



Transnational Networks –
an Effective Tool for Risk Reduction?
Small and Medium-Sized Companies
in the Global Market Place

Christian Dietsche / Dirk Holtbrügge / Torsten Kühlmann/
Jonas Puck / Johannes Rehner / Philipp Schauwecker/
Gabriele Scheuring / Erika Spieß / Christine Stroppa

Universität Bamberg
Universität Bayreuth
Universität Erlangen-Nürnberg
LMU München

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Vorbemerkung

Fortrans ist ein interdisziplinärer Bayerischer Forschungsverbund, der in sechs Teilprojekten die Möglichkeiten untersucht, wie die Risiken internationaler Geschäftsbeziehungen kleiner und mittlerer Unternehmen durch den richtigen Einsatz transnationaler Netzwerke vermindert werden können.

Bei einem Auslandsengagement sind kleine und mittelständische Unternehmen (KMU) wirtschaftlichen, politischen, sozialen und kulturellen Risiken weitaus ungeschützter ausgesetzt als große Unternehmen. Verhandlungsmarathons, Aufrufe zum Produktboykott, Wechselkursschwankungen, Schmiergeldforderungen oder terroristische Anschläge sind nur einige Beispiele. Aufbau und Pflege transnationaler Personen- oder Unternehmensnetzwerke gelten als wichtige Instrumente, um derartige Internationalisierungsrisiken kontrollieren zu können.

Transnationale Netzwerke werden also vor allem in ihrer Funktion *als Instrumente des Risikomanagements* untersucht. Hier einige Beispiele für die Reduktion von Internationalisierungsrisiken:

- Durch Kooperation mit ausländischen Partnern werden mögliche staatliche Restriktionen des Eintritts auf den Auslandsmarkt umgangen.
- Die Marktkenntnis von Netzwerkpartnern verbessert die Beurteilung potenzieller Vertriebspartner und Zulieferer. Zudem können Produkte durch die Nutzung spezifischer Kenntnisse der Partner erfolgreicher platziert werden.
- Beziehungen zu ausländischen Geschäftspartnern erhöhen die Vorwarnzeit bei (wirtschafts-)politischen Turbulenzen auf dem Auslandsmarkt.
- Transnationale Netzwerke können vor opportunistischem Verhalten von Geschäfts- bzw. Kooperationspartnern schützen.

Während der Fokus bisheriger Forschung meist auf den *Kooperationsvorteilen*¹ liegt, werden die *Risiken* einer Teilnahme an Netzwerken allzu oft vernachlässigt. Transnationale Netzwerke stellen für die Partner aber nicht nur ein Instrument des Risikomanagements dar, sondern können gleichzeitig als Quelle neuer Risiken angesehen werden. Nach der Risikoklassifikation von Haller² handelt es sich dabei um „Aktionsrisiken“, die sich – unbeabsichtigt – aus dem unternehmerischen Handeln selbst (hier die Teilnahme an einem transnationalen Netzwerk) ergeben.

So besteht beispielsweise das Risiko, dass ein Geschäftspartner trotz der getroffenen Kooperationsvereinbarungen, die eigenen Interessen über die gemeinsamen und ausgehandelten Ziele der Zusammenarbeit stellt und damit das Kooperieren im gesamten Netzwerk in Frage stellt.

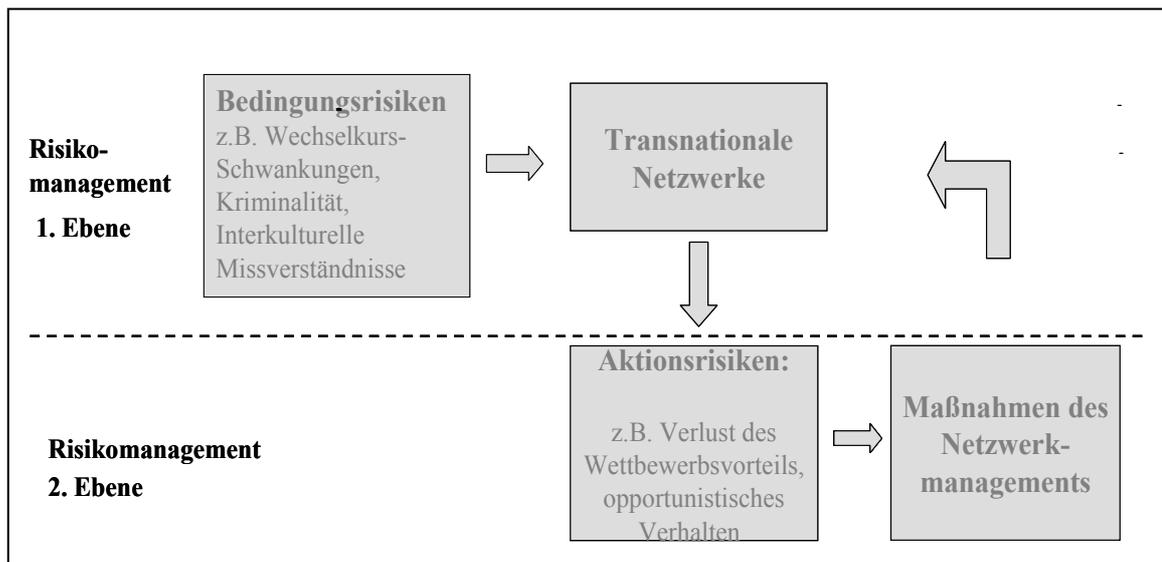
¹ Barringer, B.R. & Harrison, J.S. 2000. Walking a tightrope: Creating value through inter-organizational relationships. *Journal of Management*, 26: 367-403, sprechen in diesem Zusammenhang von einem „Halo-Effekt“

² M. Haller, 1986. Risiko-Management – Eckpunkte eines integrierten Konzepts. In H. Jacob (Hrsg.), *Schriften zur Unternehmensführung*, Wiesbaden, 33: 7-43.

Fortrans kombiniert in seinen Analysen die Untersuchung von Internationalisierungsrisiken mit den Risiken der Einbindung in Netzwerke. Daraus entsteht ein umfassendes Verständnis von Risikomanagement.

Erst die kombinierte Betrachtung des Risikomanagements auf der 1. und auch auf 2. Ebene ermöglicht den erfolgreichen Einsatz von Netzwerken und deren Einsatz zur nachhaltigen Reduzierung von Risiken der Internationalisierung. Siehe hierzu die Darstellung in Abb. 1.

Abb. 1: Zusammenhang zwischen Bedingungs- und Aktionsrisiken der Internationalisierung



Die Teilprojekte des Forschungsverbunds untersuchen Netzwerke, die unterschiedliche Typen von Akteuren zusammenfassen:

- Netzwerke, in denen *Menschen als Individuen* zusammenwirken (interpersonale Netzwerke). Sie können gezielt der Unterstützung unternehmerischen Handelns dienen (z.B. bei Expatriates) oder vorrangig private Interessen verfolgen. Letztere sind im Rahmen des Verbundes nur im Hinblick auf ihre Wirkung auf den unternehmerischen Erfolg bzw. das Risikomanagement relevant.
- Netzwerke, in denen *Unternehmen als Ganze interagieren* (inter-organisationale Netzwerke) und sich hierbei auf die Interaktion von Mitarbeitern als Vertreter des Unternehmens stützen.
- *Netzwerke, die neben Unternehmensvertretern auch Repräsentanten anderer Organisationen* wie NGOs, Verbände oder staatliche Verwaltungen umfassen, die Ansprüche an Unternehmen stellen (Stakeholder-Netzwerke).

Zudem werden Netzwerke in verschiedenen ökonomischen Kontexten und unterschiedlichen Ländern bzw. nationalen Kulturen untersucht.

Ohne den Endergebnissen der ausführlichen Projektberichte und dem Gesamtergebnis des Forschungsverbunds vorgreifen zu wollen, stellen im vorliegenden

Band die Teilprojekte ihre Hypothesen, die verwendete Methodik und erste Ergebnisse der empirischen Untersuchungen vor. Die folgenden Kapitel basieren auf Beiträgen, die auf renommierten internationalen Konferenzen wie z.B. der 33. European International Business Academy (EIBA): "International Business, Local Development and Science-Technology Relationships" in Catania, 13.-15.12.2007, vorgestellt wurden.

Zusammenfassend lässt sich feststellen, dass eine der Hauptaufgaben transnationaler Netzwerke die Begrenzung von Internationalisierungsrisiken darstellt (Risikomanagement 1. Ebene). Eine transnationale Zusammenarbeit im Netzwerk muss aber ihrerseits auch als Quelle kooperationsimmanenter Risiken angesehen werden. Deshalb müssen bei der Reduktion von Bedingungsrisiken durch transnationale Netzwerke auch die damit verbundenen Aktionsrisiken berücksichtigt werden.

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Using Networks to Reduce Environment-Related Risks - SMEs in International Shrimp Trade

Christian Dietsche, Universität Bamberg¹

Zusammenfassung

Kleine und Mittelständische Unternehmen (KMU) aus Deutschland beziehen eine wachsende Anzahl von Produkten aus Entwicklungsländern. Die Zulieferer in Niedriglohnländern sind jedoch häufig nicht in der Lage eine ausreichende Produktqualität sicherzustellen und Umweltstandards in der Produktion einzuhalten. Negative Umweltfolgen der Produktion oder eine Schadstoffbelastung der Produkte können zahlreiche gesellschaftliche Ansprüche an die Importeure hervorrufen und sich so zu Geschäftsrisiken entwickeln. Beispiele hierfür sind gesetzliche Regulierungen und Importbeschränkungen oder Kampagnen von Nichtregierungsorganisationen (NGOs), die das Unternehmensimage beschädigen und zu einem Vertrauensverlust der Kunden führen können. Um Einfluss auf den Produktionsprozess zu nehmen und derartige Risiken zu verringern, kann es für die Importeure hilfreich sein, ihre Beziehungen zu Lieferanten und gesellschaftlichen Stakeholdern auszubauen. Eine Vernetzung mit risikoträchtigen Akteuren erweist sich jedoch oft als problematisch. Zum einen verfügen gerade kleine Importeure zumeist nicht über ausreichende Ressourcen, um derartige Beziehungen aufzubauen. Zum anderen können sich enge Netzwerkbeziehungen auch negativ auf ein Unternehmen auswirken. Die Potenziale und Grenzen der Vernetzung werden in diesem Beitrag am Beispiel des mit weitreichenden Umwelt- und Gesundheitsrisiken verbundenen Garnelenhandels zwischen Bangladesch und Deutschland dargestellt.

Abstract

Small and medium-sized enterprises (SMEs) are confronted with a multitude of risks when dealing with international business partners. To reduce risks, these companies can try to build up network relations with suppliers, competitors or socio-political stakeholders. However, typical network characteristics, such as mutual dependency, can also turn out to be disadvantages. To assess the benefit and harm of networks, this paper will take a closer look at how specific network characteristics entail particular risks and determine the possibilities of risk management. This will be illustrated with a case study of an environmentally sensitive value chain. The example of trade in shrimp between South Asia and Europe shows that shifting environmentally damaging production to developing or emerging countries does not protect European buyers from environment-related risks. These can include direct governmental responses, such as regulations or import embargoes, as well as loss of reputation and customer confidence through negative media reports or NGO-campaigns.

1 Corresponding author.: Tel.: 0049-221 470 4507, Fax: 0049-221 470 4917, e-mail address: c.dietsche@uni-koeln.de

Introduction

Small and medium-sized enterprises (SMEs) are sourcing to an increasing extent from developing countries. Yet, the producers in low-wage countries are often not able to guarantee compliance with environmental production standards and a sound product quality. The adverse environmental effects of production in developing countries are increasingly raised by NGOs and the media as a public issue. To prevent the risk of negative publicity and its financial consequences large brand name manufacturers react by cooperating with stakeholders and introducing corporate social responsibility (CSR) within their supply chain.

While the relevance of societal demands for large transnational companies is widely recognized and has been analyzed in numerous studies, there is little academic focus on how SMEs are affected by these demands and how they react to the related risks. Especially, there is a lack of studies that take into account the supplying activities of SMEs (on the issue of sustainable supply chain management of SMEs in global value chains see Jorgensen & Knudsen, 2006).

This paper will examine to what extent small firms that are sourcing in developing countries are affected by stakeholder demands and how they respond to these demands. The focus will be on the question whether SMEs use network relations to pool their resources for cooperating with societal stakeholders and responding to their demands.

In addressing the above questions, the paper will first introduce stakeholder theory and the concept of Corporate Social Responsibility; secondly, a network view on stakeholder relations will be presented; and finally, the conceptual framework will be applied to a case study of shrimp trade between Bangladesh and Germany. The empirical data has been collected as part of a current project under the Bavarian research network "fortrans".

Risks and opportunities of stakeholder relations

The stakeholder view on enterprises assumes that several external actors are essential for the businesses' performance. A stakeholder can be defined as "any group or individual who can affect or is affected by the achievement of the organisation's objectives" (Freeman, 1984: 46).

There are various ways to classify stakeholders. Dyllick (1989) distinguishes stakeholders according to their function and identifies market stakeholders (e.g. suppliers, buyers, shareholders, competitors), political stakeholders (e.g. the state, supranational organizations), and public stakeholders (e.g. trade unions, NGOs).

Other authors categorize stakeholders according to their relationship to the firm. According to Grunig and Hunt (1984), the input-output relations in the market sphere are described as functional linkages that are essential to the functioning of the organisation. Enabling linkages are mostly regulatory actors that are imposing rules on the company. The media, NGOs, and other special groups make up the so called diffused linkages. For the company the diffused linkages are difficult to identify, as they only get in contact with the company in case of a crisis. While these three categories correspond to a large degree with the differentiation of market, political, and public stakeholders, Grunig

and Hunt add normative linkages as a fourth group of stakeholders. These include groups with which the company shares common interests and similar goals or problems (competitors, business associations).

Finally, the relevance of stakeholders can serve as a means of classification. Mitchell et al. (1997) developed a comprehensive model of stakeholder salience in which they introduce three factors that determine the relevance of stakeholders – power, urgency, and legitimacy. Combining the concept of stakeholder salience with Grunig and Hunt's linkages model, it can be stated that due to their power and legitimacy the enabling and functional linkages have the highest relevance for the business. Yet, diffused stakeholders can turn out to be the most problematic. Even if they have only limited power over the firm, they are important because they have urgent claims that call for immediate action. According to Mitchell's categorization, they can be categorized as demanding stakeholders. Due to their lack of power these demanding stakeholders try to exert influence via the company's enabling or functional linkages (Rawlins 2006).

Corporate Social Responsibility

Confronted with these demands the company has to respond to its stakeholders in an adequate way. A widespread way to ensure a sound production process and to reduce adverse environmental or social impacts is the implementation of Corporate Social Responsibility (CSR). CSR is often regarded as the result of an ethical-normative view on stakeholder relations. Yet, empirical evidence shows that beyond ethical motives the management of stakeholder demands can be seen as a strategic issue. Various studies show that stakeholder management is connected with the economic performance of the firm (e.g. Kommission der Europäischen Gemeinschaften 2002, Wagner et al. 2002, Berman et al. 1999, Stanwick & Stanwick 2003). The question whether companies can "do well while doing good" (Neville et al. 2005: 1185) is discussed in a large body of literature. Most studies conclude that there is a positive correlation between Corporate Social Responsibility and a firm's financial performance (e.g. Griffin & Mahon 1997, Waddock & Graves 1997, Orlitzky et al. 2003, overview in Promberger & Spiess 2006). Likewise it can be stated that ignoring stakeholder demands can entail corporate risks (compare e.g. Frooman 1999; Calton 2001). Yet, Rowley and Berman criticize these findings and state that in many cases the search for statistical correlations between social and financial performance is ideologically driven and based on an insufficient methodology (Rowley & Berman 2000).

To avoid the pitfalls of normative claims this paper does not focus on the question whether firms benefit from conducting stakeholder management and from implementing CSR. Rather it analyses from an enterprise perspective how SMEs perceive stakeholder demands and what strategies they use to respond to these. Thus, a descriptive use of the stakeholder concept that focuses on the empirically observed interaction between a firm and its stakeholders is combined with an instrumental approach that aims at identifying causal links between stakeholder demands and a firm's response (see Donaldson & Preston 1995).

SMEs and Stakeholder Management

The large majority of studies on stakeholder management and CSR in the context of international supply chains focus on large brand name companies (e.g. Handfield et al. 2005, Fichter & Sydow 2002, Roberts 2003, Bowen et al. 2001). The findings of these studies cannot be applied to SMEs sourcing in developing countries as there are considerable differences in the way small firms are affected in contrast to larger companies. This relates (a) to the exposure of SMEs to stakeholder pressure as well as (b) to the firm's ability to respond to pressure.

- (a) Examples from sectors such as garment or footwear show that mainly large, well-known branded companies are targeted by societal stakeholder demands and have committed themselves to ethical sourcing codes. "The higher the profile of a brand, the greater the scrutiny of its activities and the higher the potential for it to become a target for pressure group action" (Roberts 2003: 164). While SMEs are rarely targeted by direct stakeholder pressure, they can be affected indirectly by their functional linkages: Many SMEs depend on large buyers that are targeted by stakeholders and in turn force their suppliers to adopt standards. SMEs that don't depend on a lead firm can also come under pressure: On the one hand they are directly targeted by political stakeholders that have legislative demands concerning product quality (e.g. contamination thresholds). On the other hand, although demands from social stakeholders, e.g. regarding the environmental impact of production, do not focus on individual SMEs but on the product in general and thus pose a collective risk for the whole sector, they indirectly affect individual SMEs, too.
- (b) Another distinguishing characteristic of SMEs is their limited capacity to respond to stakeholder demands individually. As SMEs usually lack personal, financial and time resources, they concentrate on their core business tasks, so that CSR activities are adopted only in case of a favourable business situation (see Kommission der Europäischen Gemeinschaften 2002). In the context of international value chains these restraints are even more salient, as small firms have limited possibilities to control their suppliers in an adequate way. SMEs that are sourcing in transnational supply chains are frequently confronted with demands that are related to the production process. Yet, CSR rarely covers the whole production process: upstream activities, which are often connected with severe environmental and social impacts, are usually left out of these initiatives (Robins & Humphrey 2000). This is particularly true for small companies, which have less financial and personal capacity to control their supply chain.

In short, SMEs are not automatically less affected by stakeholder pressure than large corporations; rather they are affected in an indirect way. Yet, due to their lack of resources and the big distance between firm and stakeholders it is difficult for small enterprises to identify relevant stakeholder demands and to respond to stakeholder claims in an adequate way. To overcome the problem of limited resources, it may be a feasible strategy for SMEs to cooperate with different stakeholders. It is often stated that for smaller firms personal relations and close individual contacts are vitally important. To a greater extent than large corporations, SMEs offer possibilities for personal

contacts to their suppliers, customers and even competitors. In this way they are able to develop trusting business partnerships in a way that is not feasible for larger enterprises (see Spence 1999).

A network view of stakeholder relations

In the following part, the role of network relations for reducing risks through stakeholder demands will be examined. After looking at the ties between SMEs and their socio-political stakeholders, the relationships within the supply chain will be examined. Finally, the focus will be put on the relationships within the sector, that is, the normative linkages to competitors and business associations.

Interaction with social and political stakeholders

The relationships with those stakeholders that are raising environment-related claims include the enterprise's enabling linkages, e.g. direct governmental responses such as regulations of import embargoes as well as its diffuse linkages that can cause a loss of reputation and customer confidence through negative media reports or NGO-campaigns.

One way of assessing the ability of stakeholders to influence the enterprise and the capacity of the enterprise to respond to stakeholder demands is to point out the demographic attributes of the firm and its stakeholders, such as size or location. Beyond these characteristics, stakeholder analysis has to consider the relational ties between the enterprise and its stakeholders. The classical view of stakeholder relations focuses on the dyadic ties between the firm and individual stakeholders. However, stakeholders do not exclusively interact with the company, but also with each other. Rowley (1997) states that stakeholder analysis should go beyond the dyadic perspective and take into consideration the whole network of stakeholders. This network perspective has been adopted by numerous studies on stakeholder relations (overview in Vandekerckhove & Dentchev 2005). It takes into account the relational setting of the actors that can be defined by relational attributes such as centrality, level of dependence or degree of information asymmetry. Based on such a perspective, a number of studies have conducted a structural analysis of network relations, assuming that network characteristics give information about the salience of stakeholders and the ability of a firm to respond to stakeholder demands (e.g. Frooman 1999, Rowley 1997, Rowley & Berman 2000).

Rowley and Berman state that the probability of stakeholders targeting an enterprise correlates with a high density of the firm's network. A high degree of interconnectedness fosters efficient communication and the formation of shared behavioural expectations among the stakeholders and thus allows for efficient information sharing. Therefore, a high density of stakeholder networks can impose strong constraints on business activities (Rowley & Berman 2000, Rowley 1997). Moreover, the likelihood of stakeholders influencing a company increases when the network organization among stakeholders allows for indirect influencing strategies. A stakeholder who is not directly connected with a firm or lacks the power to influence it can pressure another stakeholder that is more powerful or is in a better position within the network to target an enterprise (see Frooman 1999). The influence of such second-order

stakeholders is particularly important in complex supply chains (see e.g. Starmanns & Braun 2004): NGOs in developing countries are not able to directly target Western companies that are responsible for harmful local effects of production. However, by cooperating with powerful Western NGOs their claims can be transferred indirectly to the company.

Not only do the influencing capacities of stakeholders depend on network characteristics but also the ability of the firm to respond to stakeholder demands. Hart and Sharma (2004) identify "entrepreneurial opportunities" by building new relationships that lead to an increasing density of the network (see also Vanderkerckhove 2005). The higher the density of the network, the more flows of information are favoured and the more the company is capable of responding to stakeholder pressure. This is particularly true for firms which seize the opportunity to increase their centrality in the network by establishing relationships with indirect stakeholders and thus strengthen their power in the network. Yet, as SMEs generally lack the capacities to build up relationships with indirect stakeholders, it is difficult for them to increase their centrality and thus enhance their responsiveness to stakeholder demands. To respond to the demands of critical socio-political stakeholders, SMEs can try to pool their resources and build up relationships within the own sector.

Coordinating the supply chain

As stated above, many stakeholder demands are not directly related to the SMEs' activities, but to the production in the international supply chain. To respond to these demands it is therefore inevitable to coordinate the upstream production processes. Thus, in addition to the network relations with stakeholders the company's functional linkages, i.e. the inter-organizational coordination within the supply chain, have to be considered.

SMEs generally lack the capacity to coordinate their supply chain properly. This is particularly the case if the supply chain is highly fragmented, so that the firm cannot reach the whole upstream production process. As Rowley and Berman state, the likelihood that stakeholders target a particular firm increases when the source of negative impacts of production can be easily determined (Rowley & Berman 2000, see also Hendry 2003). Due to the lack of coordination there is no traceability within the value chain, so that adverse production conditions cannot be connected to the firm. Thus, it becomes difficult for stakeholders to make the firm accountable for its suppliers' activities. In addition, the firm's proximity to consumers increases the likelihood of stakeholder pressure (Rowley & Berman 2000). While SMEs are mostly not linked directly to consumer, the consumer pressure can be transferred to the firm by its buyers, e.g. large retailers.

As highlighted above, for SMEs a comprehensive coordination of the supply chain is hard to reach and can even cause adverse effects. However, close supplier relationships can turn out to be helpful if the network structures are used by the SMEs to promote sustainable production, e.g. by implementing standards within the supply chain. Fichter and Sydow (2002) argue that network forms of organisation provide especially good chances for organizing social responsibility along the supply chain. This is due to the fact that inter-organizational networks support the development of shared views and norms and, in contrast to market ties, enforce resource relationships (Fichter & Sydow 2002). First of all, it is the structure of the networks that decides

whether they are effective in promoting good corporate citizenship. Favorable conditions include a limited number of network firms that reduces complexity, tightly coupled rather than loosely coupled ties, and the existence of “strategic networks” led by one or more hub firms. Yet, arguing from a structuration perspective, Fichter and Sydow state that network structures alone do not guarantee socially responsible management; the network structures have to be used by agents, such as managers and other stakeholders (Fichter & Sydow 2002).

However, when it comes to SMEs it is questionable if they are able to tap the full potential of network organisation. Jorgensen and Knutsen study the role of SMEs as “change agents” for sustainable production in value chains (Jorgensen & Knutsen 2006). They conclude that SMEs are the weak link in international value chains, as they lack the resources to pass on social and environmental requirements to sub-suppliers in low-wage countries.

