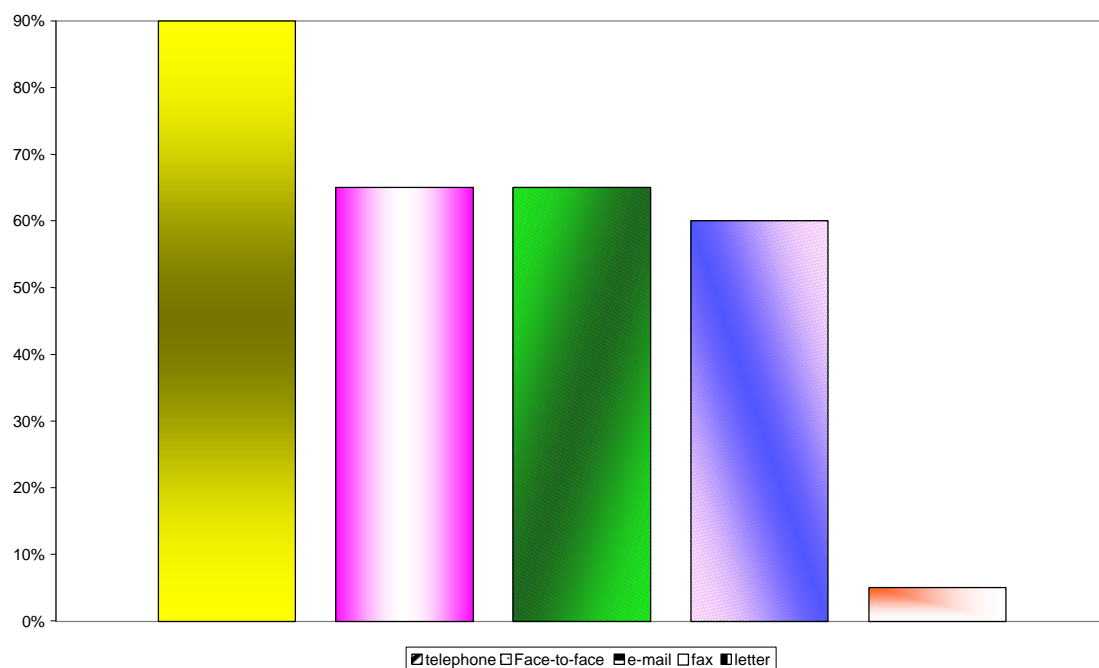
This is a debate that is particularly lively in both academic circles (Best 1990, Ring and Van de Ven 1992, Sabel 1993, Gray 1989, Hamel and Prahalad 1994, Bleeke and Ernst 1993, Lorange and Roos 1991) and amongst practitioners. In general one can say that competitors are those organizations in the same industry that make or offer similar products or services. While some members consider difficult to admit competitors because 'it would limit open and frank discussion', some other members believe that the network should admit competitors, as one of the chairpersons said 'competition is the nature of the business' or, as another member suggested, 'it is essential to change peoples minds'. In general, more than two thirds of members believe that networks should admit competitors or at least discuss the issue.

6.5 Communication

Communication flows refer to the way information circulates within and between the members of the network. Relevant aspects of the variables will include factors such as: the degree of transparency in communication; the regularity of communication; the degree of formality of communication; the extent of routinization of communication; media of communication, and the frequency of their use; as well as who initiates communication.

There are few contacts between members outside network meetings. These contacts are through the telephone. It is important to mention that there is an increasing use of information technology. Several networks and individual members have access to the internet.

Figure 6: Means of communication



Business networks are a good forum in which to share information and to discuss ideas and organizational problems. Members believe that they can openly share any kind of issue with other network members, in fact, members

recognize that there are no difficult issues that they would hesitate to discuss between themselves.

Members admit also that they share the information received from the network with their employees.