Cooperating within the sector

As discussed above, firm-related demands, such as national product standards, can be managed by organizing the value chain. However, SMEs are rarely confronted with individual demands by societal stakeholders such as NGOs and the media, given their small size and lack of brand visibility. Rather they have to react to collective claims that are facing the whole sector or at least a specific group of companies. Responding to collective demands can not always be done individually. Thus, for a firm it can be necessary to respond collectively, i.e. to use its normative linkages by cooperating with competitors.

By sharing information and pooling their resources, SMEs are able to increase their capacity to interact with relevant stakeholder groups. Such sectoral cooperation is generally organized by business associations. In contrast to its individual members, an association has the capacity to conduct public relations, e.g. through press releases or stakeholder dialogues. In addition to an improvement in stakeholder communication, coordinated efforts can help to tackle the sources of stakeholder demands. A feasible strategy would be to implement common sector-wide standards, e.g. to launch an eco-label that can be marketed jointly.

As with all forms of collective coordination, sectoral networks can be hampered by free-rider behaviour. Even if collective action would produce the best overall result, for the single company this may not be the optimal choice. If collective action is taken, the firm that chooses not to participate can receive the benefits without having own costs.

Case study on shrimp trade

In the following part the opportunities and risks of network arrangements for SMEs will be illustrated with a case study on international trade relations in the seafood sector, more precisely on trade in shrimp between Bangladesh and Germany. The case study is based on 38 guided interviews that were carried out in Bangladesh, Germany and the Netherlands. The interviews were conducted with owners and managers of SMEs (with less than 300 employees) and larger companies (with at least 300 employees) at different locations in the value chain. In addition, interviews with representatives of public authorities, business associations, and non-governmental organizations were

conducted. The SMEs representatives were questioned about their perception of business risks as well as about their business relations and their ties to other stakeholders. To gain a detailed insight into the firm's network, the interviews explored the perceived importance of stakeholders and the functional characteristics of different relationships (e.g. information sharing, operational support).

Shrimp trade between Bangladesh and Germany

The German shrimp business is a relatively small sector, consisting of about 30 main players. The shrimp importers are almost exclusively SMEs that are selling their products to large retailers or directly to gastronomy and catering companies. Some companies buy directly from the producers in Bangladesh and other countries, others are purchasing from wholesalers that are mainly located in the Netherlands or Belgium.

The production chain of shrimp in Bangladesh is highly fragmented, with several actors at various stages of the value chain participating in the production process. First, shrimp larvae are collected by local residents or bred in professional hatcheries and nurseries. Then, the shrimp are farmed in aquaculture, processed at shrimp factories, and finally exported, mainly to Europe, the US, and Japan. A particular characteristic of shrimp production in Bangladesh is the prevalence of agents, which serve as intermediaries between most production stages. The agents serve as credit grantors that are necessary to compensate the lack of capital at small-scale production units (i.e. hatcheries, nurseries, farms, and processing plants).

As shrimp are a highly standardized product, transaction costs can be reduced by organizing trade via market relations. However, a need for coordination of the supply chain arises as deficits in the production process can cause severe product- and process-related risks for importing SMEs.

Product-related risks can arise if health-related standards are not met, e.g. due to contamination with antibiotics or other harmful substances. Shrimp are very sensitive products that have to be treated carefully to guarantee an adequate product quality. In the EU, threshold values for antibiotics or microbiological contaminants are very strict. Imported containers are controlled at the port of entry to the EU and, in case of contamination, are sent back to the country of origin. In 2006, 112 shipments exceeding the limitations on antibiotics and other harmful substances were detected, among them 28 from Bangladesh. The most outstanding example for regulatory activity took place in 1997, as the European Union imposed an embargo on shrimp imports from Bangladesh. Moreover, contamination with antibiotics caused several food scandals in Germany and other European Countries that were also picked up by mass media.

Process-related risks can be generated by negative environmental impacts from production. The ecological effects of shrimp production in Bangladesh are widely discussed. Many local NGOs are criticizing the destruction of mangrove forests and the conversion of rice fields to shrimp farms both causing an increase of the soils' salt content and thus limiting the lands' suitability for agricultural purposes. Other criticism relates to the collection of shrimp larvae, which causes large amounts of by-catch and thus poses an immense threat to the populations of numerous fish species. These environmental issues are

tackled by several European NGOs (e.g. Environmental Justice Foundation, Greenpeace, FIAN). In addition, environmental effects of shrimp farming in Bangladesh play an increasing role in press reports. Another example of the growing awareness for the local consequences of Western consumer preferences offers the German test magazine "Stiftung Warentest". In 2006, the magazine conducted a test of German shrimp brands that not only took into account the product quality but also assessed the firm's social and environmental responsibility in producing countries (Stiftung Warentest 04/2006).

Risk perception of German SMEs

In order to examine to what extent the risks described above actually affect companies, the risk perception of German SMEs will be studied in the following section.

German SMEs perceive risks from different types of stakeholders. Firstly, all shrimp importing companies are highlighting the importance of their enabling linkages, i.e. the rule setting on the European and national level. Particularly, the unpredictable implementation of European directives into German law is perceived as a fundamental risk; many SMEs complain about discrimination in comparison to other countries. Moreover, the SMEs feel uncertain about the actual requirements at the federal level, as even within Germany there are big differences regarding the implementation of monitoring.

In addition to political actors, societal stakeholders are also perceived as a critical influencing factor. NGOs as well as media reports that are targeting product quality and environmental impacts from production are perceived as a risk for the company's business success. Several firms complain that consumers are misinformed by sensationalist media reports. This causes severe financial risks: For some SMEs, the public food scandals of the past years lead to temporary sales losses of up to 50 per cent.

In reacting to these stakeholder risks SMEs can choose different strategies. Some firms rely on individual measures that can be implemented without coordinating with other actors. Some SMEs avoid adverse effects by abandoning risk-sensitive business relations. Some companies left Bangladesh and concentrated on suppliers in countries that are not in the main focus of criticism and that are able to deliver more reliable products. Another widespread strategy is risk-spreading, which means that the company is purchasing from several suppliers within one country and, in addition, spreading its activity to different countries.

However, risks can only partly be limited by individual action. The collective, sector-related risk of food scandals and negative reputation of the product cannot be tackled by single firms. Therefore, the network-related strategies of the SMEs will be analyzed in more detail.

Interaction with social and political stakeholders

Network relations to non-market stakeholders were observed only to a small extent. Only a few larger firms cooperate with non-governmental organisations, e.g. jointly developing ecological production standards. However, most of the SMEs perceive NGOs as hostile actors making

exaggerated and unachievable claims. While some SMEs argue that they are too small and too weak to respond to the demands, others refuse to cooperate with NGOs because these exaggerate or falsify the facts. In this case, normative objections prevent potential strategic cooperation. This corresponds with the view of Welcomer (2002), who states that the relationship between a firm and its stakeholders is not only based on purely strategic considerations, but rather on instrumental and normative factors.

When it comes to media reports, the same disapproving and passive attitude is prevalent. Even if most SMEs complain about the misleading media coverage, they don't see themselves capable of countering the situation, e.g. by developing own public relation strategies. Similar observations hold for questions regarding the regulatory influence by political actors. Even though many laws are regarded as inadequate, SMEs state that they have to accept them. They do not feel themselves capable of interacting with their enabling linkages to spread their views and strengthen their position.

Given the perceived lack of resources that allow direct interaction with stakeholders, there are two possible strategies: First, SMEs could try to meet stakeholder demands, i.e. to ensure environmentally sound production practices and an acceptable product quality by coordinating their supply chain. Secondly, SMEs may overcome their lack of power by cooperating with competitors.

Coordinating the supply chain

Environmental as well as health-related quality problems can arise at different stages of the production process. Thus, for the company it is essential to cooperate with the whole supply chain. Most SMEs confirm that reliable product quality and a sound production process would be a necessary condition for sustainable business success.

As shrimp are a highly standardized product, customer-supplier relations are mainly market-based. Nevertheless, many SMEs try to develop close relationships with their suppliers. Looking at the specific functions of these relationships, certain characteristics become apparent. Empirical findings show that some inter-organizational relations are strengthened by close personal ties. In the course of a long-term business relationship the affective dimension of the relationship often gains importance. Some importers highlight that these relations facilitate their daily business activities and minimize the risk of poor product quality. However, other managers maintain that they try to keep personal relations out of the business, as these imply the risk of causing interdependencies. While the former generally show understanding for the Bangladeshi culture, the latter mostly have an overall negative attitude about Bangladesh and are suspicious of the business practices of their suppliers.

It is generally stated that the flow of information between the enterprise and its suppliers plays a major role in minimizing risks. According to this, SMEs provide comprehensive information about required standards to the supplier. Yet, when it comes to operational support the picture looks quite different as concrete help to implement standards is provided only in isolated cases. Generally, firms hesitate to build up capital intensive relationships to suppliers and rather prefer loose ties, as these offer the possibility to change suppliers in case of a crisis.

Close inter-organizational relationships may facilitate the production of high-quality products. However, the potential negative network effects are perceived as dominant, e.g. the strong dependency on certain firms. On the one hand, the risk of contaminated products cannot be entirely eliminated. The extremely fragmented value chain of shrimp makes it impossible to control the whole production process, so that a residual risk remains. On the other hand, relying on a single supplier can cause severe problems. Even if the own products prove to be free from residues, the occurrence of contaminated products anywhere in the production country could cause a new import ban from the European Union. In this case the investment, e.g. in organic shrimp farming, would be lost. Therefore, the cooperative implementation of production standards is rarely realized and, if so, only in “safer” countries where a contamination of products is less likely (esp. in Southern America). Adverse effects may also be caused by the socio-political conditions in the production country. In Bangladesh, the ubiquitous corruption often prevents adequate monitoring of production processes and puts investments at risk.

Cooperating within the sector

It was shown that even if firm-specific risks can be minimized, the overall problem cannot be solved by individual SMEs. Only a sectoral strategy could help to overcome collective risks that are not related to a single firm but to the product in general.

The need for a sector-wide cooperation is widely recognised by the SMEs. Most firms state that they are exchanging information with competitors, e.g. regarding product standards or the possibilities of organic shrimp farming. However, beyond the sharing of information there is little concrete cooperation within the sector. The only locus of institutionalized cooperation is the business association of German shrimp importers. It was founded in reaction to the food scandals that resulted in European import embargoes.

The association is capable of exchanging information with political decision-makers. These flows of information offer the chance to become aware of political decisions in advance, e.g. about the definition of new threshold values. To a small degree, firms can also promote their views in the decision making process. Yet, only a minority of German importers are members of the association. Especially the larger companies are not willing to join the association and are doubtful about its effectiveness.

Besides the association there are also informal relationships between importers. SMEs exchange their views on current problems and discuss e.g. the possibilities of ecological shrimp farming. Here again, the larger competitors are not involved and are usually not willing to share their knowledge. But even for the smaller enterprises, besides the pure exchange of information the degree of cooperation is quite limited. Again, capital intensive forms of cooperation, such as joint monitoring programmes or labelling initiatives, are avoided. This implies that SMEs cannot rely on mutual assistance. When a single SMEs faces acute problems (e.g. due to the detection of contaminated shrimp), it has to deal with the issue on its own.

The striking contradiction between the perceived need of cooperation and the low level of realized cooperation can be explained by the general problems of collective behaviour. In case of collective action all SMEs could benefit from the sector's growing capacities to interact with political and societal stakeholders and the potential to improve the image of the sector. However, from an individual firm's perspective a non-cooperative strategy seems to be the better choice. This tendency is enforced by a prevailing business mentality among smaller owner-managed companies. Typically, these family-led firms look back on a long tradition and rely on personal experiences. Socio-political developments that have influence over the firm, e.g. the growing importance of NGOs, the prevailing public environment discourse, or new EU legislation, are generally regarded with suspicion.

Conclusion: Benefits and limitations of networks

Table 1: Benefits and limitations of using networks to risk-reduction

	<i>Network functions</i>	<i>Benefits</i>	<i>Limitations</i>
<i>Socio-political stakeholder network</i>	Development of shared views Flows of information	Tackling stakeholder risks by cooperating with socio-political stakeholders	Limited resources No direct access to stakeholders Critical attitude of SMEs
<i>Supply chain network</i>	Support Personal ties Flows of information	Tackling sources of stakeholder demands by influencing production process	Limited resources Cross-cultural differences Risks of interdependence
<i>Intra-sectoral network</i>	Pooling of resources Flows of information	Overcoming limitations of stakeholder and supply chain networks by cooperating within the sector	Free-rider behaviour Business mentality

Existing literature on stakeholder management and CSR is focusing on the importance of stakeholder dialogues and an effective coordination of the supply chain. Here, the case study reveals that although environmental stakeholder demands are perceived to be highly relevant to the business

activities of SMEs, the intensity of network relations with political and social stakeholders and along the supply chain is surprisingly low. This is because SMEs often lack the capacity or simply are not willing to intensify cooperation. Moreover, the example of trade in shrimp illustrates the ambiguity of such networks, as adverse effects are often exceeding benefits. *Table 1* summarizes the benefits and limitations of using networks for risk reduction.

In this light, cooperation within the sectoral network appears to be the only way to overcome the weaknesses of small companies. Only by pooling their resources and sharing information and knowledge rather than narrowly focussing on their individual businesses, SMEs could compensate their limited potential to respond to stakeholder demands and to coordinate the supply chain.

First, they could exchange information and views with socio-political stakeholders and thus build relations with the “risk creators”. Doing this, SMEs would eventually be able to increase the density of their stakeholder network and their own centrality within it. SMEs could use these network structures to access relevant stakeholders, particularly political decision makers or demanding NGOs with urgent claims. This would enable small firms to participate in political processes, to realize stakeholder dialogues and to influence the critical societal discourse on shrimp production.

Second, the sectoral network can help to tackle some of the constraints of supply chain management. For SMEs, Fichter and Sydow’s (2002) claim that network relations enhance the chances to implement standards within the supply chain is only valid if they act cooperatively. If SMEs could overcome their tendency for non-cooperative strategies, they could develop joint certification programmes or at least share the experiences they have with their supplier. Furthermore, exchanging information about business experiences could help the firm to overcome insecurities in dealing with foreign companies. The potential of network relations with suppliers, however, depends on how SMEs managers deal with cultural differences. The development of cross-cultural competencies is thus another necessary precondition for an effective cooperation with suppliers.

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Stakeholder Networks and Strategic Risk Management: An Empirical Study among German SMEs in Russia

Dirk Holtbrügge / Jonas F. Puck, Universität Erlangen-Nürnberg¹

Zusammenfassung

Ausländische Unternehmungen sind bei einem Engagement in Russland erheblichen Risiken ausgesetzt. Diese resultieren z.B. aus zahlreichen staatlichen Interventionen, mangelnder Rechtssicherheit und einer erst in Ansätzen herausgebildeten marktwirtschaftlichen Kultur. Das Ziel dieses Beitrags ist es zunächst zu prüfen, welche Bedeutung diese Risiken für deutsche Unternehmungen in Russland haben. In einem zweiten Schritt wird dann analysiert, welchen Beitrag Netzwerke mit nicht-marktlichen Stakeholdern als Instrument des Risikomanagement leisten können. Hierfür werden aus persönlichen Interviews in Russland gewonnene Daten netzwerkanalytisch aufbereitet. Es zeigt sich, dass ausländische Unternehmungen Stakeholder-Netzwerke aktiv als Instrument des Risikomanagement nutzen. Die analysierten Stakeholder-Netzwerke weisen jedoch große Unterschiede bezüglich der Zahl der Netzwerkpartner und der Intensität der Netzwerkbeziehungen auf. Während einige Unternehmungen z.B. gezielt eigene Netzwerke aufbauen, beteiligen sich andere Unternehmungen primär an Netzwerken, die z.B. der Verband der Deutschen Wirtschaft zur Verfügung stellt.

Abstract

One important success factor of foreign companies in Russia is the establishment of efficient networks with non-market stakeholders. This is especially the case for small and medium-sized enterprises for which these networks often represent an efficient way to use their limited financial and personnel resources in a flexible way.

Despite the growing importance of non-market stakeholders for foreign investors in Russia there exist only a few studies analyzing explicitly these relations. Most research is concentrated on internal company aspects as well as on the relations to market stakeholders such as clients, suppliers, competitors and shareholders.

The objective of this study is therefore to close this research gap and to analyze the stakeholder networks between German investors in Russia and their socio-political interest groups. The study is based on in-depth interviews with the representatives of 3 German SMEs and 16 socio-political interest groups in autumn 2006. On the basis of a within-case and a cross-case

¹ Corresponding author: +49-911-302-468, +49-911-5302-470 Email: jonas.puck@wiso.uni-erlangen.

analysis several conclusions for the efficient management of stakeholder networks in Russia are deduced.

Problem, Objectives and Structure of the Study

Foreign companies in Russia are exposed to high risks. The political system, for a long time unstable, the transformation of the socialist into a market-oriented economic system, and an independent legal system still in development make reliable long-term planning difficult and represent constantly new challenges for investors (Mau, 2002; Mironov, 1999; Sekerin, Sumentov and Lazareva, 2003; Varnavskij, 2004). Therefore many companies still shrink back from investments or content themselves with low-risk "wait-and-see" activities.

Those companies, however, doing already business in Russia see their activities in this country often as very successful. E.g., the Association of German Companies in the Russian Federation reported in the whole on positive experiences of German companies and underlines the large growth potential of the country (VDW, 2005a). One important success factor in this context is that in Russia it is not sufficient to establish efficient contacts with market partners such as clients, suppliers, and banks. A successful commitment presupposes rather efficient *transnational networks with non-market stakeholders*. By establishing and maintaining efficient stakeholder networks the high risks of an investment can be reduced and sustainable competitive advantage in Russia can be realized (Holtbrügge and Puck, 2006). This is especially the case for small and medium-sized enterprises (SMEs) for which these networks often represent an efficient way to use their limited financial and personnel resources in a flexible way (Holtbrügge, 2004). The establishment of transnational stakeholder networks, however, is also in the fundamental interest of the Russian government, since it stabilizes the economic and political development of the country and reduces the danger of extremist tendencies.

One example for the relevance of close relations to important non-market stakeholders in Russia is the failed investment of the German tire company Continental. After the Moscow City Council had finally refused its approval to establish a production site in the city of Moscow after three years of negotiations, the company decided to quit its cooperation with the Moscow Tire Plant in 2004. According to Continental's CEO, this withdrawal from the attractive Russian market cost the company nearly € 30 mn. At the same time, Michelin, Continental's main European competitor, was allowed to establish a similar factory in a suburb of Moscow. Apparently, one reason for this success is Michelin's close relations with the local authorities (Moscow News, 17.11.2004).

Despite the growing importance of non-market stakeholders for foreign investors in Russia, there exist only a few studies analyzing explicitly these relations. Most research is concentrated on internal company aspects as well as on the relations to market stakeholders such as clients, suppliers, competitors and shareholders.

The objective of this paper is therefore to close this research gap and to analyze the stakeholder networks between German investors in Russia and

their socio-political interest groups. The study is based on in-depth interviews with the representatives of 3 German SMEs and 16 socio-political interest groups in autumn 2006. On the basis of a within-case and a cross-case analysis several conclusions for the efficient management of stakeholder networks in Russia are deduced.

Theoretical Framework

Stakeholder theory suggests that the success of a firm does not depend primarily on the efficient coordination and control of its operations, but on the establishment and maintenance of a cooperative dialogue with all relevant internal and external interest groups that may influence its activities in a positive or negative way (Freeman, 1991; Clarkson, 1995; Mitchell, Agle and Wood, 1997; Frooman, 1999). Stakeholders are individuals or groups that have material, political, affiliated, informational, symbolic or spiritual interests in a company and that are able to advocate these interests through formal, economic, or political power (Gioia, 1999). According to stakeholder theory, the success of a firm depends on the support of all stakeholders that a company depends on to realize its goals (Kostova and Zaheer 1999, p. 64).

Of particular relevance in this context are the socio-political stakeholders that do not have market-relevant relations with the company, but which could influence it in other ways. These may comprise e.g. approval and certification procedures, the positive or negative mobilization of the public opinion, or the influencing of the legal framework. Depending on their origin and their legal status, four different groups of stakeholders can be distinguished (Table 1).

<i>Legal Status</i> \ <i>Origin</i>	<i>National</i>	<i>International</i>
<i>Public</i>	Governmental (e.g., central and regional government, local administration)	Supranational Organizations (e.g., EU, IMF, WTO)
<i>Private</i>	Non-Governmental Organizations (e.g., trade unions, associations, media)	International Non-Governmental Organizations (e.g., Greenpeace, Amnesty International)

Table 1: Typology of Socio-political Stakeholders
(Holtbrügge, Berg and Puck 2007, p. 50)

The stakeholder literature distinguishes between four different research perspectives (Donaldson and Preston, 1995). In a *descriptive* or *empirical* sense, stakeholder theory describes a corporation as a constellation of cooperative and competitive interests possessing intrinsic value (e.g., Ogden and Watson, 1999). From an *instrumental* perspective, the connections between the practice of stakeholder management and the achievement of

various performance goals are examined (e.g., Jones, 1995). The *normative* perspective attempts to interpret a corporation on the basis of some underlying moral or philosophical principle. In contrast to the instrumental perspective, the underlying question is not concerned with effectiveness versus ineffectiveness, but with right versus wrong (e.g., Werhane, 1994; Phillips, 2003). Finally, the *managerial* perspective does not simply describe existing situations or predict cause-effect relationships, but analyzes structures and activities to influence stakeholders in a desired way (e.g., Marens and Wicks, 1999).

While most contributions to stakeholder theory are normative (e.g., Marcus 1993; Steinmann and Scherer, 1998; Hendry, 2001), this paper follows a descriptive and management-oriented approach. The main objective is to identify socio-political stakeholders, which influence the operations of German SMEs in Russia. Moreover, we are interested in stakeholder networks that SMEs develop to reduce their investment risks in Russia.

Present stakeholder research is dominated by a centralistic star model where the company in the centre regards the stakeholders placed in the periphery as means to maximize its own objectives. More and more it becomes clear, however, that this centralistic concept is not appropriate to illustrate adequately the stakeholder relations in reality. For example, the possibilities of companies to exert influence are systematically overestimated. Furthermore this dyadic perspective does not take into account the interactions of the stakeholders among each others (e.g., Rowley, 1997; Vanderkerckhove and Dentchev, 2005). Therefore it is often proposed to conceptualize the relations between companies and stakeholders as a *network* and to understand the companies as part of a network of interdependent stakeholders. According to Weyer (2000, p. 11), a network

“is understood as an independent form of coordination of interactions (...) the core of which is the trustful cooperation of autonomous, but interdependent (mutually dependent from each other) actors that cooperate during a limited period of time respecting the interests of the relevant partner, because this enables them to realize their particular objectives more efficiently than by acting non-coordinatedly.” „(In this perspective) the us/them and internal/external distinctions fade into a sense of communal solidarity in which one seeks the corporate identity as manifest within an entire network of stakeholders and a broader social context (...). The corporation is constituted by the network of relationships which it is involved in with the employees, customers, suppliers, communities, businesses and other groups who interact with and give meaning and definition to the company” (Wicks, Gilbert and Freeman 1994, p. 482).

When interpreting *companies as actors integrated into a network of interdependent relations* where the own decisions and actions are influenced by several other stakeholders and vice versa, the traditional conception of stakeholder management will become obsolete. Calton and Kurland (1996, p. 155) instead refer to a “stakeholder enabling (where the) privileged management monologue is substituted by a multilateral stakeholder dialogue.” This concept is based on the idea that the objectives of a company integrated into a network of interdependent relations cannot be fixed autonomously and cannot be reached by managers as agents of the shareholders against other stakeholders, but have to be negotiated in a collective coordination process and have to be realized interactively (Wheatley, 1992).

„Within (the) theory of stakeholder enabling, the managerial agent is no longer the unilateral author, seeking to objectify stakeholders as means for realizing (i.a., the author's) purposes. Rather, agents and stakeholders become co-authors, voicing and acting out their intertextual 'script' that defines each other's responsibilities and expectations within an ongoing, multilateral, interdependent relationship" (Calton and Kurland, 1996, p. 175).

The relation of a company to its stakeholders may thus be described as a network with different relations not only between the company and its stakeholders, but also between the stakeholders among each other (Neville and Menguc, 2006). In this view, companies do not interact with every stakeholder exclusively, but with a bundle of networked stakeholders. Thus, the company is not only considered as the centre of a network system, but also as medium by means of which other actors of the network communicate. In this context it can be distinguished between direct and indirect stakeholders (Vandekerckhove and Dentchev, 2005). Direct stakeholders are those interest groups that interact directly with the company. Indirect stakeholders, on the other hand, are in relation with the direct stakeholders and not with the company itself. The company can therefore contact them via other stakeholders, only.

Methodology

Sample

In order to find out how far the establishment of appropriate stakeholder networks can contribute to reduce the perceived investment risks in Russia, an empirical study was conducted among German SMEs. The *sample selection* was oriented on a list of the Association of German Companies (VDW) in Moscow that comprised about 600 German companies doing business in Russia in 2006. First of all, this list was reduced to SMEs on the basis of a qualitative definition of owner-oriented manager philosophy (Hausmann et al., 2006, pp. 4). The limitation on SMEs results on the fact that for those companies the risk of foreign investment is much greater than for large Multinational Corporations (MNCs). At the same time, their ability to manage those risks is mostly lower due to limited financial and human resources (Kastl and Rödl, 2000). Furthermore the study is restricted on producing SMEs whose headquarters is in Germany. This selection is based on the assumption that producing companies are exposed to greater risks due to higher capital investment than companies in the sector of trade and services.

From the remaining subsidiaries only those companies with headquarters in Moscow, St. Petersburg or Kaliningrad were selected. Since by far most foreign investors are based in these three cities, this selection criterion reflects the location choice of foreign companies. On the assumption that a reliable evaluation of the risks as well as of the importance of different stakeholders is only possible after a certain time of activity, finally only those companies were taken into consideration that have already been active on the Russian market for more than five years. Based on these considerations and according to the "principle of maximal contrastation" (Lamnek, 2005, p. 191) three German SMEs in Russia, namely Knauf, VEKRA and Fresenius, were selected for intensive case studies.

The *selection of the interview partners* was oriented on their hierarchical position in the company. As a rule, the general manager respectively chairman of the board of directors or the highest ranking German expatriate was contacted. If possible, further German and Russian staff members were included. Altogether seven interviews with representatives of the three companies took place. The contact data of the interview partners were gathered from the internet homepage of the company or from the VDW. Two to three weeks before the interview in Russia a personal letter was sent by fax or email to the desired interview partner explaining the objective of the study. The exact interview date was agreed upon later by phone.

Besides the representatives of the 3 companies, 16 representatives of government institutions, associations, trade unions, media, universities, NGOs and further interest groups were interviewed which were named in the interviews by the companies' representatives. Thus, the study is characterized by a *mirror-image research design* by means of which not only the relations of companies to their stakeholders, but also those of stakeholders to companies can be analyzed. Furthermore, this method is aimed to analyze the relations between the stakeholders among themselves – as defined by the underlying network concept.

Data Collection and Processing

In view of the above mentioned objectives the data were collected during a research trip of the authors in Moscow, St. Petersburg and Kaliningrad in August and September 2006. The data collection was realized by means of *personal interviews* based on a problem-centred interview guide. Personal interviews were preferred for the following reasons (Daniels and Cannice, 2004): First and most importantly, the study deals with sensitive topics such as social interests, conflicts, lobbying, and bribery. It can be expected that respondents will talk about these topics only in a trustful atmosphere, which normally requires face-to-face interaction. Second, potential misunderstandings can be more easily recognized and rectified in personal interviews. Because of the multitude of different terms, approaches and perspectives in the relevant literature this aspect proved to be very important. Additionally, in personal interviews unexpected answers can be scrutinized and particular aspects can be studied further. Furthermore, we were able to get some insight into the conditions under which the respondents work. This enhances the validity of the interpretation of our findings. Finally, the qualitative method of data collection allowed for a data set without missing variables.

An *interviews guide* with open questions was prepared which is divided into different topics and based on the results of prior research in this field (e.g., Bermann and Wicks, 1999; Holtbrügge and Berg, 2001, 2002; Holtbrügge, Berg and Puck, 2007) as well as on the general recommendations for interview guides (e.g., Daniels and Cannice, 2004). The interview guide was tested in several pilot interviews in September 2005 in Moscow and St. Petersburg and then modified in order to improve the unambiguousness and comprehensibility of the questions.

The interview guide was prepared in German as well as in Russian in order to be able to communicate with the respondents in their mother tongue. The translation attached greater importance to the equivalence of the concepts than to individual terms (Marschan-Piekkari and Reis, 2004).

The interviews lasted 45 minutes on average. Most respondents were very cooperative so all questions could be discussed in detail. In most cases the complete interview was tape-recorded digitally. When this was not possible on request of the respondents detailed notes were taken and a postscript was written down immediately after the interview.

After data collection the interviews were transcribed in full and processed with the software program NVivo. As protocol technique the *transcription* in normal writing was applied (Mayring, 1990, p. 65). Since the focus of the interviews was laid on contents and subjects, dialectal phrases were adjusted and mistakes in grammar and style were corrected. Important information in addition to the protocol was recorded as commented transcriptions.

Besides the personal interviews, *secondary data* such as information drawn from the company homepage, business reports, member indices and periodical articles were analyzed. Thus the time needed for the interviews could be reduced, since these only had to concentrate on the subjects not yet published. In addition, the validity of the interviews could be increased and the respondents could be questioned about concrete facts derived from the analyzed documents (Jansen, 1999, pp. 63).

Data Analysis

For the analysis of the collected data two methods were used. First, a *quotation analysis* was applied. This is aimed to describe the stakeholder relations of the analyzed companies in the most authentic way, i.e. from the point of view of the respondents and not yet spoiled by the subjective perspective of the researcher. The main focus therefore is the description of the specific and unique characteristics of a phenomenon (Kvale, 1996, pp. 267).

In order to find and describe – in view of the objectives of this study – also multidimensional connections between the stakeholders, subsequently a *network analysis* was performed. For this the transcribed interviews and the secondary data at first were coded, i.e. the interview passages were assigned to the different stakeholders mentioned explicitly or implicitly in the text. Then the relations between the stakeholders were recorded, particularly looking out for key words such as “because”, “for”, “therefore”, “leads” or “results” (axial coding). In order to guarantee a high reliability of coding, this was at first carried out by the two authors independently from each other and then compared with one another (e.g., Palmquist, Carley and Dale, 1997, p. 174; Shapiro, 1997, pp. 231). Since the stakeholders mentioned in the text passages could be identified rather easily, the inter-rater reliability, i.e. the number of statements marked consistently with the same coding by both authors, was very high. Finally the established relations were illustrated graphically and analyzed with the software program UCINET (<http://www.analytictech.com/ucinet.htm>). The size of the arrows ranging from 1 to 5 represents the intensity of the relations to the respective stakeholder measured as the standardized number of relationship-namings by the respondents.

With reference to Eisenhardt (1999), both a within-case and a cross-case analysis was conducted. The within-case analysis is primarily based on

qualitative data and aimed to understand the specific aspects of each case. For this, citation analysis and graphical network analysis are used.

For a cross-case analysis in addition to graphical presentation a *quantitative network analysis* was realized. In order to measure the assumed network architecture, we applied the characteristics developed by Tichy, Tushman and Fombrun (1979) and Wassermann and Faust (1994) that allow for the description of formal relationships between particular units. The following network dimensions were calculated.

Size The size of a network is measured by the number of actors within a network.

Intensity The intensity is measured by the average strength of direct relations from one knot to another as indicated by the respondents on 5-point-Likert-type scales. The answers from the respondents were combined and averaged for each relation. The inter-rater reliability as measured by Fleiss' kappa indicates a substantial agreement among the reviewers (.721).

Density The density reflects the degree of direct relationships between the stakeholders. It is calculated as quotient of the number of actually existing relationships between the knots and all possible relationships in the network. Density takes on values between 0 (empty) and 1 (complete network).

Network centrality. The network centrality is a measure for the structural characteristic of a network. According to Freeman (1979), network centrality indicates to what extent the network is geared to one or more actors. The following equation shows the calculation of this construct:

$$C_x = \frac{\sum_{i=1}^n [C_x(n) - C_x(n_i)]}{\max \sum_{i=1}^n [C_x(n) - C_x(n_i)]}$$

The measurement is in each case standardised on the network factor 'n'. Network centrality can adopt a value of 0 (no central performer) to 1 (network is centred on one specific unit).

Stakeholder Networks of German SMEs in Russia: Three Case Studies

In the following, the stakeholder networks of Knauf, VEKA and Fresenius Medical Care are presented and analyzed. These three companies are chosen as case studies, because they rank among the most important German SMEs in Russia. Furthermore, between the stakeholder networks of these companies exist considerable differences so that their comparative analysis allows for interesting conclusions.

The Stakeholder Network of Knauf

A very successful example of a producing German SMEs in Russia is Knauf, a building material manufacturer. The company headquartered in Iphofen in Bavaria produces gypsum construction pallets, gypsum plaster as well as damping and insulation material for interior construction work at more than

130 locations in more than 35 countries worldwide. Knauf was founded in 1932 as family-owned enterprise. At present the Knauf group has approx. 18,500 employees worldwide and an annual turnover of nearly € bn. 4.

Already in 1992 Knauf has been aware of Russia's large need for modernization and new buildings and in 1993 the company made its first steps to start business activities there (Berger, 2004, p. 12; Knauf, 2004, p. 54). Up to now the company invested nearly € bn. 1 in the country and emerged as the most important German investor in the Russian building material industry. Knauf owns 10 production plants and 9 marketing companies in different regions of Russia (Knauf, 2007). In the entire Commonwealth of Independent States (CIS) more than 5,000 people are employed.

"It is true, that in the beginning some bureaucratic hurdles had to be taken and in some cases Knauf was also forced to enforce its claims and rights by legal action", remembers the general manager Nikolaus Knauf (2004, p. 54).

"That this was successful demonstrates on the one hand that perseverance pays off and on the other hand that in the supposed lawless country of Russia even a foreign investor is able to enforce its rights" (Knauf, 2004, p. 54).

Another respondent adds: "Principally we always tried and continue trying (...) to solve every problem observing the law (...). We have already conducted several lawsuits in Russia. That is always a very complicated and also a very expensive affair."

At present Knauf is confronted above all with product counterfeiting, a problem widespread in Russia. The dry mixtures produced by Knauf are copied very often by other companies. But the Russian courts do not have much experience in the field of trademark and intellectual property rights protection. Moreover, the existing laws are often considered to be insufficient.

Therefore Knauf uses different ways to exert influence on Russian legislation. For instance, applications at the Duma are filed via officially registered associations in order to promote certain law amendments. The Association of German Companies as well as the Association of European Businesses (AEB, 2007), for example, have very good connections to the administration. That is why Knauf cooperates closely with both organizations (VDW, 2005b, p. 45).

Furthermore, the company cooperates with Russian associations such as the International Association for Business Cooperation (MADS). "The cooperation with MADS aims to encourage the Duma to introduce more law amendments", one respondent said. Close connections also exist to the Russian Chamber of Commerce and Industry (TPP). These, however, are rather used for public relations in the Russian media than for lobbying activities.

Besides these indirect relations, Knauf also has direct access to the Duma via personal contacts to some members of parliament. E.g., the company organized two round tables in order to modify the trademark protection legislation (ADVIS, 2007). At this opportunity, further direct contacts to the presidential administration, the government as well as to large Russian companies were established.

Another relevant interest group is the Russian government. E.g., it is important for general legal protection as well as for operative customs and tax problems. To solve these problems close contacts to the respective ministries and administrative organs have been established.

The governors as the regional representatives of the government also play an important role for the company owning 10 factories in different Russian regions. Knauf's relation to the governors is described by one respondent as follows:

"In many regions they want to exert more influence on our factories, but we have very good connections to the respective governors and a good cooperation, and in the meantime the governors of the different regions where our factories are located know how far we go and where are our limits. Today the governors' interest is rather limited on the amount of taxes we pay. They always want more taxes, therefore they are glad when we tell them, yes, we want to invest here so and so much millions (...). We need the governors for the solution of certain regional problems (...). Therefore we are interested in a good relationship." Knauf's relations to the governors are personal and cultivated regularly: "We know them all and they know us. We meet the governors of all regions at least once a year (...). In some cases we also have invited them to come to Germany."

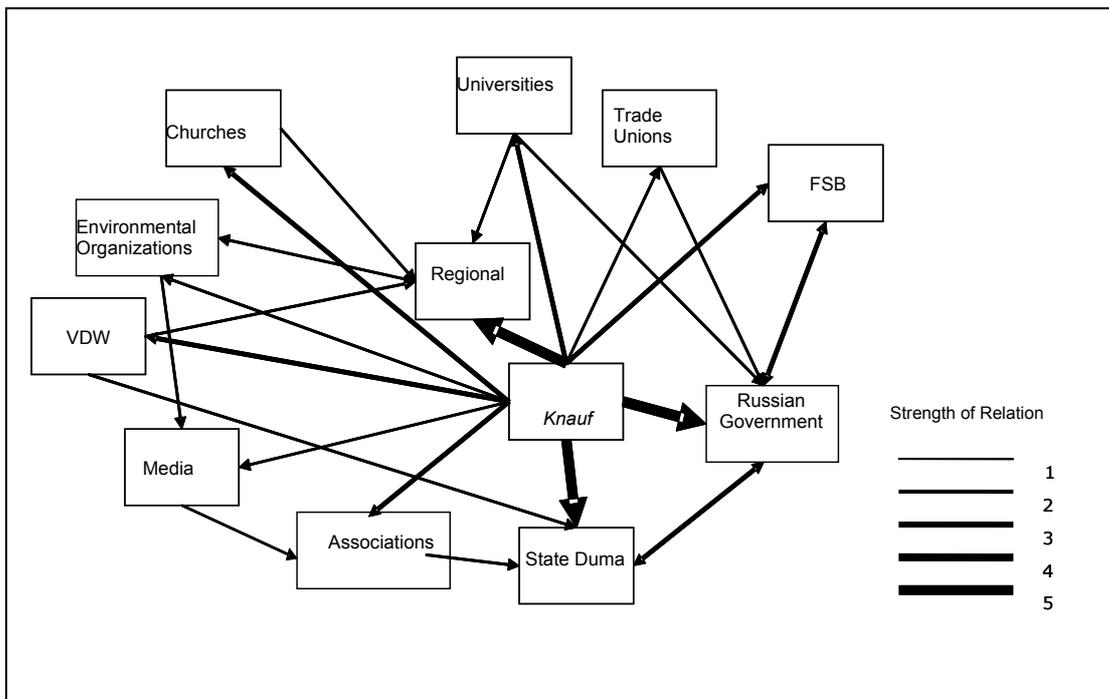


Figure 1: Stakeholder Network of Knauf

Another of Knauf's socio-political interest groups is the Federal Security Service (FSB) guaranteeing the economic security of the company as well as the personal security of the staff. The good cooperation with the FSB is characterized by

"a very close relationship in all regions (...). Otherwise we could not work so safely. It is true that the FSB guarantees a certain degree of security."

There is also a cooperation with the FSB in the field of product counterfeiting.

"We receive much information when a counterfeit product appears on the market and what we can do about it."

Like most other German companies in Russia Knauf has close contacts to the German embassy:

"There are many informative meetings organized by and with the embassy. The embassy helped us in the nineties with the solution of several problems, but no longer in the last eight years. Nowadays the German embassy has quiet different tasks, especially in the range of politics. If you have a problem, e.g. regarding the immigration law or a visa, the embassy is a great help, of course. If a governor needs a flight to Germany in the short-term, he will call and tell us that he needs a visa. Those things happen, and then you have to help the governor."

The heads of the local administrations are the ones to decide finally whether a company is considered as factor of economic growth and employment safeguard and is treated as such or whether it is only regarded as tax payer for the local household (Kunze et al., 2005, p. 124).

Knauf has also close relations to the Russian trade unions. In all their subsidiaries the company encourages workers collectives and trade union representatives.

"This normally works very well. We have never had problems with the trade unions, because we offer much more social benefits to our employees than many other local firms (...). We spend alone € mn. 2 for collective agreements, (...) continued pay for sick employees, further education as well as interest-free credits for employees who live in bad housing conditions."

Knauf is also involved in the social and cultural environment of its subsidiaries. According to one respondent, "every factory and every general manager has a special fund at his disposal to support every year certain projects in his region." Examples for sponsoring activities are the construction or renovation of churches, nurseries, hospitals, and orphanages on one side, and the establishment of training and education centers on the other side, where every year 4,000 architects, civil engineers and foremen are educated. On the initiative of Knauf, the St. Petersburg State University for Architecture and Civil Engineering, the oldest Russian civil engineering academy, included the course "Dry Mortarless Construction" in its curriculum (Knauf, 2004, p. 55). It is this long-term view and attitude that, according to Knauf, contributes very much to the acceptance of the company in the Russian building industry.

With this social commitment Knauf intends to demonstrate its corporate social responsibility and to communicate it to the public (Hamm, 2003, p. 69). A respondent states:

"Of course, that has also a little end in itself. We do not do this because we are such good souls, no. Everything that has to do with money has a certain purpose. Our aim is to preserve and to improve the corporate identity we have (...). You can earn very much money with the corporate identity and philosophy."

This means that Knauf's numerous social projects do not only contribute to its good corporate identity in Russia, but they also help to establish contacts to important interest groups. E.g., the renovation or construction of churches brings the company in touch with religious communities that have considerable influence in the Russian economy (Bremer, 2001). Similarly, contacts to Russian universities and technical colleges offering engineering courses do not only aim at introducing Knauf to engineering specialists (Hamm, 2003, p. 68). In fact, these relations are also helpful for Knauf's lobbying activities, since renowned Russian universities often have access to government circles. E.g.,

Knauf is a member of the Board of Trustees of the Moscow State University of Civil Engineering, thus having been able to establish personal contacts with the mayor of Moscow Jurij Luzhkov (MGSU, 2007).

Knauf's gypsum quarries needed for the extraction of raw materials cause an impairment of nature provoking the reaction of environmental organizations that started a discussion in the press whether one of Knauf's gypsum extraction projects would endanger one of the world's largest salt lakes, the lake of Baskuntchak (MPR, 2006). One of the respondents stated in this context:

"The number of Greens is constantly increasing in Russia, too, they write about some projects in the newspaper so that these are discussed in public. But in the end they cannot stop the course of events (...). Knauf is well-known not only for extracting gypsum, but also for recultivating nature."

According to the respondent media reports about the lake of Baskuntchak do not cause sincere problems, since the company acts according to the law and does not only destroy but also rebuild nature. Besides, the conflict was fomented not so much by environmental organizations, but rather by the Russian company Bassol, one of the largest salt producers in the country. Bassol extracts salt from the lake and fears that Knauf's gypsum quarries nearby would alter the water composition (Dimitriev, 2006). One of the respondents explained in this context: "But both the governor of Astrachan as the relevant authorities know what is going on and therefore that does not worry us too much." In his opinion all technical surveys of international research institutes have proved up to now that the gypsum extraction in this area does not represent any danger to the lake. Based on these expertises, Knauf was granted the permission by the environmental protection agency of Astrachan for further activities in this region.

According to one respondent, the few negative reports on Knauf in connection with the lake of Baskuntchak were an exception.

"We are getting much more positive than negative press (...). The decisive people in the Ministry and also in the regions (...) know very well that it is actually Knauf's merit that there exists a functioning gypsum industry in Russia (...). We realize that the media support us a lot." This is mainly attributed to the fact that Knauf cooperates closely and systematically with the media. "We cooperate with all media, television, and newspapers, we make very much publicity (...). We are very open and have very good relations to the media."

This applies both for regional and national media.

As a whole it can be concluded that the establishment of a dense network with several stakeholders helps Knauf to reduce its investment risks in Russia considerably. This is underlined by the following statement:

"It worked out well that we invested in such insecure times as 1993. Today we are the leading building material producer in Russia and have a good reputation and a good lobby, what was not the case at the beginning of the nineties when we started. Of course, we still have problems today, but not of such a kind as in the nineties. That was very dramatic at that time. Many times we wanted to give up doing business in Russia, but we stayed the course. And today we are glad about it."

The Stakeholder Network of VEKA

VEKA with its headquarters in Westphalian Sendenhorst near Muenster is a worldwide leading system developer and manufacturer of plastic profiles for windows, doors, and shutters as well as plastic panels (VEKA, 2007a). The company, family-owned since its foundation in 1969, has presently 27 subsidiaries on four continents. In the business year 2006 VEKA had a turnover of about € mn. 700 with 2,800 employees. Since 1995 there exists a representative office in Russia. Three years later the wholly-owned subsidiary VEKA Rus Ltd. was founded in Moscow. In 1999, VEKA was the first foreign profile manufacturer to open a production plant in Moscow. In 2004, the company started up a second plant in Novosibirsk. At present, VEKA Rus has 180 employees. Figure 2 shows the company's stakeholder network in Russia.

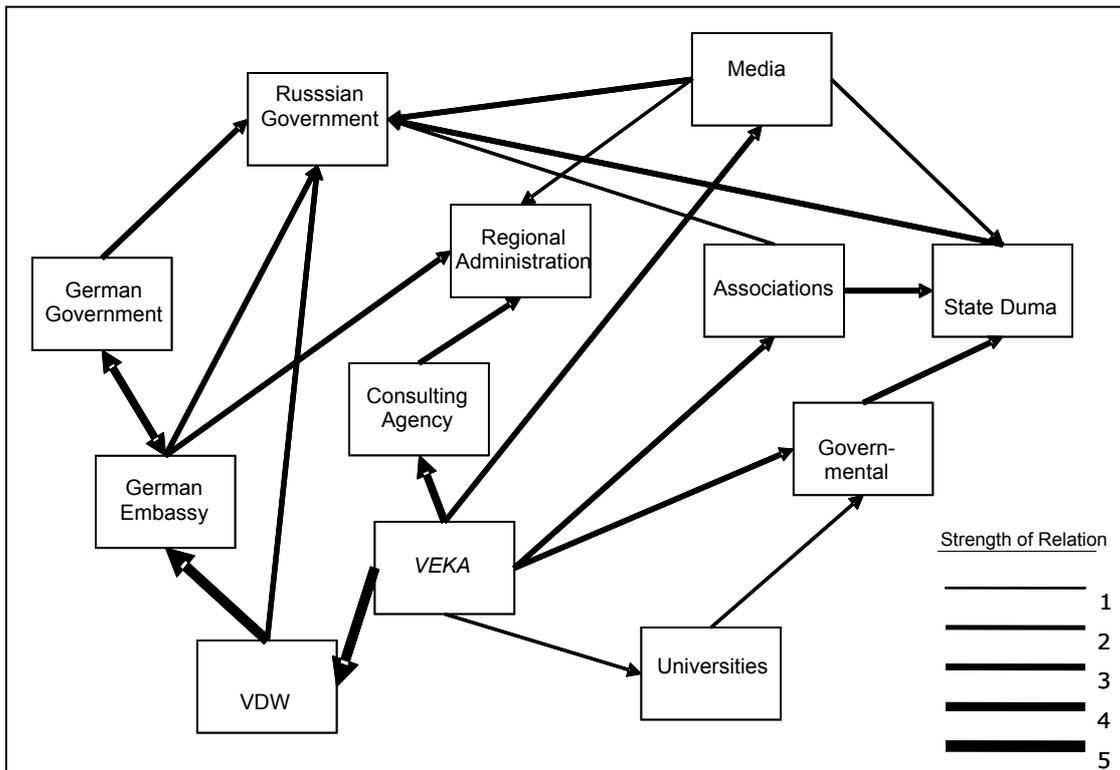


Figure 2: Stakeholder Network of VEKA

VEKA is a member of the VDW and takes actively part in the activities of this association. The VDW helps the company to establish and maintain contacts to the German Consulate General in Novosibirsk as well as to the German Embassy in the Russian Federation (VEKA, 2005a, 2006a). High-ranking representatives of these organizations were invited for the opening of the subsidiary in the Siberian capital of Novosibirsk where also representatives of the regional administrations of Tomsk and of Altajskij Kraj (Barnaul) were present (DGN, 2004). The objective of these invitations is to increase the corporate identity in political circles and to establish contacts to important decision-makers.