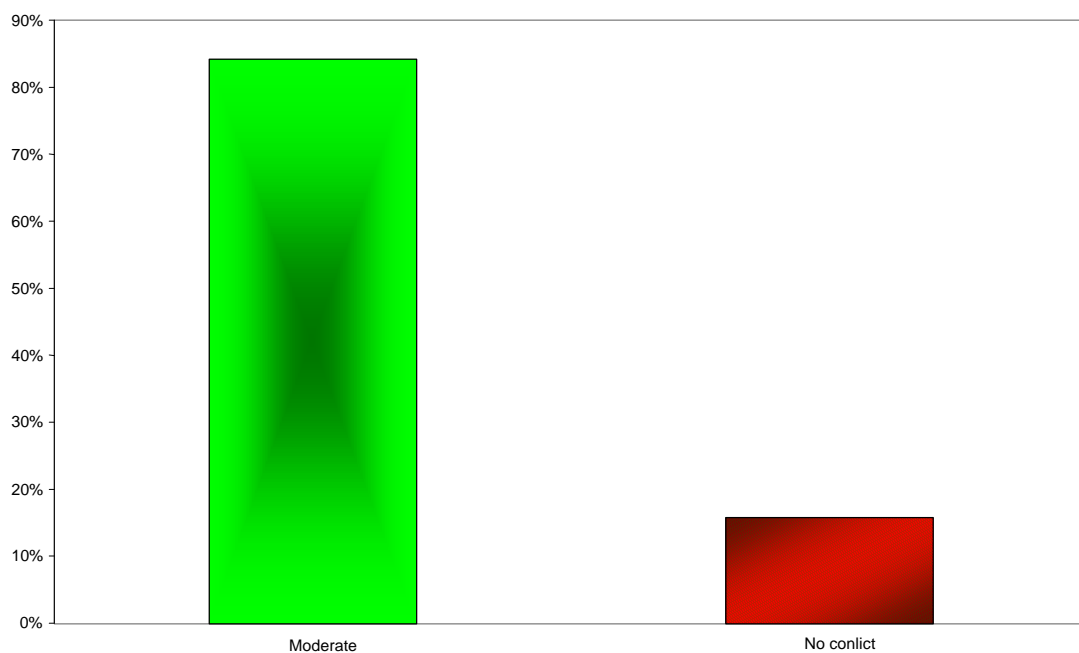
6.6 Conducting meetings

The majority of members are network founders. Business networks take different legal forms; the most common is a Pty. Ltd. Network decision making is typically done by a majority of votes.

6.7 Conflict

It is recognized in the management literature that a certain level of conflict has a positive, healthy effect in any relationship as a way of surfacing tensions and new ideas, and thus, that the relative absence of conflict is not necessarily a good thing. Members recognise the existence of moderate levels of conflict within the network.