Furthermore VEKA has engaged a consulting agency to establish contacts to the regional administration in Novosibirsk. This agency arranged e.g. a meeting with the governor of Novosibirsk Viktor Tolokonskij. In return, VEKA attempts to participate in such projects that benefit not only the company but

also the regional administration. E.g., the local ice hockey team is given financial support which, according to the respondents, has a positive effect on the relationship to the administration.

The administration in Novosibirsk on its part is also interested in a partnership with VEKA, because the company's investments in this region account for Siberia taking a leading position in window production (Lichatschev, 2004). On February 9, 2007 the governor of Novosibirsk and the chairman of the regional board of deputies handed over an honorary certificate to the employees of VEKA in acknowledgement of the company's special merits for the socio-economic development of the region (VEKA, 2007b).

VEKA's close relation to the administration is reflected by the following statement of one respondent:

"As to our relations to the authorities we probably are a rare exception, but we cooperate very closely with the administration (...) and observe positive mutual neutrality, i.e. they do not disturb us and we do not trouble them. We are the second largest tax payer in the region, a fact that is also good for the authorities (...). We are on good terms with the authorities."

An example for this is given by the PR-manager of VEKA referring to the solution of the power supply problems:

"For us power supply is very important and there were some shortages where the administration really helped us to get higher quota for the power supply."

Apart from the authorities great importance is also attached to close contacts to the Russian media. The PR-manager of the company used to work as free-lance journalist having already good media relations. Besides important industry media the company works together with the newspapers "Vedomosti" and "Kommersant" as well as with the television broadcaster NTV. Here, VEKA finances the weather forecast and "Kwartirnij vopros" [Housing Problems], one of the most famous programmes on building and renovation (VEKA, 2006b). Besides general communication and public relations, the importance of these media contacts consists mainly in influencing indirectly the decision processes of the governmental and regional administration, since many regulations and standards in this industry are just being introduced.

This is also the purpose of VEKA's intense participation in governmental committees. In this context, a respondent states:

"At the moment there are good opportunities for lobbying. In Russia a completely new legislation is being developed in the field of technical regulations and standards following suit the European example. This means that the government only determines the framework for the technical data and that the details are to be developed by the market players itself. Therefore, each industry appointed a committee which we joined, too. In this way we can influence many things, e.g. the development of new laws that have effects on our industry."

For lobbying the relations to universities such as the Moscow Engineering Physics Institute and the Moscow Institute of Architecture play an important role, too. These institutes have a wide influence on governmental authorities and their decisions. Therefore VEKA regularly invites industry experts to participate in round table talks. Moreover, a first text book on plastic windows in Russia entitled "Project planning of window systems for residential buildings" was published together with Russian scientists and engineering

specialists. This textbook is provided by VEKA free of charge to all Russian universities (VEKA, 2003).

For similar reasons VEKA sponsors socio-economic projects such as the round table dealing with the subject "National priorities and social projects – Partnership between government and management" that took place on the initiative of the Russian Union of Manufacturers and Entrepreneurs in September 2006. Participants were representatives of the presidential administration and the government, deputies of the State Duma, governors of the Russian regions, heads of different industrial associations as well as of social organizations. Supporting these and other initiatives brings VEKA into direct contact to many important interest groups and improves the corporate identity in public.

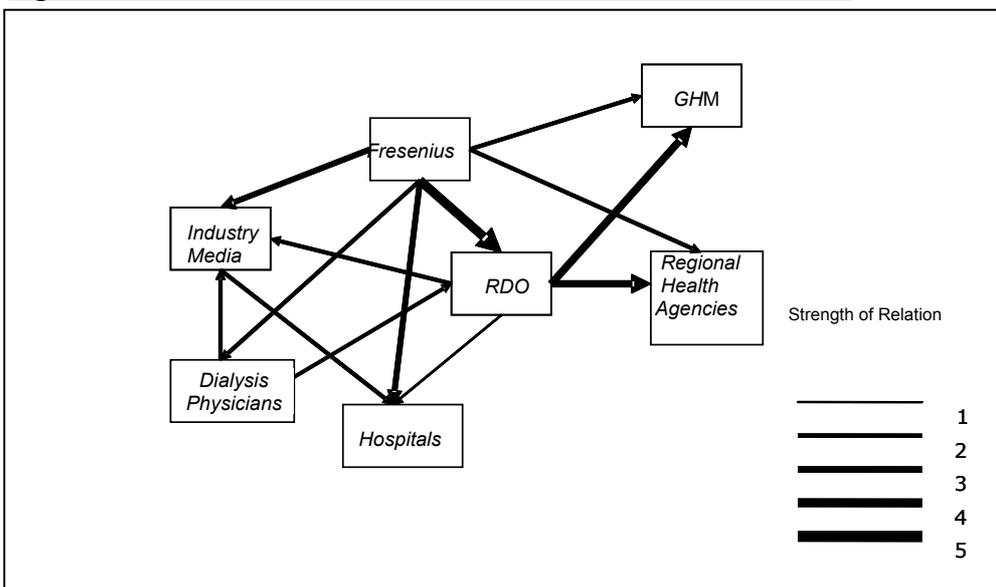
Finally, VEKA also takes advantage of its relations to the Federal Government in order to achieve its business goals in Russia. E.g., the CEO of VEKA, Hubert Hecker, participated in the German-Russian government consultations in Tomsk (Siberia) in April 2006 where he met among others Federal Chancellor Merkel and President Putin (DGN, 2006).

The Stakeholder Network of Fresenius

Fresenius Medical Care with its headquarters in Bad Homburg is one of the three divisions of the Fresenius group and a worldwide leading supplier of products and services for patients with chronic renal failure. The company was founded in 1912, its roots, however, go back to 1462 when the pharmacy Hirsch was founded in Frankfurt on the Main. In 2005, Fresenius Medical Care reached a total turnover of about € bn. 6.4. The company employs more than 56,000 people in more than 100 countries (Weith, 2007).

Fresenius is already active on the Russian market since more than 25 years. In 1991, the wholly-owned subsidiary Fresenius S.P. was founded in Moscow. The headquarters in Moscow and the subsidiaries in St. Petersburg, Kasan, Novosibirsk, Volgograd and Chabarovsk have about 120 employees and maintain a well developed service network (VDW, 2005b, p. 45). The stakeholder network of Fresenius is presented in Figure 3.

Figure 3: Stakeholder Network of Fresenius Medical Care



Due to its high-quality standards, the majority of leading hospitals and research institutes in Russia use dialysis equipment and products made by Fresenius. Since the dialysis technology of Fresenius is very expensive, the doctors working with it normally cannot decide about its acquisition on their own. This decision is made on the basis of tenders for which Fresenius makes an offer competing with other companies. Tenders may be requested e.g. by representatives of the Ministry of Health, by representatives of the administration of certain regions or by the manager of a hospital. These representatives do not always have medical background and often have very little knowledge in the field of dialysis. This knowledge deficits of the decision makers is regarded by Fresenius as the greatest risk of its activities. Therefore one of its main aims is to convince the often insufficiently qualified decision makers of the quality of its technology and services. In order to reach this goal the company uses its relations to different stakeholders.

An example is the promotion of scientific studies and publications as in the scientific journal "Nefrologija i dializ" [Nephrology and Dialysis] published by the Russian Dialysis Society (RDO). The articles in this journal referring to products and services of Fresenius often contribute to opinion making and facilitate political lobbyism.

In addition, Fresenius is on familiar terms with the opinion leaders in the field of dialysis who are invited to all events as conferences, seminars and expositions where they have the chance to get to know the company's products, to exchange experiences and to present the results of their research. Fresenius does not consider this kind of support of the opinion leaders as corruption, since these do not decide on the purchase of an equipment themselves.

"It is good for us", says a respondent, "if a doctor mentions the name of Fresenius in his article, but also if he only presents the results of his research, he helps Fresenius indirectly, the company being leading in quality and technology in this sector in Russia."

A new focus of the company's activities is to assist the authorities in different Russian regions to establish and to extend dialysis centres or to run them by themselves (VDW, 2005b, p. 45). In this field Fresenius cooperates very closely with RDO, according to the respondents the most important interest group in this industry. The company has supported the foundation of RDO with information and funds and sponsors nearly all its events. In return, RDO promotes Fresenius' relations to the central and regional health care institutions in the field of treatment of patients with renal failure (RDO, 2003). Furthermore, RDO has contacts to all university clinics and hospitals in Russia with a department for nephrology and dialysis. Other important interest groups in this field are the Russian Nephrology Society and the Moscow Dialysis Centre.

Finally, Fresenius has established personal contacts to many physicians in clinics and hospitals. These often are RDO members and can influence important decision makers. In summary, a respondent concludes: "Without question, personal relations are the most effective instrument of decision making in Russia."

Stakeholder Networks of German SMEs in Russia: Cross-Case Analysis

A comparison of the stakeholder networks of Knauf, VEKA and Fresenius reveals several differences. First, the *size* of the three stakeholder networks differs remarkably. While Knauf und VEKA interact with 11 interest groups, the network of Fresenius consists of 6 stakeholders only. This may be explained by the different risks the companies face in Russia. For Knauf and VEKA, a mixture of legal, political and economic risks is relevant, while Fresenius is particularly confronted with the economic risk of having decision makers in the regional health administration with knowledge deficits in the field of dialysis. Another reason may be that Fresenius is operating in the health sector and is therefore associated with positive emotions by most stakeholders. Knauf and VEKA, on the other hand, are confronted with a much more critical public opinion. Finally, stakeholder management at Fresenius is directed to singular decisions while the other two German SMEs aim at influencing the overall conditions to their favour. Therefore, close relations to a larger number of socio-political stakeholders are necessary.

Remarkable differences can also be observed between the relevant *types* of socio-political stakeholders. First, international stakeholders, namely the German government, are relevant for VEKA, only. Their low importance can be explained by the low integration of Russia into the international division of labor. This result is supported by a study of Holtbrügge, Berg and Puck (2007) which shows that international stakeholders are the more important, the higher is the foreign trade of a country compared to its gross domestic product. Among national stakeholders, public and private stakeholders are of similar importance in the cases of Knauf and VEKA. For Fresenius, on the other hand, private stakeholders are more important. Although the Ministry of Health and its regional branches are most relevant for VEKA, there are few direct contacts to these stakeholders. The company rather aims at establishing close relations to private stakeholders which are expected to influence the relevant public stakeholders in an indirect way.

Another important difference between Knauf and VEKA is that for the latter only central stakeholders are relevant while Knauf has also established close relations to socio-political stakeholders in different regions of the country. This can be explained by the fact that Knauf has 10 subsidiaries in several parts of Russia, while VEKA has production units in Moscow and Novosibirsk, only.

While the graphical illustration already reveals several differences between the three stakeholder networks, these are becoming still more apparent in a *statistical cross-case analysis of network profiles*.

<i>Network Dimensions</i>	<i>Knauf</i>	<i>VEKA</i>	<i>Fresenius</i>	<i>theoretical maximum</i>
Size	12	12	7	
Intensity	1,769	2,095	2,615	5
Density	0,341	0,328	0,878	1
Centrality	0,462	0,196	0,387	1

Table 2: Network Profiles of the Analyzed Companies

A comparison of network *size and intensity* reveals that VEKA, the company with the smallest stakeholder network, has the strongest relations with its network partners. One explanation of this finding may be that smaller networks need stronger relationships to be efficient. It may also be that a small number of stakeholders makes more intense relationships possible. Another explanation may be that Fresenius has a very industry-specific network that requires strong ties to a limited number of stakeholders. This is underlined by the strong role of and the intense relationship to the RDO that represents a central actor for all companies in the industry. The fact that the average relationship intensity of VEKA is higher than that of Knauf may be explained by the important role of intermediate stakeholders in the network of Knauf. The company uses the regional administrations, the Russian government and the State Duma as intermediates to manage other, indirect stakeholders. This requires only a limited number of strong relationships to key actors, while the relations to more peripheral stakeholders can be less intensive.

The *density* of the stakeholder network of Fresenius is close to the theoretical maximum. This reflects that nearly all possible relationships between the actors in the network do exist. In contrast to the networks of Knauf and VEKA where several actors have relations to one or two other actors, only, the network of Fresenius is very dense, i.e. many actors are connected with four or more other actors. Therefore, the company may refer to most stakeholders directly as well as indirectly by using other actors as mediators. This reduces the dependency on single relationships with particular stakeholders as compared to the other two companies.

Finally, VEKA has the lowest degree of *centrality* in its stakeholder network. One explanation for this finding may be that the company uses other stakeholders to achieve its goals. Especially the VDW and consulting agents are employed by VEKA. The network of Knauf, on the other hand, has the highest degree of centrality. The company has established strong relations to three major stakeholders but is additionally connected directly but less intense to most other stakeholders in the network. Fresenius has a medium position regarding network centrality.

Contributions, Limitations and Implications for Future Research

Our findings lead to a number of implications for both research and practice. As a major contribution to research we found that applying network analysis is a very appropriate and profound method to analyze the structure of stakeholder relationships. As found in all three cases, firms use direct relations to particular stakeholders to influence others to whom no or only weak direct contact exists. A simple dyadic analysis neglects this possibility and can therefore not explore the true dynamics of stakeholder management. Thus, future studies should more frequently apply network analysis to explore stakeholder relationships.

With regard to practice, this study shows that the development of stakeholder networks is a critical success factor of foreign companies in Russia. More precisely, central, regional and local governments (national public stakeholders) are of particular importance, followed by private stakeholders such as the VDW or other associations. Moreover, the diverse networks in our sample show that a concentration on direct relationships to these stakeholders

is not the only way to develop an efficient stakeholder network in Russia. Relations to one stakeholder can also be used to reach other relevant stakeholders. A company that relies on a limited number of strong direct relations can thus be as successful as a company that has direct relations to a large number of stakeholders.

Another practical implication of this study is that efficient stakeholder networks may differ in size, intensity, density, and centrality. Therefore, companies have to analyze which form of stakeholder network fits best to their specific requirements. Generally, it can be concluded that the more diverse the investment risks of a company are, the larger its stakeholder network and the more diverse the particular stakeholders in that network should be.

A limitation of our study is the small sample size. Future studies have to prove if our results can be transferred to other companies and stakeholder networks. Particularly, a comparative analysis of SMEs and large MNCs would be interesting.

Another shortcoming is that we used the strength of relationships as the key indicator of stakeholder relationships. Although very common in network analysis, this measure does not adequately reflect the various forms of relationships between different actors in a stakeholder network. Future studies should integrate this multiplexity of relations between the actors into their approach, use a more differentiated conceptualization and distinguish between different forms of stakeholder relations.

Finally, we looked at stakeholder networks at one particular moment in time. As the political, legal, economic and cultural conditions in Russia are developing very quickly, stakeholder networks will change as well. Therefore, an interesting alley for future research is a longitudinal analysis of the dynamics of stakeholder networks.

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“Playing the Game” - Corruption as a Risk for Doing Business in Argentina and Mexico

Johannes Rehner, Ludwig-Maximilians-Universität München¹

Zusammenfassung

Korruption als Risiko internationaler Wirtschaftsbeziehungen entsteht in einem Spannungsfeld, in dem Manager im Ausland agieren. Sie müssen gleichzeitig die ethischen Standards des eigenen Unternehmens respektieren und doch in einem als korrupt wahrgenommenen Umfeld erfolgreich sein. Ausgangspunkt der Analyse ist die Betrachtung der Korruptionsformen und deren Konsequenzen sowie strategischer Anpassungshandlungen. Im empirischen Teil des Beitrags werden vorläufige Ergebnisse eines Forschungsprojektes vorgestellt, die auf qualitativen Interviews mit Entscheidungsträgern deutscher Unternehmen in Argentinien bzw. in Mexiko beruhen. Die Ergebnisse zeigen die Bandbreite unterschiedlicher Interpretationen des lokalen Korruptionsniveaus, strategischer Adaptation sowie möglicher Konsequenzen. Die Wahrnehmung von Korruption kann bezogen auf verwendete Metaphern als Spiel beschrieben werden – es gilt entweder dessen Regeln zu akzeptieren oder nicht teilzunehmen. Die ebenfalls verwendete Netzwerk-Metapher bezieht sich in diesem Kontext auf den Zustand des “Gefangenseins” in einem Netz aus unvorhersehbaren Forderungen und wird als Grund für eine *No-Tolerance*-Strategie angeführt. Machtressourcen, alternative strategische Optionen sowie das Niveau der Einbindung in Netzwerke im Gastland, sind Einflussfaktoren der Möglichkeiten der Entscheidungsträger korrupten Praktiken auszuweichen.

Abstract

This paper analyses corruption as a risk for international activities by focussing on the expatriates’ and managers’ ‘stress-field’ between dealing with existing corrupt practices on one hand and the need to respect business guidelines and ethical standards on the other hand. The starting point of analysis is a conceptual framework of corruption research discussing forms, practices and consequences of corruption as well as strategic adaptation options. We present preliminary results of a qualitative research project, which is part of a interdisciplinary research group project on international risk management in trans-cultural networks and applies interviews with decision makers of German subsidiaries in Argentina and Mexico as its main method. The findings show a wide range of different interpretations concerning the level of perceived corruption, strategic adaptation and the consequences thereof. Corruption is partly perceived as a game which actors have to play; contrasting opinions use the image of being trapped in a network of unpredictable demands and therefore sustain a no tolerance strategy towards corruption. Power resources, alternative strategic options as well as host country involvement are some issues which provide decision makers with major tools to avoid participating in corrupt practices.

1 Corresponding author: +49-89-2180-22803, +49-89-2180-992148 Email:
Johannes.Rehner@geographie.uni-muenchen.de

Introduction

Definitions of corruption frequently refer directly to the involvement of the public sector, for example as „*private or individuals or enterprises who misuse public resources for private power and or political gains. They do so through abusing public officials whose behaviour deviates from the formal government rules of conduct*“ (Lindgreen, 2004, p. 31). This link between corruption and the public sector has been dominating the understanding of this phenomenon despite of early studies on business to business corruption and their observation that "*corruption in business is as old as business itself*" (Pitt/Abratt, 1986, p. 39) During the last years an increasing number of studies has shown the importance of the neglected research field on corrupt practices in private transactions (e.g. Argandoña, 2003). Therefore a restriction on the misuse of a public charge is too restrictive. Also the UN Convention Against Corruption (UN, 2003) explicitly includes the private sector, even though the focus is on the public sector.

Therefore we regard the following aspects as important elements of a definition of corruption (Vahlenkamp / Knauss, 1995, p. 20; Höffling, 2002; Imhof, 1999):

- The abuse of power as a public official, political mandatory or within a private organisation in order to gain personal (mostly monetary) benefit.
- Interactions that have the characteristics of a transaction exchanging goods, services, and benefits. We do not include the so-called "social corruption" referring to clientelism and nepotism (Lindgreen 2004, p. 32).
- Interactions deviating from the existent normative system, i.e. they must be considered to be illegal or at least sanctioned by society and therefore need to be obscured.

Although the academic discussion about corruption started in the 1970s (Rose-Ackermann 1978), there has been a lack of scientific research for many years. Especially during the 1990s, a vast body of research developed on the issue of corruption. Comprehensive studies have been conducted, including criminological view (Bannenberg, 2003; Berg 2001; Löw 2002; Schuppensteiner 2004), conceptual work on the nature of the phenomenon, its different forms, existing practices and organisation (e.g. Sautu et al., 2004b; Shleifer / Vishny 1993) and the political, institutional and macroeconomic factors which influence the level of corruption including the "benefits" for various participants (e.g. Engerer 1998; Ricks 1995) as well as the negative effects of high levels of corruption (e.g. Bardhan, 1997; Mauro, 1995; Welsch 2003). In addition, during the 1990s there have been considerable efforts in developing new tools and instruments to measure corruption and compare corruption on an international level (for a review see e.g. Graf Lambsdorff, 2006b). Mostly based on the results of these comprehensive studies, there has been a proliferation of empirical evidence on different effects of corruption on macroeconomic performance as well as political systems. There still is a lack of research, however, on the micro-economic level, the perception of corruption as a risk in international business and strategic adaptation and risk management (Uhlenbruck et al., 2005, p. 302), although recent research on

business codes of practice and ethical standards is partly addressing these issues.

Outstanding attention has to be paid to the 'stress field' of decision makers caused by the perception of living in a context with considerable level corruption including the need of adaptation to existing practices on the one hand and personal ethical standards as well as business codes on the other hand.

Conceptual framework

Some issues on the nature of corruption

The discussion of corruption in developing countries or emerging markets is often located in the context of issues like development, democracy and good governance. First of all, some remarks have to be made on different types of corruption and their definition.

The most frequently discussed form of corruption - especially in the mass media - is the so-called *grand corruption*, which takes place at the top levels of the political system. „*Grand corruption is corruption that pervades the highest levels of a national Government, leading to a broad erosion of confidence in good governance, the rule of law and economic stability.*” (UNODC, 2004, p. 10) Usually it is referring to situations in which politicians abuse their authority to sustain their own power, status and private wealth.

The second form of corruption often highlighted is the bureaucratic or *petty corruption*, which means the everyday bribery in connection with the implementation of existing laws, rules and regulations. This form of corruption is usually related to modest sums of money and involving people in lower positions of power as well. In some countries petty corruption is experienced on a more or less daily basis, through encounters with public administration and services like local licensing authorities, utilities, police, or hospitals. "*Petty corruption can involve the exchange of very small amounts of money, the granting of minor favours by those seeking preferential treatment or the employment of friends and relatives in minor positions* (UNODC 2004: 10).

It is widely accepted that corruption has *negative effects* on economic growth, investment and that high corruption levels lead to an increase in social disparities (Mauro, 1995; Tanzi / Davoodi, 1997; Gupta et al., 1998). From a macroeconomic point of view political corruption definitively leads to the misallocation of resources, as rent-seeking is becoming more attractive than the production of goods and services. Furthermore the quality of public infrastructure declines (Collier / Höffler, 2005) as the willingness to pay bribes is more important than the performance of a firm which participates in a public tender (Tanzi / Davoodi 1997). Such government driven projects which are more likely to provide bribery payment may be more attractive than smaller projects, for example in the education sector. In a political sense it perverts the manner in which decisions are made, because it consists of the abuse or ignorance of existing laws and regulations by the rulers. There are also arguments sustaining the negative effect of corruption on poverty control programs (Voyer / Beamish 2004: 211). Even environmental pollution is linked to corruption (Welsch 2003). Therefore some authors identify corruption as one of the most important causes of poverty and underdevelopment.

Without doubt, corruption first of all is a crime – for this reason and for its negative effects, society as well as different actors within it usually ask for a fight against corruption. Therefore we may ask how it is possible that corruption is still a virulent problem in many countries.

Different “*benefits*” can be distinguished, which apply to both levels of corruption (Ricks, 1995, pp. 213). For the local official or politician, increasing income and / or sustaining his power are the main motivations. From the point of view of the bribery payer, in most cases corruption is necessary to speed up the decision-making process (e.g. getting licences, approvals, customs procedures), in some cases to change decisions but also to tamper with information and thus trying to overcome the problems of information asymmetries. This may concern the way of getting information (e.g. about governmental projects or laws), as well as avoiding the spread of information or manipulating it (UNODC, 2004, pp12).

Petty corruption in particular may be regarded in a microeconomic sense as reducing transaction costs. In the context of a lacking legal framework, weak institutions or insufficient control, it is in many cases the second best solution. Even if there was a legal way, e.g. to get a licence, pursuing the proper path of action often takes a long time. As officials are aware of this, in some cases they tend to abuse their power, prolonging the official procedures and therefore it is more efficient for the firms to pay bribes. Assuming that those enterprises which have a higher benefit from specific resources are willing to pay higher bribes, one may come to the (perverse) conclusion that the procedure is not only reducing transaction costs but also promoting competitiveness. Clarke and Xu (2002) found that in the case of bribery payments in order to get preferential treatment by utility providers, there is a positive correlation between profitability of the firm and the amount of bribes paid.

“Facilitation payment is defined as the making of small payments to low-level officials through an intermediary to ensure a smooth passage through customs or other inconvenient procedures” (Kidd 2004, p. 30).

Starting in 1995, the NGO „Transparency International” published the well-known global corruption report (Transparency International, 2007), which introduced the *Corruption Perception Index (CPI)*. The purpose of the CPI is to reflect the perception of corruption by decision-makers, experts and the society but not to be a reliable measure for the real level of corruption. The CPI is a composite index which is calculated on a yearly basis, using different studies from international sources (Graf Lambsdorff, 2006a; 2006b). As the studies used as well as the countries analysed vary from year to year, any interpretation of a trend is problematic. In addition, there is some discussion on the reliability of comparative data between different countries. As the ethic context of the decision-makers and experts differs, it is likely that some differences are not caused by the comparison of countries but by differences in the sampling method. The evaluation by members of foreign cultures always contains the risk of the evaluation being culturally biased. Despite of these weaknesses the CPI still is considered to be the best corruption index available, but it must not be overestimated in his relevance for the decision makers and the processes of market entry by SMEs. In respect of our work it is useful as it is an aggregate picture of subjective evaluations. We analyse how these information are disaggregated on the personal level. It is of interest

to investigate to what degree the experts' evaluations are important to explain individual actions and – as their result – spatial structures.

On the global level, during the 1990s notable progresses in *combating corruption* could be observed, as a number of institutions monitoring and fighting corruption had been established, among them the NGO 'Transparency International' (1993). The Corruption Perception Index became an important measure for public discussion of corruption and a means to force governments to provide access to information and to strengthen transparency. The Anti-Bribery Convention (OECD, 2004; Convention on Combating Bribery of Foreign Public Officials in International Business Transaction) and the Global Programme Against Corruption initiated by the UN Office on Drugs and Crime (UNODC, 2004) are expected to become even more important for business practice. The first one regards bribery of local officials as a criminal act. Moreover, the International Monetary Fund and the World Bank consider the level of corruption in their decisions on the "Guidelines Regarding Governance Issues" as important for decisions on loans and credits. Multinational enterprises as international institutions are implementing a large number of initiatives and ethic standards to combat corruption which normally are valid globally (for analysis of global anti-corruption systems see e.g. Butler, 2004; Eigen, 2004; Mukherjee / Gokcekus, 2006; Quiñones, 2004; UNODC, 2004; for an comprehensive analysis of studies on business codes see e.g. Kaptein, 2004).

Corruption as a risk in international business

Empirical studies have provided evidence of the negative effect of corruption on Foreign Direct Investment FDI (Egger / Winner, 2006; Habib / Zurawicki, 2001; 2005; Voyer / Beamish, 2004). Wu (2006) shows that not only the corruption level of the host country but also the 'corruption distance' between home and host countries affects FDI. From an enterprise point of view especially in international business one of the most problematic effect on business is competition distortion – in different countries high percentages companies believe that they have failed to gain new business because of bribery payments of competitor (Control Risk, 2006, p. 5).

As a consequence international companies may not invest in certain markets because of corruption even if the markets are attractive, withdraw from a country or abort a partnership or suffer from a cost increase (Control Risk, 2006, pp.7-9, Uhlenbrock et al., 2005).

"In general, a company's liberty of action will be dependent on the size of the company's economic activities and the amount of the company's available resources (...). Small companies are more likely to do business with a corrupt partner than larger companies, *ceteris paribus*, as a closed business deal easily can decide whether or not the company continues to stay in business" (Lindgreen, 2004, p. 35).

In general there are considerable differences in the extent to which specific industries are affected by corruption: As the bribery index shows (Transparency International, 2002), industries are more likely to be affected by corrupt actions with growing involvement of the government in those industries. The outstanding importance of high public sector involvement for explaining corruption vulnerability has been discussed referring to the health

industry (Vian, 2006; Savedoff / Hussmann, 2006), as well as to pharmaceuticals (Clare Cohen 2006).

„The industry is subject to a high degree of government regulation at every nearly stage of its activity. The large interface between industry and government throughout the life cycle of medicinal products poses continuous risks of corruption.“ (Bale, 2006, p. 91)

Based on those and other case studies from different industries, e.g. construction / infrastructure (Stansbury, 2006) we identify the following key factors explaining an industry's vulnerability:

Complexity: Large number of participating companies and other actors, large number of contracts. Different phases reduce transparency and possibility to mask payments.

Uncertainty and information asymmetry provoke the rise of benefits of power accession.

Strategic importance: The size of projects in relation to firms' turnover as well as frequency of contracts influence the importance of single projects for firms' success as a whole and produce power imbalance.

Culture: The type of customers, a lack of common guidelines or the existence of a culture of secrecy in certain industries facilitate the emergence and durability of corrupt practices.

Corruption risks in Mexico and Argentina

Latin American states are generally regarded as being highly corrupt systems (Wills Herrera et al., 2002), although in the last years some of them, especially Mexico has achieved remarkable improvements. There is no doubt that corruption is a well-known problem in Latin America and that it is far from being a new phenomenon. Nevertheless, this should not be misunderstood as sufficient proof for the popular view that certain cultures (here: Latin American cultures) are intrinsically more corrupt than others (here: West European). There is some empirical evidence that the corruption level in Latin America has been decreasing during the second half of the 1980s and the 1990s. This experience of declining corruption is likely to be linked to the process of democratisation and strengthening of institutions which can assure public control and transparency. However, influential groups still e.g. in Argentina ask for more transparency and institutional control, as the evaluation of the mentioned countries still regards them as highly corrupt (March, 2003).

Table 1: Transparency Internationals CPI in selected countries

	Trend	2003			2004			2005			
	1995-2004	Rank	CPI-Value	Range	Rank	CPI-Value	Range	Rank	CPI-Value	Range	
Germany	0	16	7,7	4,9-9,2	15	8,2	7,5-9,2	16	8,2	7,5-8,2	
USA	0	18	7,5	4,9-9,2	17	7,5	5,0-8,7	17	7,6	5,3-8,5	
Japan	0	21	7,0	5,5-8,8	24	6,9	3,5-9,0	21	7,3	5,5-9,0	
Mexico	+	64	3,6	2,4-4,9	64	3,6		65	3,5	2,7-4,5	
India	0	83	2,8	2,1-3,6	90	2,8	2,2-3,7	88	2,9	2,1-3,5	
Russia	+	86	2,7	1,4-4,9	90	2,8	2,0-5,0	126	2,4	1,9-3,0	
Argentina	-	92	2,5	1,6-3,2	108	2,5	1,7-3,7	97	2,8	1,8-3,5	
Indonesia	-	122	1,9	0,7-2,9	133	2,0	0,8-3,2	137	2,2	1,7-3,3	
Bangladesh	k.A.	133	1,3	0,3-2,2	145	1,5	0,3-2,4	158	1,7	1,0-2,4	
Number of Countries		133			146						

Source: Transparency Internacional (different years; own aggregation)

Over the last years the corruption problem has been frequently discussed not only by the mass media but also on a political level. In both countries there have been remarkable efforts to fight against corruption on a political level. Mexico took these steps during the late 1990s and especially under the government of Vicente Fox (Gutiérrez, 2001; Fuentes et al. 2001) and more recently Vicente Calderón. There has also been made considerable efforts to implement transparency good governance practices and a companies good reputation monitoring system (see e.g. Transparencia Mexicana 2005a; 2005b; 2006). Kite / Sarles (2006) show the outstanding importance of bribery within Mexican police and local authorities. 20% of Mexicans are confronted with bribery of local officials, and around 10% report to have suffered of corruption in health system or education. Costs of corruption are estimated to reach 9% of Mexican GDP (Rodas-Martini 2003: 96).

In Argentina the Menem era is regarded as highly affected by corruption on the grand as well as on the petty level although corruption is supposed to be on a problematic level since colonisation (Sautu 2004). Measures aimed to combat corruption during the 1990es has been reported to be not efficient (CIPPEC, 2001) After the deep crisis the new Argentinean president (Nestor Kirchner) didn't hesitate to take fast and hard measures against corrupt high

level officials, especially during the year 2003. Nevertheless the level of corruption is still considered to be high, even in Latin American context (Graf Lambsdorff, 2007).

In both cases these actions of politicians which were able to sustain their power through a strong support of the population should be discussed in the context of growing demand for fighting corruption. As the attitude against corruption seems to change, it is nowadays a very sensible issue and must not be regarded as a given fact or as culturally enshrined – with a connotation of impossibility to change it and the resulting need to adaptation.

Dealing with corruption risks

As corruption is often aimed to achieve advantages or preferential treatment, the key for fighting corruption is transparency and strong but accountable institutions. This is consistent with a neoliberal perspective, as transparency enhances competition. Markets with high levels of competition are found to have a lower level of bribery (Clarke / Xu, 2002, p. 19).

There is some empirical evidence that small enterprises are more seriously affected by corruption, e.g. they are more often asked to pay bribes than bigger, globally operating companies. Furthermore it seems that foreign enterprises are more often targets of bribery requirements than local businesses. The last point may be seen as a hint that local firms are able to deal in a better way with a corrupt system, or to develop specific mechanisms to avoid corruption. Consequently some authors propose co-operations with local firms as a strategy of corruption avoidance (Habib / Zurawicki, 2001, p. 698). That way they are able to achieve a better understanding of the corrupt system, which is helpful to develop avoidance strategies. In general a high percentage of corporations are able to circumvent legislation on corruption by using intermediaries occasionally or even on a regular basis (Control Risk, 2006, p. 13).

In this context special attention should be paid to the conflicts to which the foreign expatriate manager is exposed, as he is acting in a field between different interest groups and his personal needs. As the local representative of an international firm, he has to adapt to culture-based, different ways of doing business. In order to be successful as manager he has not only to respect the differences but to deal with them. As recent developments in Mexico and Argentina show, corruption can not be regarded as an issue of "Latin culture" and therefore adaptation to the local culture does definitely not mean finding the easiest, cheapest or most secure way of practising bribery and corruption. On the other hand the foreign manager is often asked to pay bribes in very unspectacular cases just to ensure the production process. This certainly is not in accordance with globally defined ethic values of the firm nor is it regarded as reducing transaction costs. But it still seems to be unavoidable.

If the integration in the local society is a useful variable in explaining the development of adaptation strategies, it may also be helpful to develop strategies for avoiding the need to apply corrupt actions.

Therefore we state that interaction within informal networks is influencing all the different levels of risk management, with reference to dealing with corruption risks. Transnational networks are expected to have a special impact because of the process of intercultural interaction within the network.

Methodology

We use a mix of different tools of qualitative social research especially interviews with decision makers in local subsidiaries of German enterprises in Argentina and in Mexico. The interviewed managers are Germans as well as Argentineans and Mexicans to ensure a bi-perspective view on the issue. Interviews have been conducted in Mexico City and Buenos Aires. There still has to be done interviews in German parent company. The interview guideline focuses three subject concerted within the interdisciplinary research group Fortrans (networks, success and risk management) and contains the issues

- Company profile
- Perception and Evaluation of corruption
- Adaptation and avoidance strategies
- Networks
- socio-demographic data / biography of the interviewed person.

The interviews are transliterated and the empirical investigation is based on content analysis – as the project is still in process we present only preliminary findings. These interviews are combined in a few occasions with narrative elements which fulfil a hermeneutical function. By analysing personal experience of interviewees it is possible to access and reconstruct personal interpretations, significance and justifications. These personal discourses on the meaning and different aspects of the phenomenon corruption will be supplemented in the next project phase by analysing public discourses extracted from mass media coverage on corruption cases in Argentina and Mexico as well as Germany.

Findings and Discussion

Perception and practice of corruption

Both Mexico and even more Argentina are perceived as being affected by a problematic level of corruption (Graf Lambsdorff, 2007). Statements in qualitative interviews conducted with representatives of German companies in both countries reflect the CPI scores. In the case of Mexico they vary between reporting considerable improvements and statements of an unchanged high level of corrupt practices, claiming that it is just occurring in a more disguised way because of the measures against corruption on global and national level. By the same token, positioning local corruption levels in an international context ranges from considering it a unavoidable phenomenon in Mexico to the negation of any local particularities, stating the global nature of corruption instead.

Frequently the interviewees report remarkable efforts and effects in combating corruption as they consider a decreasing level of corruption in Mexico. The reasons reported by managers are on the one hand trade liberalisation, as it reduces both the need and possibilities of bribery in customs and competition, and as it improves the providers' strategic position. On the other hand increasing transparency in public tenders and diversification of the political system is lowering the importance of traditional corruption networks.

Nevertheless, in a global comparison Mexico still is characterized by a considerable level of corruption. The following reasons for this persisting high level have been identified by the interviewed managers:

Poverty, low level of income and the lack of alternatives. This argument is referring to an implicit conceptual explanatory statement offered based on rational choice: As there are little other opportunities and the probability of punishment is low, for rational economic calculations asking for bribes is a attractive option. Therefore it includes a certain justification (if not an excuse) by using the "rational choice" argument.

Inefficient institutions e.g. executive authorities, especially within the police.

The most alarming element of corruption frequently is stated to be its organisation as a network and the perceived affection of all social groups and public institutions.

In general the executives in *Argentina* consider corruption a highly relevant problem and make references to famous cases of bribery most if they are part of *grand corruption* and therefore are not usually directly linked to the business of the sampled enterprises. As the most vulnerable segments managers identify different authorities on the lower level (e.g. customs and police). Although the assessments of interviewed managers differ considerably, frequently they report the mentioned institutions using different practices of petty corruption. The typical situation includes unhidden demands of bribery payments in order to provide service or to avoid complications. As these acts are a product of the opportunity generated by the emergent situation and it is possible to identify a victim who is forced to pay usually a very small amount of money, this type of corrupt action is sometimes considered a bagatelle or corruption by opportunity (Bannenberg, 2003). Mostly they are not linked to providing illegal services or preferential treatment but only to avoid injustice ore to have access to a service which normally should be provided without additional payments. Therefore it is often explained by the existence of inefficient institutions and justified by the low income level of the officials.

Typical examples for this kind of situation are the frequent traffic controls by police patrols with the only aim to improve their income. Similarly in Argentina frequent cases are reported of procrastinating administrative decisions or customs declarations in order to obtain additional payments. Depending on the specific constellation this kind of demand may not allow any kind of negation, but need an early anticipation in order to avoid being confronted to the situation.

The most relevant corrupt practices which are not reported by our sample but in the Argentinean economy and society in general can be pooled to the following four types (own aggregation based on Sautu et al., 2004):

- Tenders: fixings and agreements by different participants, faked tenders where suppliers are already fixed at the moment, including extremely detailed specifications
- „Commissions" for purchasing agents and decision makers
- Billing excessive prices or purchasing immoderate amounts
- Billing services which are not part of the project e.g. private benefits

In difference to these reported practices in our interviews there are few references of business corruption but as mentioned above a high level of

systemic corruption among administrative authorities. However it has to be stated that decision makers of German enterprises in Argentina complain about the existence of certain actor groups within different industries or market segments showing established network structures who are supposed to use corrupt practices or at least practices of preferential treatment and nepotism or clientele effects. Those are practices which in our definition are not considered corruption but certainly are considered illegitimate – some authors call them „white corruption“ (He 2000, 244).

Adaptation strategies

There is a worldwide necessity of protection against corruption not only by civil society but also from the point of view of private companies. This mostly dominates a popular discourse, asking politicians and the mass media to act and investigate corrupt practices more forcefully. Recently, the importance of civil society and NGOs in this process has been stressed as a third pillar to stem corruption (Eigen, 2004). It has to be emphasised that companies themselves as well as ethical standards of international economy and global networking are other important elements of combating corruption (Eigen 2001).

By preliminary analysis of the interviews of decision makers we identify the following different types of strategic reaction and management of perceived corruption risk.

- *„No tolerance“*: Often based on globally valid business codes within the MNE as well as on personal ethic standards, decision makers implement measures to avoid corruption within their company and try to build up a good reputation. As a consequence the company has to renounce to cooperation with certain groups of customers. Those market segments affected have to be factored out, as it is not possible to gain a promising market position inside the predominant system without participating in the bribery system.
- *Adaptation of organisational structure*: Certain type of administrative acts are hard to conduct without paying bribes, especially without profound knowledge on local institutions and mechanisms. Therefore outsourcing of vulnerable parts of services, processes or contacts is a strategic option. It has been stated, that in some cases the cooperation with local firms may provide the firm with possibilities to avoid bribery payment, as dealing with local officials is part of the responsibility of the local partners.
- *Need to adaptation and participation*: Interviewees partly refer to cultural relativism and state that „You can't change the games rules, you are supposed to learn them“. It rises the risk of being trapped in a network and vicious circle of increasing demands and losing reputation.

These strategies offer the additional benefit of helping to build up or strengthen good reputation of the enterprise. Therefore it is possible – depending on the strategic position and power resources of the company – to avoid the need of bribery payments on the long run. Furthermore it is economically reasonable and beneficial as increasing demands may cause a

vicious circle and trap the company in a corruption network as soon as they start to participate.

There are also some possibilities to react on a personal level. For example in certain situations pretending not to know the „games rules“ may offer a certain protection, as the bribe demander needs to know that his counterpart is familiar with the existing practices especially because of the need for obscurity.

On the company level Business Codes are regarded as a meaningful base of combating corruption and establishing a „anti-corruption culture“ within the company which is considered to be essential (Kidd, 2004, 31). Multinational Enterprises companies often already have established codes of conduct or a set of ethical standards. By virtue of differing perceptions and culturally biased meanings of the phenomenon corruption it is crucial to adopt global standards and business codes to the specific spatial and cultural context.

“While the basic principles and policy are fixed, the individual countries are encouraged to develop specific guidelines to reflect local traditions and cultures, for example, in the giving and receiving of gifts” (Kidd, 2004, 31).

Certain practices - like gifts, invitations, etc. - may be in some contexts at least objectionable – within other cultural systems they are an indispensable part of respectful treatment of a partner. It is crucial to integrate those cultural adaptations in the own codes of conducts and to fix them in guidelines.

What benefit can networks provide?

One of the key elements of theoretical analysis of networks is the generation of trust among the networks' participants. Trust reduces malfeasance and the expectation of other participants of the network acting in an opportunistic way. Applying the network issue to the topic of corruption prevention, this means: In a certain context, in which voluntary ethical standards may provoke competitive disadvantages and make certain market segments inaccessible, the negation of corrupt practices can be successful only if it is linked to agreements within the industry. These agreements may be formalised or not – it is decisive that expectation of solidarity and no opportunistic action is met.

“Voluntary action, of which codes of conduct are an example, may be most effective when businesses work together on collective initiatives. By eliminating the competitive advantage of non-compliance, cooperation reduces the cost of compliance to a single business. Publicly sharing information may be one means of enforcing such cooperation. In addition, the more transparent the collective action, the less likely is it that companies will be seen as collusive” (Fletcher, 2003, p. 35)

According to our preliminary results there is little evidence for this optimistic view on networks and their assumed virtues. Rather, there dominates a negative perception of network effects: Depending on the industry, more or less important parts of the markets show relevant network structures hindering market entrance of newcomers and – at least according to the statements – may combine their trust relations within networks with corrupt practices. Therefore there are stated exclusionary effects of networks, building up market access barriers.

Nevertheless, there are some cases which show some risk reducing effects of networks:

Networks help to learn about the host country's culture and make it easier to recognize properly which practices are accepted by the local society and which are not. This is crucial as culture sometimes is used to justify corrupt practices pretending that certain practices are common.

By generating information advantages and improving the interpretation of business partners or officials' networks support the early understanding of situations which may generate corruption demands. One of the most important strategies to avoid corruption (especially during administrative decisions) is good preparation and detailed knowledge of the regulatory and institutional framework.

Private-public-partnerships may produce a climate of cooperation which may reduce significantly the company's confrontation with demands of bribery payments and other corrupt practices by officials.

Communication processes within networks conduct reputation – therefore they play a crucial role for selection of business and cooperation partners.

Networks may reduce risk by supporting outsourcing, if certain services, administrative acts or relations are transferred to consultants.

Conclusion

This paper's goal was to discuss the managers' 'stress-field' between dealing with existing corrupt practices on one hand and the need to respect ethical standards on the other hand. The dominating explication of interviewees refers to reasoning inspired by rational choice and implicit categories of "power". On the one hand has been stressed that decision makers, especially in Argentina frequently do not dispose of the strategic position and power resource to oppose to the system or even change the context. Therefore predominates a perception of being committed to existing structures, These structures are characterised by power imbalances which can not be adjusted, but the only option may be the exit. Consequently success is directly linked to the existence of strategic alternatives, looking for other markets and the actors power in the sense of his resources and his dependency on single customers. Network involvement is not stated as a crucial strategic opportunity although it offers certain strategic options. Major tools and possibilities of decision makers to combat corrupt practices depend on power resources, alternative strategic options as well as host country involvement.

Nevertheless companies frequently establish measures to prevent corruption, most of them oriented towards the own organisation. Based on arguments inspired by rational choice these actions are destined to reduce the probability of exit (e.g. by a sophisticated control system). Measures which aim to reduce the expected benefits are limited in their possibilities, as they are oriented particularly to the employees of the own company and offers additional benefits like bonuses or advanced trainings.

Further research within this project has to integrate the discourse analysis in order to investigate the different interpretations, individual meanings and social construction of the phenomenon corruption in order to provide profound understanding of the mentioned "stress-field" and possible adaptation.

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A Classification of Opportunism in Transnational Inter-firm Networks of SMEs

Philipp Schauwecker / Torsten M. Kühlmann*
Universität Bayreuth

Zusammenfassung

Opportunismus, definiert von Oliver Williamson als „self-interest-seeking with guile“, stellt für kleine und mittlere Unternehmen, die sich mit anderen Unternehmen im Ausland vernetzen, eine Bedrohung dar. Die bisherige Forschung konzentrierte sich darauf, Bedingungen, die Opportunismus begünstigen, und Gegenmaßnahmen, die opportunistisches Verhalten hemmen sollen, zu untersuchen. Nur wenige Autoren befassten sich damit, Opportunismus als solches näher unter die Lupe zu nehmen. Neben theoretisch abgeleiteten Dichotomien wie beispielsweise aktiver vs. passiver Opportunismus wurden in der Literatur zwei ausführlichere Klassifikationen vorgelegt, die auf qualitativer Forschung aufbauen. In diesem Beitrag diskutieren wir diese Klassifikationen, melden jedoch Zweifel an, dass sie der Komplexität des Phänomens gerecht werden. Wir stellen eine neue Klassifikation vor, in der wir versuchen, unsere Kritik an den vorliegenden Klassifikationen umzusetzen und veranschaulichen sie exemplarisch anhand von drei Fällen opportunistischen Verhaltens aus unserer Drei-Länder-Studie in Deutschland, USA und Mexiko.

Abstract

Opportunism, defined by Oliver Williamson as “self-interest seeking with guile” is a major threat to SMEs that want to build networks with companies abroad. Research has focused on investigating conditions that lead to opportunistic behaviour and countermeasures that can prevent opportunistic behaviour. Only a few authors have tried to analyse opportunism in more detail. Apart from theoretically deduced dichotomies like active vs. passive opportunism, two elaborate classifications based on qualitative research have been proposed in the literature. We discuss these classifications, but doubt that they allow for the complexity of the opportunism phenomenon. They also do not take an important rule of classification into account. We propose a new classification that tries to implement our critique of the other classifications, and we then demonstrate the functionality of our classification with three opportunism cases from empirical data from our three country study in Germany, the US and Mexico.

* Corresponding author. Tel.: +49 921 55-3511; Fax: +49 921 55-843511, e-mail address: philipp.schauwecker@uni-bayreuth.de

Introduction

In contrast to larger companies, small and medium sized enterprises (SMEs) that want to enter new markets abroad, often do not have the resources to establish branches in all of these markets. This is due to the scarcity of economic and personnel assets. SMEs that are unable to look after their customers by establishing a branch in or near the target-country, tend to build transnational inter-firm networks with their customers and/or distributors.

When asked by the German Chambers of Industry and Commerce (DIHK) and Steinbeis University Berlin about their problems establishing international business relations, 83% of the surveyed German exporting companies reported problems finding reliable business partners abroad. In addition to difficulties finding a business partner, 74% perceived contacts in general as a problem, 64% reported difficulties collecting money owed and 49% complained about cultural differences (Deutscher Industrie- und Handelskammertag, 2005, p. 72). The frequency with which firms mentioned contact-related problems emphasises that dealing with business partners abroad is a major problem for companies operating internationally.