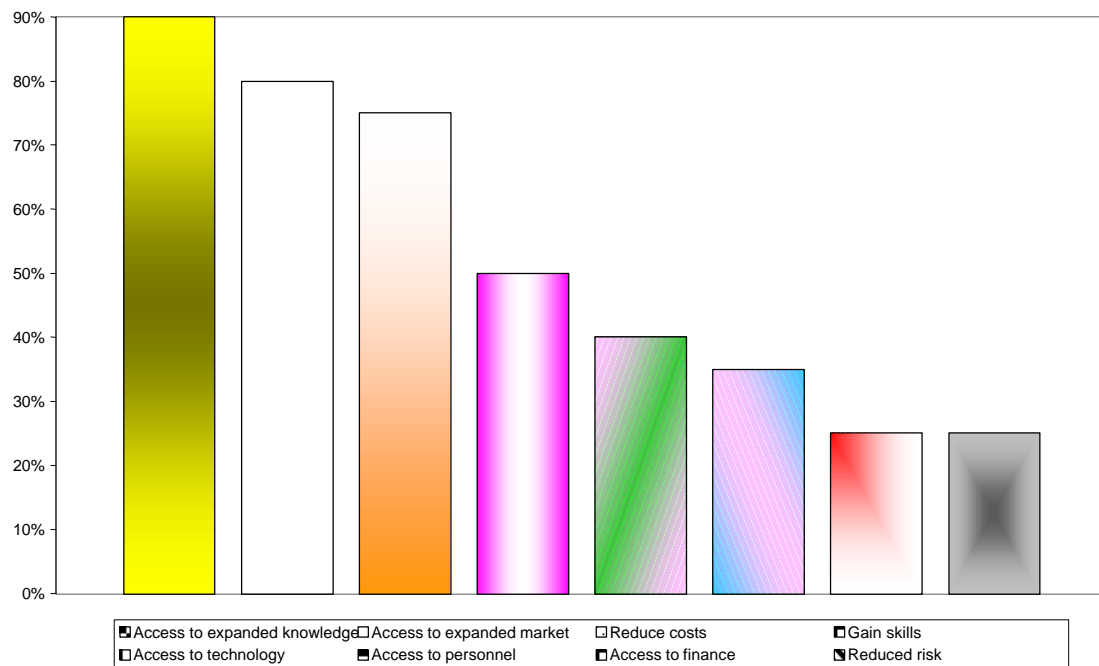
Figure 7: Level of conflict



6.8 Members expectations

Members have different expectations in joining a network. The most important expectations from members are access to knowledge, access to expanded markets, and reducing costs. Participation in a network has not met members' expectations.

Figure 8: Members expectations



6.9 Members satisfaction

At the same time that members recognize that the network in which they are involved is effective, members accept also that their network has not yet lived up to their expectations. Members do not regret being a network member and they are predisposed to being involved in another network in the future.

6.10 Planning

Members believe that networks do not always follow their strategic plans. One problem seems to be the way that the strategic plan for the network is set. As one of the chairpersons said, 'it is an unrealistic plan'.

6.11 Power

Power has been conceptualized elsewhere in terms of the idea of 'circuits of power' (Clegg 1989). For Thorelli (1986) 'Power is the central concept in network analysis'. Crucial to this conception is the argument that power is not a thing, or a resource, but a property of a system of flows through relationships. Hence, networks can be conceptualized as a system of power flows. The way that these relationships are structured forms the articulation of the network.

In general terms, members consider that there is not a critical organization whose participation is vital for the network, but there is sometimes a focal firm that is necessary to the network. Reasons for an organization being a focal firm include a situation where one organization is a leader in its field; whose their commitment from the chair is strong, or where the person representing a company is a motivator and founder or initiator of the network.

6.12 Trust

Trust can be understood as 'the expectation that some others in our social relationships have moral obligations and responsibility to demonstrate a special concern for other's interests above their own' (Barber 1983). According to Husted (1994) there are three different kinds of cooperation depending on the degree of trust involved in each relationship: high-trust, low-trust and 'zero trust', or opportunistic, relationship. A high level of trust can be achieved in a long-term relationship where members share norms and values and where relations involve more than one aspect of the organization.

As Granovetter (1985) argues, people and organizations typically seek to generate trust and discourage malfeasance. Wolff (1994) suggest some simple strategies, beyond professional competence, for building trust: encourage friendship, facilitate communication, limit management initiative through

agreements, test the water, anticipate disagreement, avoid surprise, don't count on contracts, start small, show that it's action that counts.

Trust is based on individual expectations. Trust can be understood as 'confidence in the other's goodwill' (Ring and van de Ven 1992). Indeed, a synonym for trust could well be 'confidence' - that one has confidence in the actions of another. At base, trust involves interpersonal relations, such that there is a high enough probability that a person or organization with whom one is in contact will perform an action that is beneficial or at least not detrimental for one to consider engaging in some form of cooperation with this person or organization in the future.