When one considers these findings, company networks – so often celebrated as social capital and as a way to reduce risk in business ventures – must also be seen as the cause of new problems and risks. Therefore, strategies that seek to implement sustainable forms of internationalisation for SMEs have to allow for the risks of the otherwise promising inter-firm networks. The major relational risk that threatens these networks is the risk of opportunism defined by Oliver Williamson (1975, 1985) as “self-interest seeking with guile”. The risk of opportunism is said to be especially high in business relationships that have to overcome larger cultural distance (Lee, 1998). Additionally, it can be assumed that cultural preconditions of the involved parties determine different forms of opportunism in transnational business networks.

In this paper we discuss classification systems of opportunistic behaviour in transnational business relations and propose a new approach to categorisation which accounts for the vast variety of opportunistic behaviour as reported in the literature and also found in our own data. The categorisation of opportunistic behaviour is an important tool for scholars and practitioners. Academically, classification is a prerequisite to explore links between different forms of opportunism and its potential pre-conditions. Beyond this, categorisation is also indispensable to investigate the effectiveness of deterrence strategies against opportunism. For practitioners a classification scheme is essential in order to identify and understand opportunistic behaviour and the inherent risks. Additionally, the identification of different types of opportunism may guide the selection of countermeasures. Different forms of opportunistic behaviour have to be countered differently (Wathne and Heide, 2000, p. 37) and only tailored countermeasures will have the prospect of success.

We will develop our classification of opportunistic behaviour to analyse qualitative data from a three country study including interviews with managers

of SMEs in Germany, the US and Mexico.¹ We will particularly require this classification in our forthcoming work to examine correlations between opportunism and several variables. Of these variables the country of origin and the embeddedness in the target country of the involved parties will form our focus. We believe that these two variables are antecedents of opportunistic behaviour. The findings from the qualitative data will help us to specify the hypothesis that we are going to test using quantitative methodology in the next step of our ongoing project.

To the best of our knowledge, only two authors have already proposed a systematic classification of opportunistic behaviour based on qualitative research. Karunaratna and Johnson (1999) explored opportunistic behaviour of independent foreign channel intermediaries (agents or distributors) in relation to their exporters and Obadia and Vida (2006) studied opportunism of foreign subsidiary managers in relation to the SMEs's headquarters. In section 2 we will present the existing dichotomous categorisations and discuss in detail the two elaborate classifications based on qualitative research. In section 3 we present our own proposal for a new classification that we test and discuss in chapter 4. In section 5 we draw the conclusion of our deliberations.

Dimensions and classifications of opportunism in the literature

Scholars investigating opportunism (John, 1984, Provan and Skinner, 1989, Wathne and Heide, 2000, Das, 2004) typically cite Oliver Williamson's definition of the phenomenon: "By opportunism I mean self-interest seeking with guile. This includes but is scarcely limited to more blatant forms, such as lying, stealing, and cheating. Opportunism more often involves subtle forms of deceit. Both active and passive forms and both *ex ante* and *ex post* types are included. [...] More generally, opportunism refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse. It is responsible for real or contrived conditions of information asymmetry, which vastly complicate problems of economic organization" (Williamson, 1985, p. 47)

This definition is a very general one, that first of all names the pursuit of an actor's own advantage and well-being (self-interest seeking), which by itself is not enough to be opportunism. Only when a second aspect – guile – comes into play, can self-interest seeking be construed as opportunism. Whereas self-interest seeking on its own can be adequately described as the action of one single actor, the guile aspect relates clearly to at least one additional actor. Consequently opportunism has to be viewed as a relational phenomenon. In his definition Williamson states a few examples (lying, stealing, cheating, subtle forms of deceit) but does not present an exhaustive list of such behaviour. Subsequently he proposes two dichotomous categorisations (active vs. passive, *ex ante* vs. *ex post*) of different forms of the phenomenon. Williamson also mentions the problem of information asymmetry, and relates it to opportunism. However he does not say that information asymmetry is a *sine qua non* condition of opportunism.

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Only a few authors (Das, 2004, Wathne and Heide, 2000) further defined Williamson's two categorisations (active vs. passive, *ex ante* vs. *ex post*) and expanded upon them with three additional dichotomous categorisations deduced from theory. Apart from this, two papers (Karunaratna and Johnson, 1999, Obadia and Vida, 2006) dealt with more elaborate classification systems based on qualitative research. After considering different situations in which opportunism might take place in section 2.1., we will present in section 2.2. the five theoretically deduced categorisations from the literature. In section 2.3. we will discuss the two classification systems based on qualitative research.

Relational setting

The opportunism construct was the subject of several empirical studies in recent decades, whether as a dependent variable or a control variable. As there are so many possible forms of action that fit into Williamson's general definition, scholars that investigate opportunism tend to focus on specific forms of opportunistic behaviour in specific types of business relations that we will refer to as relational settings. Table 1 presents a selection of three situation-specific forms of opportunism described by the respective authors.

As we can see from table 1, the authors first specify a certain relational setting like a dependent supplier with a dominant buyer, (two) partners in a research alliance, or actors in the export market. In the next step they have chosen a specific type of actor within the relational setting (e.g. the management of the dependent supplier in relation to the dominant buyer) to focus on his opportunistic behaviour in relation to another actor. In order to define the form of opportunism fitting to the specific setting, scholars name examples of such behaviour (e.g., failing to fulfil commitments). Note that one can consider either only dyads (relations between two actors) as in row two and three, or relational settings with more actors involved, as in row one where other network members are mentioned.

Table 1: Relational setting

<i>Publication</i>	<i>Situation specific form of opportunism</i>
Provan (1993, p.842)	Opportunism is defined as those conscious behaviors engaged in by the management of a dependent supplier firm to influence the decisions of the dominant buyer through deceit and guile in ways that are presumed by the supplier to enhance its position or outcomes, usually at the expense of other network members.
Deeds and Hill (1999, p.143)	Opportunism in a research alliance takes the form of failing to fulfil commitments, expropriating proprietary technology, withholding or distorting information, and misrepresenting one's abilities.
Cavusgil, Deligonul and Zhang (2004, p. 17)	Opportunism in the export market refers to the degree to which local distributors violate both formal and relational contracts.

In our research we explore transnational inter-firm networks between German exporters and their network partners in the US and Mexico. This enables us to allow for the embeddedness of the actors. In these networks we find a variation not only in the number of actors but also in their functions. A German exporter can supply his clients directly, he can use agents or distributors (foreign channel intermediaries) or he can use mixed modes (e.g. co-operate with a distributor but supply big customers directly from the headquarters). As we have seen above, different forms of opportunism occur in different relational settings. Therefore we have to differentiate between exporter-client dyads, exporter-distributor dyads and distributor-client dyads. It should be clear that within such a dyad, say within an exporter-distributor dyad, the forms of opportunism vary depending on whether the exporter is the opportunistic actor and the distributor is the damaged party or vice versa.

Theory based dichotomous categorisations

Williamson (1985, p. 47) proposes a differentiation into active and passive forms of opportunistic behaviour. This differentiation is further specified by Wathne and Heide (2000, p. 38): "As the terms imply, opportunism may occur when a party either engages in or refrains from particular actions". Another categorisation that goes back to Williamson makes a distinction between *ex ante* and *ex post* forms. The *ex ante* form describes the uncertainty before a relationship is established and is also referred to as the adverse selection problem (Akerlof, 1970). The *ex post* form describes opportunism within an already established relationship.

Wathne and Heide (2000, p. 38) also distinguish between blatant opportunism, when explicit contracts are breached and lawful opportunism that violates only implicit contracts or norms. Das (2004) points out a dimension that he calls the opportunism horizon. Within that dimension he differentiates between short-span opportunism and long-span opportunism. The effects of short-term opportunism "can be realized by the affected focal firm soon after the opportunist's guileful action" (p. 750) whereas long-span opportunism "takes some time to unfold" (p. 753). The same author also describes a dimension that he calls risk level and includes two categories that separate forms of opportunism with low relational risk from those with high relational risk. The former is associated with low costs whereas the latter is associated with fundamental costs for the damaged party.

These five dichotomies (active/passive, *ex ante*/*ex post*, blatant/lawful, long-span/short-span, high risk/low risk) allow us to further specify the concept and can help to detect links between certain forms of opportunism and its outcomes, or the efficiency of applied countermeasures. One dichotomy by itself does not offer an exhaustive classification of all the varieties of the opportunism phenomenon. When applied in combination, however, the complexity of the opportunism construct becomes apparent. In the next two sections we discuss two proposals for more detailed classification systems that are both based on qualitative research.

Empirically founded classifications

Karunaratna and Johnson (1999)

Karunaratna and Johnson (1999) content analysed documents from five agency/distributor agreements between Australian exporters and their foreign agents. Additionally they conducted telephone interviews of approximately 20 minutes with 14 Australian export firms and one from New Zealand. Their result is the classification framework of opportunistic behaviour shown in table 2.

Karunaratna and Johnson present a classification scheme with five different types of opportunistic behaviour (in the first column). We have listed the five categories with descriptions of the opportunistic behaviour and examples from their data. Although the classification is intuitive at first sight, we would like to consider whether the five categories are mutually exclusive. We also think that the aspect of information asymmetry is worth discussing in more detail. Finally we would like to reveal the embeddedness of opportunistic behaviour in a set of relations that goes beyond the dyadic view.

The authors develop their five categories according to several aspects of the exporter-distributor relationship. It is, however, difficult to distinguish between these aspects as they are highly interrelated and not mutually exclusive which compromises the discriminative power of the classification. This is because one basic rule for classification was not taken into consideration: "[T]he logical rule to ensure mutually exclusive classes is that only one characteristic may be used at each stage of division. [...] If this rule is not observed, if all characteristics are applied in one act of division, we simply produce one sequence of classes [...]. [...] This failure to establish mutually exclusive classes is known as cross-classification and completely undermines the working of a scheme." (Langridge, 1992, p.15)

For instance the price of a product is not only strongly related to the product itself but also to the logistics. In addition, legal circumstances and (legal) contracts affect all of the other four categories because they are the institutions that make economic transactions possible. In the description of the logistical opportunism category, the authors themselves state that an exporter incurs dispute costs (legal opportunism) when a distributor exaggerates supply capabilities.

Table 2: Classification framework of opportunistic behaviour
(Karunaratna and Johnson, 1999, p. 4-5)

<i>Type and description</i>	<i>Example</i>
1. <i>Product related opportunistic</i> behaviour relates to how the FCI [=foreign channel intermediary] represents the exporter's product specifications, performance and brand.	[A] distributor also carried a competing product for another manufacturer. At the time of signing the contract, the exporter was not made aware of this potential conflict of interests.
2. <i>Price related opportunism</i> concerns price manipulations undertaken without the consent of the exporter that may result in loss of <i>market</i> share or negatively influence product and brand image.	For example, pricing provisions within a contract may point to delays in payment beyond the stipulated credit period (e.g., 30 days) where the FCI may see an exchange rate advantage for itself but which may adversely affect the exporter.
3. <i>Information related opportunism</i> occurs when the FCI withholds critical market intelligence or divulges information to a competitor. In both cases, a loss of competitive advantage and competitive position may result [...].	[...] an Australian audio electronics exporter who reported that they were unable to determine the agent's true technical capabilities before signing the agency agreement and found that such matters were constantly referred back to the exporter.
4. <i>Logistical opportunism</i> is where the FCI exaggerates supply capabilities to obtain a customer order or deliberately infringes on the territory of another intermediary. The exporter suffers through loss of image and reputation in the former and incurs dispute costs in the latter, and suffers ill-will from both parties where the FCI withholds such information. Logistical opportunism is experienced by claims of exaggerated losses during transport and warehousing.	A chemicals manufacturer reported that their FCI's occasionally claim product spoilage to cover losses due to competition.
5. <i>Legal opportunism</i> may occur where the FCI incurs legal obligations on behalf of the exporter that the exporter is unable or unwilling to fulfil.	None of the exporters reported opportunistic behaviour that could be classified into this category.

However, the most obvious blur in the present classification concerns the information category. In three of the other categories the authors actually state cases of information related opportunism: "the exporter was not made aware" in the first category, "without the consent of the exporter" in the second and "the FCI withholds such information" in the fourth. This is because

most types of opportunistic behaviour have to be concealed in front of the damaged party in order to bestow the opportunist the desired advantage (see also Das, 2004, p. 754). It is therefore apparent that a classification scheme for opportunism should avoid cross-classification.

Another aspect we want to emphasise is the fact that opportunistic behaviour is often embedded in more complex relational settings than just dyads between the focal opportunist and the focal damaged party. In all of Karunaratna's and Johnson's examples there are at least three parties involved. In the first example there is a *second exporter* involved, in the second example the pricing problem refers to an involved *client* (the one that pays the manipulated price). In the description for information related opportunism the authors name a *competitor* that gets information from the distributor he should not get whereas in the description for logistical opportunism a distributor infringes on the territory of *another intermediary*. Finally, in the description of legal opportunism the distributor incurs a legal obligation on behalf of the exporter who is then indebted to a *third party*. Not only is opportunism a relational phenomenon, it has to be viewed as embedded in a set of relations.

Obadia and Vida (2006)

Obadia and Vida (2006) analysed 10 firm assessment reports by a consultant that specialized in assisting firms in their global expansion. The authors collected additional information from 13 people involved in the cases. Altogether Obadia and Vida found 57 cases of opportunistic behaviour that they classified in their hierarchical classification scheme presented in table 3. The superior dimension is dichotomous and differentiates between an active and passive "form" of opportunism (this refers back to Williamson, 1985, see also Wathne and Heide, 2000). The middle dimension consists of four "types". One of the types, "shirking", is assigned to the passive form whereas the remaining three categories subdivide the active form. In the third dimension the four "types" are subdivided into 12 "categories".

We call Obadia's and Vida's classification scheme hierarchical because the authors put their dimension into an order of "form", "type" and "category". The classes of a subordinate dimension are exclusive subclasses of one of the classes of the superior dimension. The category "legal pledges unreported", for example, is exclusively a subclass of the type "intangible assets: legal". With the present classification scheme it cannot be understood as a subclass of the type "intangible assets: information". The Type "intangible assets: legal" in turn is exclusively a subclass of the form "active". It cannot be interpreted as a subclass of the form "passive".

Even though the two classifications treat opportunism in different relational settings, there are obvious parallels between Karunaratna and Johnson's types and Obadia and Vida's types. In both, table 2 and table 3 one type addresses information and one addresses legal aspects. We find it promising that Obadia and Vida try to develop their "types" according to different forms of assets that are affected by opportunism. As cited already, "the logical rule to ensure mutually exclusive classes is that only one characteristic may be used at each stage of division." (Langridge, 1992, p.15). Unfortunately, the consistency of that dimension is undermined when the authors try to integrate the phenomenon of shirking.

Again we would like to point out two other issues that we judge important in order to specify the opportunism construct. As in Karunaratna's and Johnson's classification, we see a blur regarding the information aspect. Obadia and Vida assign the concealing of opportunistic behaviour contained in the category "Nepotism" to the information type. At the same time the authors label one of their categories from the legal type "legal pledges unreported", which would also qualify it for the information type, because again information on opportunistic behaviour is concealed.

Table 3: Endogenous Opportunism in SMEs' Foreign Subsidiaries (Obadia and Vida, 2006)

<i>Form</i>	<i>Type</i>	<i>Category</i>
Active	Tangible assets	Stealing: cash
		Stealing: inventory
		Stealing: equipment (e.g., cars, business machines)
		Inappropriate spending (e.g., management private travelling, private expenses)
		Facilities used for management's private business
Intangible assets: information		Bidding information sold to competition
		Firm's secrets made available to third parties (design and manufacturing)
		Nepotism (employees and service firms found to be related to top management) ^a
Intangible assets: legal		Legal pledges unreported
		Brand names registered to third parties
		Sales permits (regulatory) registered to third parties
Passive	Shirking	Management absent and/or mostly dedicated to third-party businesses

^a "We classified this category [...] as belonging to the "intangible assets: information" category because it involved efforts to control information by the opportunistic party." (p. 69)

We want to emphasise again the embeddedness of the described cases of opportunism. In six of the twelve categories a third party is explicitly named ("competition", "third party" and "employees and service firms"). In the legal

pledges category we find clear reference to someone that enforces his claims against the damaged party. Bearing the discussion of the two proposed classifications in mind we will present a new classification that we will demonstrate using three examples from our empirical data.

Proposal for a new classification

Prerequisites

In the classification we propose here, we want to allow for two properties of the opportunism phenomenon that we believe were not sufficiently taken into account in the classifications presented above. Firstly, opportunism is a multidimensional phenomenon that can be classified by a large number of dimensions. However, we believe it to be unlikely that all these dimensions can easily be organised in a hierarchical classification scheme. Secondly, there might always be cases that are difficult to assign unequivocally to only one specific type, independent of the dimension(s) used for classification. Yet, we believe that a more careful analysis of the aspect of information asymmetry facilitates a non-ambiguous classification. Our third point is not necessarily related to opportunism, it rather concerns classification in general. In order to augment the discriminative power of our classification through mutually exclusive classes we will use only one characteristic at each stage of division.

Multidimensionality

As we have shown in section 2.2. scholars have already proposed various dichotomous categorisations of opportunism (Williamson, 1985, Wathne and Heide, 2000, Das, 2004). This points out the multidimensionality of the construct. Depending on the objective, a classification scheme usually combines several dimensions. All of the theoretically deduced dichotomies – active/passive, *ex ante/ex post*, blatant/lawful, long-span/short-span, high risk/low risk – can be used as one of the dimensions of a classification scheme. However, it is an illusion to collocate all these categorisations in just one hierarchical classification scheme. Das (2004, p. 751) presents the dimensions opportunism horizon (short-span/long-span) and risk level (high risk/low risk) in a 2 x 2 matrix. This implies that all combinations of classes are possible. Opportunism can be short-span and low risk, short-span and high risk, long-span and low risk, long-span and high risk. A hierarchical classification scheme would not allow this.

We propose a classification scheme with seven dimensions and do not impose a hierarchy that subordinates one of the dimensions to another. In this way, our scheme is open for any combination of the dimensions' classes. However we assume that some combinations occur in a higher frequency than others and some combinations are unlikely to occur at all.

Inclusion of information asymmetry

The most obvious blur in the classifications discussed above is due to the problem of information asymmetry. This is related to the necessity to conceal opportunistic behaviour in order to provide the opportunist with the expected advantage. We argued that several of the authors' examples could also have been coded as cases of information-related opportunism in addition to or

instead of the category that was chosen by the authors. However, we have to admit that in the cases we criticised, the aspect that led the authors to their decision in favour of a category other than information-related opportunism may be more salient than the aspect of concealing information. Yet, to achieve unambiguous classification the allocation has to be unambiguous.

We see two possible solutions to this problem. The first solution would be to interpret these examples as two incidents of opportunistic behaviour within one relationship. One case of information-related opportunism and one other case. This would liberate us from the dilemma of an unambiguous attribution but would also ignore the relatedness between one first-order opportunistic behaviour and one second-order information-related opportunistic behaviour. The second-order opportunistic behaviour seeks to conceal the first-order behaviour and leads to information asymmetry.

The second solution – the one that we prefer – construes the concealing of an opportunistic behaviour only as one aspect of the concealed first-order opportunistic behaviour. The concealing would then be a second-order opportunistic behaviour. In this way, the relatedness between a first-order opportunistic behaviour and a second-order opportunistic behaviour that seeks to conceal the first-order behaviour is respected. The only problem with this solution is that in some cases the concealing of opportunistic behaviour becomes a major issue in itself. However, it would then still be treated as just one aspect of another first-order opportunistic behaviour even though this first-order opportunism may be less important. One example is the nepotism case in Obadia's and Vida's classification. The authors interpret nepotism as a means to control information (2006, p. 68). By employing family members the opportunistic party tried to conceal another first-order opportunistic behaviour. But that behaviour was not even worth reporting in the article and was perhaps not even reported to the researchers or specified in the documents they analysed. Through the enormous efforts to conceal one or several opportunistic behaviours, the original behaviours themselves became less significant. However, we think that no matter how significant the concealing behaviour might be, it still remains part of a first-order opportunistic behaviour and should therefore be coded as such.

Note that the starting point of the concealing behaviour can be before, at the time of or after the first-order opportunistic behaviour. Many forms of first-order opportunistic behaviour have to be concealed before they even start. One example is the distributor that also distributes a competing product for another manufacturer without telling the new exporter (see table 2). In this case the first-order opportunistic behaviour is the neglect of the new exporter's products while the second-order opportunistic behaviour is manifested through the "not telling" that precedes the neglect. Other activities like the price manipulation example (also table 2) are concealed at the time of the first-order opportunistic behaviour. Sometimes first-order opportunistic behaviour is also concealed afterwards. For example the refusal to pay can be prolonged when this behaviour is later concealed through excuses (for the dynamic of the opportunism phenomenon see also Das, 2004, Wathne and Heide, 2000).

One last thing that has to be said at this point is that not all information-related opportunism is aimed at concealing other opportunistic behaviour. There is also information-related first-order opportunism. And this information-related opportunism, such as selling technical know-how to a competitor of the

business partner, is not even necessarily related to concealing or information asymmetry. In our data there is one example where a customer makes a major effort to copy the recipe of a special liquid to clean a machine that was at the time of the interview with the customer still exclusively offered by the manufacturer of that machine. Because the customer is very important for the manufacturer he does not even think of hiding the fact that he is actually stealing technical know-how.

Mutually exclusive classes

Our third critique of the two classifications that we have presented, was their insufficient discriminative power due to the fact that several characteristics were used at one stage of division. In the classification literature this problem is known as cross-classification (see Langridge, 1992, p. 15). For example we doubt that "legal opportunism" and "logistical opportunism" should be two categories of one and the same dimension. It is not difficult to imagine that an exporter is confronted with legal pledges that stem from the distributor's opportunistic behaviour in logistical issues. In order to avoid such a dilemma in table 4 we will now try to develop a multidimensional classification scheme with several dimensions that are more restricted than the ones discussed in section 2.3. but therefore have a higher discriminative power. The combination of these dimensions allows us to capture opportunistic behaviour in its complexity. We believe this to be an important step on the way to a more adequate classification of opportunistic behaviour.

Dimensions

Starting with the opportunist, his behaviour always results in a maximization of his own benefit. Our first dimension describes the way he achieves this benefit, either because he obtains something that is valuable for him, because he can keep something that he already has, or because he refuses to do something that otherwise would have resulted in costs. Note that there are obvious parallels between this dimension and Wathne and Heide's (2000) active/passive dichotomy. Our second dimension is logically the object the opportunist obtains or keeps or the effort that he does not expend. The third dimension also relates to the opportunist. Here, we analyse whether the opportunist breaches an explicit or an implicit contract. With this dimension we implement the blatant/lawful dichotomy of Wathne and Heide (2000, p. 38). Note that it is difficult to tell from the outside whether or not a breach of contract happens within a relationship. To do so one would have to know the details of an explicit contract or know the norms and implicit contracts between the two parties. Even the involved actors themselves may lack a clear idea of the implicit contracts.

Continuing with the victim, for him the effect of opportunism is always a loss. Be it a loss of valuables that he possessed, the rise of additional costs or a benefit that is prevented by the opportunist. It is important to realise that, although they can coincide, the object a damaged party loses is not necessarily the object obtained by the opportunist. For example, when a foreign subsidiary behaves opportunistically and sells brand names to a third party (table 3) it obtains money from the third party to whom the brand name was sold. However the damaged party loses its rights for the brand names. That is why we separate one dimension for the object the opportunist obtains

or keeps, from another dimension that describes the object(s) the damaged party loses.

The dimension that follows is dedicated to the information asymmetry that we believe occurs in most cases but not in all. Here, we want to allow for the dynamic aspect of opportunistic behaviour and therefore analyse the concealing in its temporal relation to the first-order opportunistic behaviour that it tries to conceal (*Table 4: Proposal for a new classification*)

Finally we want to introduce a dimension that analyses whether third parties are involved in the opportunistic action or not. As far as we know, embeddedness has been an issue in the opportunism literature, however only as an intervening variable for opportunistic behaviour (Provan, 1993, Batenburg, Raub and Snijders, 2003). Provan (1993, p. 844) states: "Although the actual exercise of opportunism can be viewed appropriately as dyadic, as when a supplier behaves opportunistically toward a buyer, the likelihood that the behavior will emerge at all within a network context and the extent to which it is used cannot be understood by adopting a dyadic view." We strongly agree with the second part of this statement. The embeddedness of an actor can certainly have crucial effects on the occurrence of opportunism. However we doubt that the actual exercise of opportunism can be viewed appropriately as dyadic. As we have seen in our discussion of the examples from the literature (Karunaratna and Johnson, 1999, Obadia and Vida, 2006) only very few cases do not include a third party. In our proposal for a new classification we therefore introduce the existence of a third party as a dimension of opportunistic behaviour.

self-interest seeking of opportunist	object (benefit for opportunist)	breach of contract	damaged party's disadvantage	objects lost/ not obtained/ that lose value	behaviour that leads to information asymmetry (IA)	third party
obtain	money (cash, payment)	explicit contract	lose	money (cash, payment)	conceal beforehand	dyadic (no third party)
keep/not give/refuse	goods (also value/quality of goods)	implicit contract/norm	not obtain	goods (also value/quality)	conceal at the time	third party unknown
other		other	other			
unclear	work, manpower, service, support	unclear	unclear	work/manpower, service, support	conceal afterwards	third party exporter/manufacturer
	know-how/information			information, intellectual property	false pretences beforehand	third party client
	other			product image	false pretences at the time	third party agent/distributor
	unclear			rights (e.g., for brand names)	false pretences afterwards	other
				reputation		unclear
				relationship with third party	no IA	
				business opportunity	other	
				other	unclear	
				unclear		

Table 4: Proposal for a new classification

The classification in use

Outline of the design and methods of our project

In our project we investigate opportunism in trans-national inter-firm networks of SMEs from the machine industry. Transactions in this industry are characterized by a high level of technical knowledge that in turn is related to asset-specificity and the danger of knowledge spill-over – two variables that are believed to interfere with opportunism (Das, 2004, p. 750). We concentrate on transnational inter-firm constellations where companies do not have a branch in the country of the partners they deal with. This results in the boundaries between the companies being the same as the boundaries between the countries. We are especially interested in links between independent variables like network-structure or country of origin and different facets of opportunistic behaviour.

Our study is twofold. The first part consists of a three country study for which we use qualitative research methodology. In this part we investigate opportunism by personally interviewing entrepreneurs or managers of SMEs in Germany, the United States and Mexico. In the second part of our study – which is still underway – we survey a larger random sample of entrepreneurs/ managers of German SMEs with business relations with the United States or Mexico using standardised telephone interviews.

In the qualitative part, we worked with a theoretical sample using different available business databases in the three countries containing information on international contacts. We interviewed companies that we believe are representative of the different types of actors relevant in the network constellations of interest. While the number of interviews conducted within one subgroup is small (5 cases in each), the sum of interviews that together form the first part of our study is considerable (greater than 50). Using a semi-structured interview guide we asked the interviewees about their contact with companies abroad and problems in the relations with their counterparts. When the interviewer recognised cases of opportunism more detailed questions were asked. As recommended by qualitative methodologists, the interviews were conducted by the researcher. In a first telephone contact, we arranged an appointment for a personal interview with a duration of one hour. The interviews took place at the company site in the language of the interviewee. The audio recordings of the interviews were transcribed and analysed using computer assisted qualitative data analysis (caqdas).

From the qualitative data it is already apparent that opportunism is a widespread phenomenon in inter-firm networks between Germany and the United States and between Germany and Mexico. There are forms of opportunistic behaviour that are typical for certain constellations and country settings. The countermeasures against opportunism differ in relation to specific manifestations of the phenomenon and vary in their success.

Coding examples from our data

To check the functionality of our classification scheme we will now code three examples from our data (Table 5). We will choose the first incident of opportunism that was reported in detail during the first interview in each of the

three countries. The first example was reported by a sales-manager of a German exporter. In order to beat down the price of a machine a Mexican client claimed to have a competitive offer from another manufacturer, which was later proven not to exist.

In the second example a US-American manufacturer describes how his German supplier neglects his business by always supplying products too late and of inferior quality. The interview partner accredits this behaviour to the fact that the German supplier is the market leader in his main line of production whereas his own company works in a niche business. The product the interviewee buys from the supplier is expensive to make and has high margins. The German supplier is also aware that nobody else is capable of producing a product that performs like his own.¹

The third example was reported from a Mexican intermediary that sells and offers service for German machines to clients in Mexico. Even though the Mexican distributor had the contractual right to obtain commission of five percent, the German manufacturer would only give him three percent because of a price concession to the end customer. Although the Mexican intermediary was present during price negotiations, the German manufacturer beat down the price afterwards and did not tell the intermediary during negotiations with the end customer (*Table 5: Coding examples*)

¹ An anonymous reviewer argued that this example is not a case of opportunistic behaviour but of monopoly power. However, in my opinion this is not a contradiction. Monopoly is a perfect basis for the monopolist to act opportunistically. As Rooks et al. (2000, p. 128) put it: "Fewer and less attractive exit options of the buyer provide a supplier with more incentives to behave opportunistically, for example, by somewhat reducing the quality of delivered goods."

Table 5: Coding examples

example	self-interest seeking of opportunist	object (benefit for opportunist)	breach of contract	damaged party's disadvantage	objects lost/ not obtained/ that lose value	behaviour that leads to information asymmetry (IA)	third party
1	keep/not give/ refuse	money (cash, payment)	implicit contract/ norm	not obtain	money (cash, payment)	false pretences beforehand	third party exporter/ manufacturer
2	keep/not give/ refuse	goods (also value/quality of goods)	unclear	not obtain	goods (also value of goods, quality)	no IA	dyadic (no third party)
3	keep/not give/ refuse	money (cash, payment)	explicit contract	not obtain	money (cash, payment)	conceal beforehand	third party client

Discussion

In all of our three examples the opportunist refuses to give something to the damaged party which the damaged party then does not obtain. In this way, the object kept by the opportunist is identical to the object the damaged party loses. Please note that it can be difficult to decide whether an object has to be coded as money or as one of the other classes (goods, work, information etc.), as all of the objects usually either cost money or can be exchanged for money. It can be assumed that the American manufacturer that does not get delivery on time or an adequate product quality from the German supplier also loses money because he might lose customers, or has to make a bigger effort in service due to quality constraints of the materials he is using. Therefore, the money category should only be used when it is actually money in the form of cash, commission, payment or fine that one of the parties obtains, keeps, loses or does not obtain.

Only in our third example did the interviewee report the breach of an explicit contract. If in the first example a contract did already exist between the German manufacturer and the Mexican customer, we believe it very unlikely that it included a statement that the customer should not beat down the price with false pretences. However, not making up false competitive offers in price negotiations is certainly an accepted norm in international business. This is why we code this example as a breach of an implicit contract. Note that implicit contracts and norms can vary between cultures and nations, which can lead to fatal misunderstandings in transnational business relationships. In our second example we do not know whether a formal contract on quality and/or delivery time does exist.

Information asymmetry occurs in two of our examples. In the first example the Mexican customer actively makes up false competitive offers, in our third example the German exporter keeps his plans secret to beat down the distributor's commission after price negotiations with the end customer. Note that all of our three examples were coded as refusal in the first dimension which points to rather passive forms of opportunism. However, the false pretences from the Mexican customer are not only a breach of an implicit contract but also rather active than passive behaviour. We believe that in order to decide between active and passive opportunism one has to allow for both the first-order behaviour (self-interest seeking) and the second-order opportunistic behaviour that leads to information asymmetry.

We coded the second of our examples as dyadic because there is no directly involved third party. Of course, clients of the American manufacturer can also be affected because their supply can be delayed as well. However, this is not part of the opportunistic behaviour. In contrast, in the first example a false competitor is necessary to render the Mexican customer's trick possible. Note that opportunistic behaviour as in our first example can be successfully reduced through contact between the German exporter and other actors in the market which leads to an improved knowledge of the market. In the third example the Mexican intermediary lost his advantageous position as a broker between the German manufacturer and the end customer in Mexico (see Granovetter, 1973). He became the victim of the opportunistic action. Here,

opportunistic behaviour is also strongly connected to a third party as it is triggered by a price reduction for the customer.

Conclusion

We have shown that in the field of international business opportunism can occur in various constellations of actors. We call these constellations relational settings. Scholars like Williamson (1985), Wathne and Heide (2000) and Das (2004) specified the opportunism construct using five dichotomies: active/passive, *ex ante/ex post*, blatant/lawful, long-span/short-span, high risk/low risk. These dichotomies are deduced from theory. In contrast, two publications (Karunaratna and Johnson, 1999, Obadia and Vida, 2006) that we have discussed in detail developed more elaborate classification schemes of opportunistic behaviour based on qualitative data.

To develop a classification scheme with a higher discriminative power – a crucial quality criterion in classification – we suggest three prerequisites. Firstly, classification has to allow for the multidimensionality of opportunistic behaviour. However, it is not useful to impose a hierarchy that puts the dimensions into an order in which one class of a subordinate dimension is exclusively a subclass of one class of a superior dimension. Secondly, we treat information asymmetry as one aspect of a first-order opportunistic behaviour. Thirdly, in order to obtain mutually exclusive classes, we use only one characteristic at each stage of division. Working from this basis we then propose a new classification scheme with seven dimensions.

In order to test the functionality of our classification scheme we coded three cases from our own empirical data and discussed the coding decisions. We do not claim that our categories are perfectly mutually exclusive or exhaustive. To better fulfil these demands our scheme would have to be tested with more empirical data and be developed further. Then inter coder reliability tests would have to be conducted.

Classification of opportunistic behaviour is important for both, scholars and practitioners. Scholars that investigate links between opportunism and its antecedents or countermeasures have to be aware of the various facets of the phenomenon they are analysing. Only with an accurate classification scheme can scholars deduce the managerial implications and advice practitioners on how best to deal with different forms of opportunism.

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Creating Transnational Networks in Multinational Organisations by Transferring Inpatriates from the Subsidiary to the Headquarters: Expectations and Reality

Gabriele Scheuring, Ludwig-Maximilians Universität München¹

Zusammenfassung

Auslandseinsätze von Mitarbeitern global agierender Unternehmen gewinnen zunehmend an Bedeutung. Als wichtiger Beitrag zum Aufbau von Netzwerken zwischen multinationalen Unternehmen und ihren ausländischen Tochtergesellschaften wurden bislang zumeist Mitarbeiter des Stammhauses in die Auslandsgesellschaften entsandt: Expatriates. Mittlerweile treten mehr und mehr Mitarbeiter die Gegenrichtung an - von der Peripherie in das Stammhaus. Bislang wurde dieser Gruppe der Auslandsentsandten, so genannte Inpatriates, in der Forschung erst wenig Beachtung geschenkt.

Die wichtigsten mit dieser Entsendungspraxis verbundenen Ziele liegen darin, das Wissen der Inpatriates bestmöglich einzusetzen und ihre Rolle als Mediatoren, Bindeglieder und change agents zu nutzen - nicht nur während ihres Auslandseinsatzes, sondern auch nach der Rückkehr in die Tochtergesellschaft in ihrem Heimatland. Ziel der hier vorliegenden Studie ist es, anhand von empirischen Daten die erfüllten und unerfüllten Erwartungen, die sowohl von Unternehmensseite, als auch von Mitarbeiterseite an den Auslandseinsatz gestellt werden, zu analysieren. Befragt wurden dafür US-amerikanische und japanische Inpatriates in deutschen Unternehmen.

Abstract

International assignments of employees are becoming more and more important. As a fundamental contribution to building networks between companies and their foreign subsidiaries, Multinational Companies used to transfer their employees from the corporate headquarters to the subsidiaries. Today the more common practice is in the opposite transferring direction, from the periphery to the headquarters. Little research focuses on this group of people: inpatriates. One of the major goals for this international transfer practice is to use the inpatriates' knowledge and their potential as mediators, linking pins and change agents - not only during their assignment abroad, but also after their return to the subsidiaries in their home country. This study is designed to contribute empirical data to this research gap concerning the fulfilled and unfulfilled expectations and focuses on US-American and Japanese inpatriates in German companies.

¹ Corresponding author: Tel. + 49 - 89 - 2180 - 9611 e-mail: scheuring@lmu.de

1. Introduction

Existing research in the field of globalization predicted a changing world, confronting mankind with new challenges (Naisbitt 1995, Kotter 1997). In order to act and react successfully in the global age, humanity has to keep up the cross-cultural dialogue with culturally diverse people (Annan 2001). Intercultural competence is especially important in Multinational Companies trying to succeed in a trans-culturally "cross-linked" environment. Particularly those companies whose organisational behaviour is based on the "new management mentality" (Ghoshal & Bartlett 1998) and whose employees have a "global mindset" (Jeannet 2000) and "global literacy" (Rosen 2000) can be the winner in a global competition.

Due to the continuing internationalisation of worldwide markets in the last decades there is an increasing need for transferring employees. The meaning of international assignments within multinational companies is continually increasing (Adler 2007). The "classic" direction of transfer of expatriates, from the headquarters to the subsidiary, is replaced respectively completed by inpatriates who take the opposite transfer direction: managers and skilled employees of foreign subsidiaries who are moved to the headquarters for several months or years (Harvey & Novicevic, 2000, Reiche 2006).

Concentrating on the basic meaning of the human being in the process of internationalisation of Multinational Companies (Sennett 1998), the focus of this paper is on inpatriates and their expectations towards their assignment abroad: meeting the corporate organisations' demand. From a corporate perspective this study presents the expectations towards an inpatriation assignment and what reality reveals about the experiences.

2. Theoretical framework

Existing research has mainly focused on the group of expatriates (Tung 1988, Kühlmann 1995, Selmer 2001, Harzing 2001, Stahl & Björkman 2006) due to a centralistic world view within the headquarters and the hardly practised transfer direction towards the headquarter. In the last decades more and more importance has been ascribed to this group of persons, the inpatriates (Harvey, Novicevic, & Speier 2000, Reiche 2007).

In previous research there is a tendency to regard expatriates and inpatriates as one homogenous group of people, the term expatriate was used for any employee working for his/her company abroad for a certain period of time (Kammel & Teichelmann 1994, Rosenstiel, Regnet, & Domsch 1995, Bergemann & Sourisseaux 2003). It would be fatal to treat these two similar, but by far not identical groups of people as one.

Generally spoken, the original need behind international transfers was the need for specific skills that local labour markets did not supply, complemented by control reasons: sending expatriates abroad meant coordination and control in order to keep up a consistent management within the organisation (Murray & Murray 1986).

Additionally, the need to find career opportunities for a new generation of bright and ambitious managers, no longer content to remain in their jobs until their bosses moved on or retired.

The fact that expatriates are often seen as headquarters representatives grants them in some terms more respect but at the same time more mistrust and suspicion by the subsidiaries employees, because they might feel scrutinized. Their power and responsibilities abroad are to a certain extent higher than in the headquarters, having a greater budget authority and personnel responsibilities.

Exactly the opposite is the case for inpatriates: they complain about lacking competences. This unknown and unaccustomed retrenchment makes some inpatriates feel like second class headquarters co-workers.

In order to act as a marquee figure in the transnational networks they have to deal with manifold risk situations: first, facing another culture in the headquarters: not only corporate culture, but also a new national culture of a foreign country (Moosmüller 1998, Torbiörn 1982, Thomas 1996). Second, they are required to realise a smooth reintegration after their return.

By demonstrating some differences between inpatriates compared to expatriates a separate examination is necessary, showing that existent research that neglected their special situation can not be applied to inpatriates.

3. Objective target

This research seeks to contribute to the specific role of inpatriates. Can they fulfil their role as linking pins between the subsidiary and headquarters? Is their potential perceived and adequately applied? What attempts does the organisation make - both in the host country, and the parent country - in order to realise an effective assignment of its employees and what kind of networks do the companies provide their inpatriates with? How can the inpatriates take advantage of their networks after their return to the subsidiary? What kind of support do the inpatriates get for the establishing of cross cultural networks? What kind of intercultural risks do they face? Could the cultural risks that the individual encounters become a serious economic risk for the company?

This research study aims not only to close this gap in existing research, but also provide multinational companies and their employees with applicable knowledge about a not yet profoundly researched, but strategically very important field of action. Based on the analysed data some recommendations will be prepared in order to support companies and their inpatriates to recognise and master the risks that could arise in the context of inpatriation.

This study is still in the data collecting process, the above mentioned aspect will be systematically answered after the study's completion. This working paper presents the starting point of the study: the expectations towards inpatriate assignments.

4. Inpatriates Assignments: Expectations, motives and reality

The expectations towards the inpatriates in the headquarters and after their return are manifold. Generally spoken inpatriate assignments should contribute to the realization of organisational goals. In the following study the main expectations towards an inpatriates' assignment, described from the corporate perspective, combined with some empirical findings are specified.

Knowledge transfer

The main motivation behind transferring employees from the subsidiaries to the headquarters is being competitive in the process of internationalisation through know how transfer in terms of technical and economic knowledge. Transferring inpatriates to the headquarter means transferring not only people but also knowledge (Ghoshal & Bartlett 1998). Inpatriates should act as knowledge senders and receivers and share their knowledge first with the local headquarters staff, and then, after their return, with the subsidiary staff by balancing the different levels of knowledge between home and host country corporation. Due to the process knowledge that returned inpatriates disseminate within the subsidiary, the colleagues are trained which aims to create a global mindset amongst the staff.

One of the most frequently cited "homework" for an inpatriate to do in the headquarters is to create an understanding of the local rules, for example customer needs in the inpatriates' home country. Knowing how to satisfy the customers' requirements can be a crucial benefit in today's world business (e.g. intense contact frequency, availability). This is already hard to implement when the inpatriate, who knows the local customers specifications in detail, is located in the headquarters. It is even harder once he has returned. Empirical data shows that there is a significant lack of understanding for the intercultural particularities and culturally specific topics that also apply to the customers.

Social capital through network building

The best way to diffuse knowledge is through a wide network which leads us to the next expectation towards inpatriation. Inpatriates should provide their social capital in the form of network activities in order to diffuse their contextual knowledge (Bourdieu 1987, Kostova & Roth 2003). Building transnational network ties (Granovetter 1973) is an essential tool for an effective headquarters-subsidiary communication (Schmid, Schurig, & Kutschker 2002). Empirical data shows that by using informal network ties communication could be intensified.

This motive also contains the expectation that due to inpatriation communication processes between the headquarters and subsidiary will be strengthened and lines of communication will be enhanced through a person-related coordination using networks.

Beside the chances that open up through strong network ties some risks might also arise as a result of unnoticed intercultural problems: Cross

cultural networks can reduce intercultural risks (Hofstede 1993, Hofstede 2001) or contribute to avoid them. But, also the opposite could happen:

Under certain circumstances these cross cultural networks could turn into a risk, for example because of unsolved or unnoticed intercultural problems and their counterproductive effects (Black, Mendenhall, & Oddou 1991). Empirical data showed that returned inpatriates could act as negative multipliers if they had difficulties during their stay in the headquarters. Especially if these problems were not detected by the headquarters representatives inpatriates might use their network in a negative way for example by discouraging colleagues who are asked to accept an assignment abroad. Some scenarios showed that inpatriates had the feeling that career-wise it was the worst decision they could have made.

Boundary spanners and linking pins

Building up an informal knowledge reservoir within the Multinational Company means at the same time that the inpatriates act as boundary spanners (Peterson 2003). They are supposed to represent the linking pin between the subunits and the headquarters. In addition to that role they are expected to use their potential as change agents and mediators - not only during their assignment abroad, but also after their return to the subsidiaries in their home country because it is assumed that there is one essential inherent advantage of inpatriates: due to their transnational networked skills they are accepted by both sides - the headquarters and the subsidiaries.

Looking at empirical data an ideal case proves that this potential is a crucial benefit: two corporate departments, one in the headquarters and the corresponding one in the subsidiary, who were meant to cooperate but had severe difficulties communicating (the reason might be an intercultural issue), could be helped by installing an inpatriate who has transnational informal networks on both sides and is accepted by both parties. In this concrete case, the inpatriate was a "model knowledge carrier" and a good example of a mediator who was familiar with intercultural issues and the corporate culture, moderating critical issues and solving intercultural misunderstandings.

Unfortunately, the principal idea of a change agent cannot always be realised. A clearly defined expectation towards inpatriation is that the corporate culture is implemented and that the inpatriate transfers the headquarters' way of thinking and mindset to the subsidiary. Apart from the general knowledge transfer returned inpatriates (especially when working for producing industries) should strengthen the confidence in the headquarters' national products and the trust in their quality. There is a risk that the inpatriates, once they are back in their former surrounding, can not keep up the headquarters' idea, a switch towards the previous technology asked by the former colleagues, results in "me too products" and does not fulfil the headquarters' idea of an innovative, competitive, and distinct solution. Nor does it implement a sustainable understanding for the headquarters' products and quality.

This example showed that inpatriates are in the stress field of satisfying the subsidiary's expectations, but also the headquarters' prospects.

Corporate Socialisation

With the overall goal to create a common corporate culture and common values as a minimum basis for an aligned performance the companies look for a harmonisation of a consistent planning strategy. Inpatriates sent out to soak up the corporate culture in the headquarters need special projects and clearly defined guidelines. Some real cases showed a too vague job description by indicating "learning the corporate culture in the headquarters", that means that this task can't be detached and must be combined with other issues, which helps avoiding the inpatriates' impression as if there was no plan for them.

Personnel Development

Finally, inpatriation is a step to a corporations' strategy to create a pool of high potentials by sending them to the headquarters. Most inpatriates are designated to be a future executive within the subsidiary, so the inpatriate assignment can be a stepping stone to a senior position in the corporate structure.

5. Contribution

Subsidiaries adhere to the above mentioned expectations, even if the inpatriates had other plans for their career. It is rarely possible that inpatriates can extend their assignment and switch over to the headquarters' payroll if they prefer continuing working abroad because of professional or personal reasons. The driving force making sure that the inpatriates return to the subsidiary is rather the subsidiary's order than the headquarters' refuse to employ them on a permanent basis. Giving an employee the chance to work abroad in the headquarters and building him up as a high potential means at the same time that the inpatriate has to work off a debt.

In order to avoid disappointment (on both sides) or that repatriates quit the company - a severe problem that occurs especially with expatriates and inpatriates - expectations should be clearly communicated. Empirical data showed that without a detailed job description and profound involvement of all concerned parties in the home and in the host country a failure is more likely.

Some experts in subsidiaries recommend that it has to hurt the company when the inpatriate is gone for some years, otherwise they would not guarantee to bring him back. There is always a fear of losing good people in case they quit. They even say only "heavy weights" should be chosen to be sent abroad, to reduce from the beginning the potential danger of missing acceptance amongst the headquarters colleagues. In case a manager has not yet the right level it might be helpful for all parties to promote him for the purpose of being equal with his counterparts in the headquarters, guaranteeing him a communication with equal weight.

"Not being able to order a single pen without two additional signatures" represents the lack of standing that many inpatriates feel in the headquarters.

In addition to that surprisingly little institutionalised knowledge transfer attempts do exist for returning inpatriates who want to share their knowledge. Even if repatriates carry specific knowledge inside, it exists only as implicit knowledge without the chance to explicit it. This source is often unintentionally ignored.

Respondents in the subsidiaries mentioned that the most important thing for a returning employee is that he finishes the inpatriate assignment with a sense of achievement, even if the original goal has to be modified. Without any feeling of success the restart in the subsidiary is significantly harder to manage plus the former colleagues have more difficulties to accept the inpatriate.

6. Methodology

For this project elements of the qualitative social research methodology are applied. This study's data and findings are based on direct researcher-to-respondent conversations in person, using a problem centred interview guide.

Dealing with sensitive data makes the qualitative approach necessary (Daniels & Cannice 2004, Marschan-Piekkari 2004). In some cases it took several meetings to build up a trustful relationship with the interview partners. The so gained data could have hardly been collected through quantitative questionnaires as the topics of the interviews were touching personal experiences, positive and negative ones, that some interview partners talked about for the first time, for example unfulfilled expectations, regrets of having accepted the assignment abroad or thinking of leaving the company.

Compared to the quantitative way of collecting data the advantage of personal interviews is that there could also implicit knowledge be revealed (Behling & Law 2000). In the previous interviews with US-Americans and Japanese in Germany this method was proved and tested.

The face-to-face interaction gives the interviewer a chance to learn more about the tacit knowledge of the interview partners when they used metaphors to answer the questions which can be a rich source of information.

In addition to that misunderstandings, linguistic unclear or seemingly illogic points can be studied further, making it easier to clear the ideas of both parties. That was particularly important because half of the interviews were conducted in a non-mother tongue language for both parties, interviewer and interviewee.