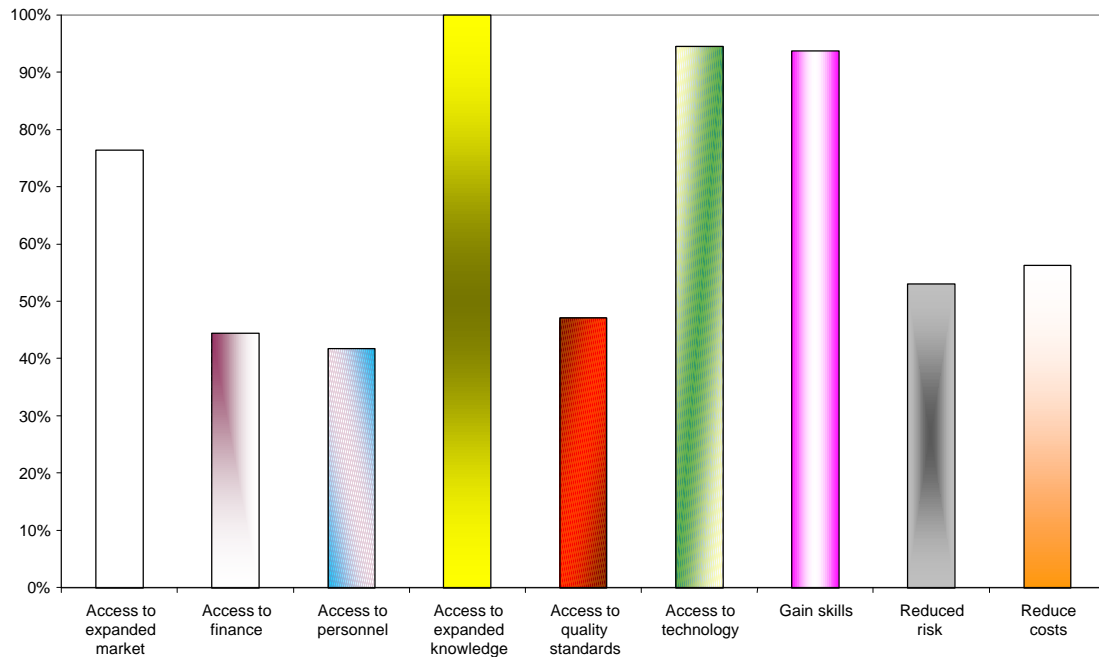
What are the components of trust? At the minimum most people would agree that the following qualities should be present: integrity; loyalty; competence; consistency, and openness. Where trust is present it can reduce what Williamson (1985) terms the 'transaction costs' associated with exchanges with others. High levels of trust lead to informal assurances buttressing or aiding in the interpretation of, perhaps even replacing, formal contractual commitments.

Trust increases where each project team is self-sufficient and includes 'outsiders' like user-representatives. Trust increases also when organizations have had previous contact. When teams have a social and celebratory dimension trust levels typically increase. Also, where project participants have prior experience with relevant technology or previous cooperative programs it increases the probability of success in any given project. Team commitment has to be greater than for the 'home' organization interest, to handle the uncertainties introduced by the politics of co-operation, thus ensuring fuller goal commitment, irrespective of change (Farr and Fischer 1992).

6.13 Perceived benefits

Member organization performance has increased by being in a network in areas such as access to knowledge and access to funding. According to Larson (1992), successful networks are characterised by promoting knowledge transfer and learning between members.

Figure 9: Members performance



At the same time, being in a network has allowed members to access external resources including knowledge, technology, skills, and new markets.

6.14 Other considerations

Members do not perceive major risks through being involved in a network.

7. Perceived reasons affecting the success or failure of a network

Lack of participation, interest, or membership; lack of collaboration; lack of a realistic strategic plan, lack of a shared common goal; lack of capital or funding, either by members or from external sources, such as government

grants. It is vital for any network to achieve continual successes that maintain members interested in the relationship, otherwise, it loses its attractiveness to members.

Members' commitment to the network is important. This commitment includes time and money, in terms of funding the costs of running the projects involved in the network.

Gaining access to international members and markets are also relevant success criteria for the network.

8. Implications and Recommendations

Being in a network is a finely balanced experience. Business networks should give enough to members to make them happy about what they are receiving. Members should feel that they are receiving more than they are putting in, for them to want to stay in the network.

Many business networks take the form of joint ventures, especially where there are a minimum of members engaged in a specific project. Such a network is created with a specific aim, the remit of which could increase according to the circumstances. In this context, it is important that the strategic plan for the alliance takes the form of an activity that is feasible to achieve.

Organizations that network successfully seek to broker alliances with others can use strategies to increase trust that have proven worthwhile in the field of strategic alliances. Careful attention to the structure and organization of the managerial role both internally, and in relations between organizations, seems vital. Managers of successful strategic alliances ensure that alliances are project-focused and that project teams have real decision authority and 100% project assignment. It is important that clear goals, deadlines and implementation

policies exist, and that time frames for technical, market and other tests are adhered to rigorously. Key functional representation should exist with authority to act and the team should choose project leaders with functional representatives reporting to them (Farr and Fischer 1992). For a network to achieve this state there must be a clear, central, and shared project, that serves as the profit-oriented focus for the network. No network that we researched saw the network in terms that envisaged this level of continuing, rather than occasional commitment.

It is important to keep supporting the formation of networks and further researches in order to understand better the elements of networks performance.

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