Finally, the interview guide of the first phase could be constantly completed by newly raised questions of the interview partners.

The Interview guide was pre-tested with representatives of the target group to eliminate ambiguous and incomprehensible questions.

The interviews took on average one hour. Most of the interviews were held in English, some in German - depending on the language skills of the interview partners - and some interviews with Japanese in-patriates with an interpreter if the interview partner asked for.

Concentrating on German companies whose headquarters are based in Germany, interviews had been conducted in German companies with subsidiaries in the US and / or Japan who are the two target countries that allow (at the end of the research project) a triadic culture comparison.

The focal group of this research are US-American and Japanese employees in German companies, working for the foreign subsidiaries in the US respectively in Japan, who are transferred to the headquarters in Germany, for at least six months, at most five years of time. In addition to these in-patriates so called experts are interviewed. Experts in this context are defined as people who are dealing with in-patriates and who are in charge of them or decide the companies strategy about in-patriation, like for example HR managers, project leaders, CEO's or presidents of the subsidiaries. They influence or decide about the in-patriation's policies and have a deep insight into the in-patriates' concerns.

The project includes field trips to Japan (Greater area of Tokyo and Yokohama) and to the US (Michigan). Only by contacting the in-patriates on site, after their return, it was possible to collect the relevant data. The target was not only to meet them while they were working in Germany, but also when they returned to see how they could fulfil the objectives.

The selected industry sector of German companies was the automotive and automotive supplier industry (in the US and in Japan) and pharmaceutical industries (in Japan). The sample of automotive companies had to be enlarged for Japan, because concentrating only on the field of automotive industries would have made the sample too small as there are not enough German automotive companies located in Japan transferring Japanese in-patriates to Germany. Only companies were chosen that had not only sales offices abroad but also production plants because they had sent enough employees to the headquarter.

The contact to the companies' representatives in Germany was established through the HR departments in Germany, the access to the companies in the US was realised through the German American Chamber of Commerce and the German Embassy in Tokyo supported contacting the companies in Japan.

The interview guide for the in-patriates while in Germany includes the following topics: demographic data of the in-patriate, motivation for accepting an assignment abroad (push or pull factors), expectations in general, specific expectations towards the career development, previous and newly built networks between the superior in the subsidiary and in the headquarter, who have a significant influence on the success of the assignment, contacts to the subsidiary back home during the assignment abroad, and eventually supporting programs for the in-patriates, for example mentoring programs, and finally intercultural issues.

After their return the interview guide is complemented by the following questions: the special situation after the return, the impact on the career, knowledge transfer (in both directions), use of the newly gained knowledge and the networks ties, how to keep up the contact with the headquarter after the return and the question how and if the inpatriates could act as linking pin between subsidiary and headquarter due to their networks.

The interviews with the experts were dealing with the expectations towards inpatriation, its benefit and value, repatriation measures, potential risks and how to avoid them, support through active network integration, knowledge transfer, critical incidents in the context of inpatriation, and recommendations for improvement.

7. Next Steps and Future Research

In a next step the interviews, that were all recorded and transcribed, will be analysed and evaluated, focusing on the above mentioned research questions and the cultural differences between Japanese and US-American inpatriates. The interviews will be analysed with MAX QDA, a computer based tool to evaluate qualitative data.

In the end this research project wants to add value to the understanding of the special situation of the inpatriates in order to guarantee a successful transfer strategy and also wants to provide companies, sending inpatriates from the subsidiaries to the headquarter, with detailed applicable information.

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The Role of Social Support and the Importance of Interpersonal Networks to Minimize Risks of Foreign Assignment

Erika Spieß / Christina Stroppa, Ludwig-Maximilians-Universität München

Zusammenfassung

Diese Studie zeigt die Rolle der sozialen Unterstützung und von Netzwerken für die Mitarbeiter bei Auslandsentsendungen großer und kleiner Unternehmen. Es wurde ein qualitativer und ein quantitativer Zugang gewählt: Qualitative Interviews mit Angehörigen aus mittelständischen Unternehmen zeigten zum einen den besonderen Bedarf an Unterstützung im Rahmen einer Auslandsentsendung und zum anderen die große Bedeutung eines gut funktionierenden und unterstützenden Netzwerkes, um die Risiken zu minimieren.

In der quantitativen Studie mit 143 Befragten aus großen und kleinen Unternehmen wurden die Unterschiede zwischen der Unternehmensgröße und den Phasen für die soziale Unterstützung und die Netzwerke untersucht. Es zeigte sich, dass die kritischen Phasen der Entsendung die Aufenthalts- und die Rückkehrphase darstellen. Sie zeichnen sich durch geringere Lebenszufriedenheit, höheren Jobstress und geringere wahrgenommene Unterstützung durch das Unternehmen aus. In Abhängigkeit von der Größe des Unternehmens wurde besonders bei den Mitarbeitern großer Unternehmen mehr Unterstützung wahrgenommen.

Abstract

This study presents the role of social support and of networks for staff of small companies and large corporations on foreign assignment. We used both, a qualitative and quantitative approach: qualitative interviews of staff of small and medium-sized companies revealed the special need of support within the scope of the assignment and the immense significance of a well-functioning, supportive network to minimize risks. A quantitative survey with 143 respondents from large corporations and small sized companies examined the relation between the size of the company and the phases for social support and networks. The outcome was that critical phases of foreign assignment were the sojourn and the return phase, marked by less life satisfaction, greater job stress and less perceived company support. Depending on the size of the company, especially employees of large corporations perceived more support.

1. Introduction

Due to the pressures of competition from the globalization of markets, professional experiences have gained in importance, and in fact have become a vital asset (e.g., Carpenter, Sanders, & Gregerson, 2001). In particular, multinational companies regard foreign assignment experience as a market advantage (Spreitzer, McCall, & Mahony, 1997). For employees, international professional experience in this context has become a prime prerequisite to becoming an executive (e.g., Daily, Certo, & Dalton, 2000).

This growing trend to send staff on foreign assignment is accompanied by the need to know what has to be done for the expatriates to adjust successfully. For the individual employee, working in a foreign country means major changes in various areas for which he / she has to be prepared and then supported during his / her foreign sojourn. If this does not occur, there is a risk that the employee may become stressed, may become unable to work effectively and, in the worst case, may have to end his / her sojourn prematurely.

For instance, Wang and Kanungo (2004) demonstrate that the role of interpersonal networks is often neglected and that it has a direct and a significant positive influence on the transferee's well-being. Caligiuri and Lazarova (2002) developed a model showing the relationship between social network, social support and adjustment. Caligiuri and Lazarova assume that social interaction and social support (e.g., by example family members, co-workers in the country of sojourn, transferees from home and other countries) can help mobilize psychological resources that can intensify recognition and confirmation, which on the other hand is able to substantially improve intercultural adjustment. Social support can act as a buffer against stress that usually occurs when the transferee tries to adjust to the new environment. Successful intercultural adjustment is closely related to network partners and social support.

The larger the cultural distance to the country of origin (Wang, 2003) the more difficult a foreign assignment may turn out to be. There is the danger that, due to the culture shock, the expatriate will not be able to do his/her job. The different phases of a foreign assignment (Kühlmann, 1995; Kühlmann, & Stahl, 2001) – preparation, sojourn, and return – harbor certain risks.

Due to time constraints, preparation is often inadequate or does not occur at all (Schmidt & Minssen, 2006). The risks for the assignment are country-specific as well as of a private nature: western expatriates to China experienced a "classical" culture shock (Selmer, 1999), transferees who were not interested in the country of assignment had difficulty to adapt (Selmer, 2001) and consequently to be effective for the company. The company's and home colleagues' lack of appreciation of the returnee (Kühlmann, 1995) were problems specific of the return phase.

2. Theoretical framework

In recent years, a number of research projects have focused on *social support* in various contexts (family, friends, work) (e.g., Stroebe, & Stroebe, 1998; Glazer, 2006). The concept of social support is founded in various research traditions which also deal with the interrelationship of social support and mental health.

From the standpoint of a resource concept, (Udris, 1989) social support is, on the one hand, an external *resource* ("receive support"); simultaneously it is an internal resource that an individual can develop, respectively forget, ("provide support") (Udris & Frese, 1999). There are different forms of social support (Dücker, 1995): material support (e.g., financial), support in the form of helping behavior (e.g., care in the case of illness), emotional support (e.g., affection, trust or, sympathy), feedback (e.g., social confirmation), informative support, orientation assistance (e.g., advice), positive social activities (e.g., fun and recreation) being part of a network.

Many studies (e.g., in the overview of Cohen & Wills, 1985) showed a positive relationship between social support at work and the well-being of those who receive the support. Frese and Semmer (1991) name further social support mechanisms: First, social support is a primary need, in which humans have a phylogenetic need to work in a social group. The lack of social support automatically leads to a diminution of well-being. And second, the positive feedback connected with social support directly affects self-confidence and thus other components of mental well-being. Social support and the formation of networks are, therefore, closely related: the network concept is considered broad and multidimensional (Inkpen, & Tsang, 2005) and consequently is suited as an "umbrella concept" for social support.

In the case of foreign assignment, different relationships within the interpersonal network of an expatriate are of interest: the relationship to the spouse, to friends and to co-workers, the two latter however matter in both the home country as well as in the country of sojourn. These networks may be considered an objective reality within which there are dyadic relationships of different strength.

Social support is an essential component of our daily lives and takes on a special significance in the context of assignment to a foreign country. Adelman (1988, p. 183) expresses it this way: "Our ability to cope with daily stressors, critical life transitions and environmental or cultural change is inextricably tied to the social ecology in which we are embedded." The entire social network and the accompanying social support of family, friends and co-workers are of eminent importance in eliminating the risk of failure of the foreign assignment.

To facilitate adjustment during the sojourn, some large corporations apply comprehensive mentor programs, which are embedded in personnel development (Noe, Greenberger, & Wang, 2002; Peters, Schmicker, & Weinert, 2004). Hechanova, Beehr and Christiansen's (2003) meta-analysis describes the antecedents and consequences of the adjustment of transferees on foreign assignment. Self-efficacy, i.e. a person's belief in his /

her ability to act, the frequency of interaction with people from the host country, improved interpersonal skills and family support proved to be the main predictors for successful adjustment to the overall environment.

The mentioned risks and the antecedents for successful adjustment have been primarily studied in large corporations (e.g., Mendenhall & Oddou, 1985; Ward, 1996). What the situation in small and medium-sized companies is like remains unclear. It may be assumed that the situation is especially difficult, because small companies do not have the corresponding resources at their disposal. In this context, interpersonal networks for small and medium-sized companies' transferees on foreign assignment are gaining in significance. However, their effect is often underestimated by the company.

3. Method

In approaching the problem, we conducted qualitative interviews of an explorative nature and a quantitative survey for the three phases – preparation, sojourn, and return (cohort design). Participants of the preparation and sojourn phase will be interviewed a second time to measure changes. Based on the combination of the results of the interviews and the comprehensive survey, we plan to develop a training for staff sent on foreign assignment.

Qualitative Approach

In order to investigate the problem of support and networking in foreign assignments, we first conducted guided interviews with the transferees of small and medium-sized companies from April to July 2006. We chose a qualitative approach, because it offered more flexibility and openness for the interviewees. Moreover, the results in this new field may be quite surprising. In accordance with network analyses (Jansen, 2003) the network of interest was selected from the perspective of the interviewee, i.e. an ego-centered network with the transferees as ego. Alteri are family, friends, locals, colleagues, and the company (pointed questions were asked about them) and other network actors as the transferee perceived them. The study was of an explorative nature. The results were used to conceive a comprehensive, quantitative survey. Guidelines were developed separately for the preparation phase as well as for the two phases sojourn and return as they address different problems. The guidelines for preparation were divided according to the following items:

preparation measures, questions on the network, personal significance, and the validity of the networks, support by the network for preparation, expectations, description of own and foreign culture of destination, potential particularities for the small and medium-sized companies as well as demographics.

The guidelines for the sojourn and for the return inquired about the support by the network during the sojourn and the return, to what extent the network participated, critical incidents (Flanagan, 1954) positive or negative, description of the own and foreign culture, whether there were things particular for the small and medium-sized companies and demographics.

These first guidelines were intensively discussed with experts from practice and research as well as with students. The guidelines were then developed further and subsequently tested in five test interviews (countries of assignment: China/Taiwan/Japan/South Africa/Indonesia) and then revised again. Various methods were applied to select the eleven participants: companies were approached via databases and internet forums as well as via department contacts and private initiative. The interviews were taped, transcribed, and subsequently written up without naming the respondents. The interviews underwent thorough qualitative analysis. The MAXqda program was used to encode the interviews (Schaaf, 2007). Evaluation was based on Mayring's (2002) qualitative respectively structuring content analysis.

Quantitative Method

In order to study certain aspects more closely and put them on a broader basis, we conducted a quantitative survey for small and medium-sized companies and large corporations. To differentiate between German small and medium-sized companies and large corporations in these studies, we agreed unanimously on the following qualitative defining characteristics of small and medium-sized companies: 1) the owner plays an active, decisive role in running the company, i.e. usually management and owner are the same person, 2) high degree of product, service or market specialization, 3) a legal entity and 4) management's self-concept ("We are a small/medium-sized company"). Three different versions of the questionnaire were developed for the preparation, sojourn and return phases, respectively.

Measures

Network Partners. We used Frese's (1989) 20-item scale to measure support of network partners. Frese's scale (1989) differentiates between support of superiors, co-workers, life-long companions and friends. Depending on the network partner, an overall value can be calculated. Cronbach's alpha for the scales was adequate to high. (For superiors $\alpha = .92$, for co-workers $\alpha = .80$, for companions $\alpha = .94$ and for friends $\alpha = .84$.)

Perceived Social Support. Perceived social support was measured with Ong and Ward's item-scale (2005), translated into the German and validated by Spiess (2007), differentiates between two social support factors: socio-emotional and instrumental support. This two-factor structure has empirically proven itself. Cronbach's alpha for the scales was high. (For socio-emotional support, Cronbach's alpha was .89, for instrumental support .91.)

Job satisfaction. Agho, Prise and Mueller's (1992) 6-item scale was used to measure job satisfaction. Cronbach's alpha for the scale was adequate ($\alpha = .82$). We controlled job satisfaction as we wanted to determine the relationship between the type of company, perceived social support and network partners independent of the degree of expatriate job satisfaction.

Commitment. The Organizational Commitment Questionnaire (OCQ) was developed by Porter and Smith (1970) to measure employee identification with their organization. Commitment is characterized by the following

aspects (Mowday, Steers & Porter, 1979; Mowday, Porter, & Steers, 1982): (a) a strong belief in the acceptance of organizational goals and values (identification), (b) willingness to put oneself out for the organization (willingness to make an effort) and (c) a strong need to remain in the organization (low fluctuation tendency). The significance of commitment exceeds the more passive loyalty to an organization, because an affective commitment is related to a more active and dedicated engagement for the organization. The German-language version of Port and Smith's questionnaire (1970) was validated by Maier and Woschée (2002) and OCQ's one-factor structure (8-item) was verified by confirmatory factor analyses. Cronbach's alpha for the scale was adequate ($\alpha = .88$).

Perceived organizational support. We used a scale developed by Eisenberger, Huntington, Hutchison and Sowa (1986) for perceived organizational support. Respondents rated the extent to which they agreed with statements such as "The organization strongly considers my goals and values."

Job stress. The interviewees were questioned about stress at work using a scale developed by Sosik and Gotshalk (2000): respondents rated the extent to which they agreed with statements such as "My job makes me jumpy and nervous".

Life satisfaction. The interviewees were asked to rate life satisfaction in eight non-job areas; such as satisfaction with health, professional success or with income.

All respondents rated the extent to which they agreed with statements on a scale from 1 to 5.

Control variables. A 1-item measure was used to determine whether or not the transferee was accompanied by his / her family. The item was "Did your family (spouse, companion, children) accompany you?" and could be answered with a yes or no answer. Assuming whether or not the family accompanied the expatriate may make a difference, we controlled whether the family joins the expatriate.

Open questions concerning the effectiveness of the support and the building and cultivation of networks for the different phases, e.g.

- most effective support, emotional support in preparing
- needed support, support of the company
- examples of build up/make/cultivate private contacts

Hypotheses

The present study analyzes the influence of social support on cultural adjustment. The scale social support at the workplace (Frese, 1989) differentiates between the subscale support by superiors, co-workers, spouses and friends.

Social support helps to reduce or neutralize the negative effects of stress. Moreover, it has a positive effect on health and well-being (Udris & Frese, 1999). It is therefore presumed that social support has a positive effect on the degree of job stress. In other words, a high degree of social support reduces job stress. Especially social support by superiors reduces stress at work. The influence of job stress in general has seldom been investigated. Usually the effect of role stressors such as role ambiguity, role conflict, role novelty or role overload on expatriate adjustment (e.g. Bhaskar-Shrinivas, Harrison, Shaffer, & Luk, 2005; Black et al., 1991) was studied.

It is assumed that the different areas of social support are related to the different facets of adjustment, because successful cultural adjustment is indicated, e.g., by a high degree of job/life satisfaction, a low degree of stress and strong ties to the company (Caligiuri & Lazarova, 2002).

Hypothesis 1: There is a negative relationship between job stress and job satisfaction as it is between job stress and life satisfaction.

Important for the success of a foreign assignment is a high degree of partner interdependence (Nicolai-Krause, 2005; Konopaske, Robie; & Ivancevich, 2005). Moreover, due to a spill over effect there is also an interdependence of the adjustment of expatriate couples (Shaffer: & Harrison, 2001; Takeuchi, Yun & Tesluk, 2002). It is also assumed that spousal social support facilitates adjustment in a new culture. Moreover, it is assumed that particularly life satisfaction is strongly related to social support by the companion. Moreover, life satisfaction is also strongly related to social support by friends. In this context we tested the influence of socio-emotional support on life satisfaction.

Hypothesis 2: Successful cultural adjustment in the realm of life satisfaction may be predicted by the degree of social support by the spouse and by friends.

It may be assumed that a high degree of adjustment in the job realm is particularly related to the perceived support by the company (Rhoades & Eisenberger, 2002) and to the support by members of the company (Black et al., 1991). In this context we tested the influence of instrumental support on job satisfaction.

Hypothesis 3: Job satisfaction can be predicted by perceived support by co-workers and by supervisor/s.

4. Results

4.1. Results of the qualitative interviews

On demographics: All the respondents were male, between 27 and 47 years old. They were in the following phase of the foreign assignment: two before the first foreign assignment, two following their return home; all the others had already previously been on foreign assignment. The interviewees worked in medium-sized companies in Munich and surroundings in the following fields: electronics, conveyor systems, paper manufacturing, engineering and mechanical engineering. The destination was in most cases China, other destinations were Japan, Thailand and Indonesia.

Most of the interviewees told us, that they saw a great need for advice and support particularly for medium-sized companies regarding preparation for the foreign assignment by providing corresponding information on culture and civilization as well as support during the sojourn and upon returning home, for example in the form of training, cultural information and language courses.

For all the respondents, family assumed a very important value. However, it was also stressed that keeping in contact and cultivating contacts, mainly over the telephone and via email, demanded special effort. Especially keeping in contact with friends suffered due to lack of time: "One can only work, eat and sleep". If accompanied by a spouse: "Only a busy wife is a good wife, a bored wife is torture".

A special focal point are the experiences reported about China. Many of the interviewed expatriates who worked in China stressed how important contacts are for the Chinese and that in China "networking runs deeper". A significant problem is language. It is not easy to find Chinese staff with good English language skills: one is dependent on interpreters. Many of the interviewed expatriates perceived major differences between German and Chinese culture. It is therefore essential that the staff is prepared for the culture to prevent culture shock. One respondent who considered himself successful stressed the importance of congeniality and not to act superior. He built up his own network by playing sports with his Chinese colleagues.

Analysis of the risks and the networks revealed that the network partners, which, apart from family and friends, also include co-workers, the company in general, locals, other expatriates and supportive organizations, are considered subjectively very important (especially the family) and perceived as helpful. However, there is hardly any contact between them. The family offered general support but did not provide any concrete assistance during the sojourn; circles of friends diminish, colleagues often do not realize the expatriate's extraordinary situation. Nonetheless, the entire interpersonal network and the connected social support of family, friends and colleagues was immensely important in reducing the related risks and thus for the

success of the foreign assignment. In other words, more intensive interaction between the different interpersonal networks and the network partners can be very important for effective staff support. Also helpful are mentor programs integrated in human resources development which may be able to take this interaction into account and promote it.

Also mentioned, other important network partners are the colleagues in the country of assignment and special organizations. Generally, companies only provide the usual information given for normal business trips. Although literary sources (e.g., Hechanova et al., 2003) consider contacts to locals a feature of successful integration, in reality they rarely come about, often due to lack of time. Individuals sent on foreign assignment for short periods lose their usual support in Germany, but do not receive the same degree of support in the country of sojourn. In this case, too, there is a definite need for action, because building new networks is tremendously important for successful business relations.

4.2. Results of the survey

We have finished the first interviews of the cross section study (inquiry period: from April 2007 to December 2007).

All 143 individuals were interviewed: 16 in the preparation phase, 90 in the sojourn phase and 37 in the return phase. 45% of the respondents were employees of small and medium-sized companies, 55% employees of large corporations. The average age was 38.33 years. The youngest was 25, the oldest 63 years old. The percentage of women was 17%. At the time of the survey, most of the expatriates had a steady partner or were married (80%). About half of the respondents were accompanied by their family (52%) and children (50%). Those in the preparation phase said that they would stay an average of two years. The average sojourn of those on assignment was 3.3 years. The average sojourn of those in the return phase was 2.5 years. The respondents were sent to various countries (see Fig. 1): mentioned most often were China (34x), USA (31x), the United Arab Emirates (9x) as well as Brazil and UK (6x each).

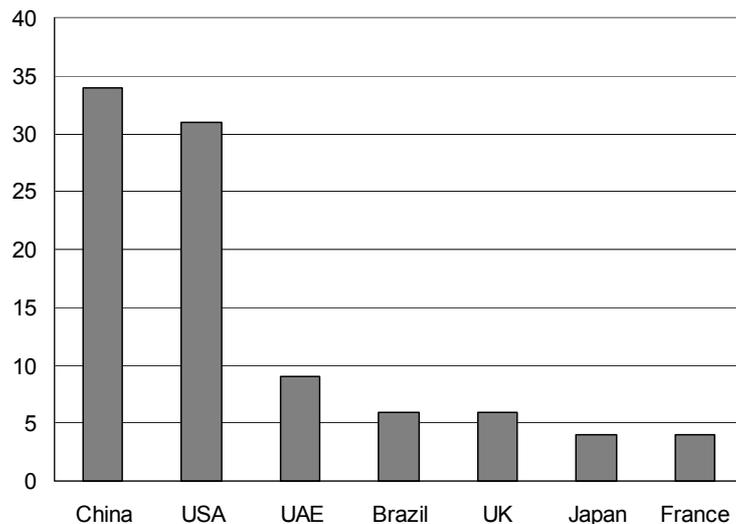


Figure 1: Expatriates' Countries of Sojourn

One of the questions was with whom the respondents spent their leisure time in the different phases of the assignment. In the preparation phase, the individuals spent their leisure time primarily with their families (71%) and with friends from their country of origin (64%), less with colleagues from work (23%). In the sojourn phase, the transferees also spent most of their leisure time with their families (63%). Moreover, the interviewed spent time with new friends from the guest country (43%), colleagues from their country of origin (37%), friends from their country of origin (35%) and colleagues from the guest country (33%).

In the return phase, the interviewed stated in retrospect that they spent most of their leisure time with friends from the guest country (61%); second came colleagues from the guest country (58%). Moreover, the interviewed stated they spent their leisure time with their families (53%), with colleagues from their country of origin (47%) and with friends from their country of origin (31%).

In other words, the family is an important value for the interviewed in all three phases of transfer, a result that had already been confirmed by interviews with transferees of small and medium-sized companies. Furthermore, colleagues and friends from the guest country extend the existing network of the expatriate in the sojourn phase.

As a cross section interview was carried out in the first interview phase, a phase comparison with little random samplings could be conducted. Our questions included life satisfaction, job stress and perceived company support. Reported were only statistically significant results, adjusted/corrected. The value, adjusted/corrected in the parentheses, is an average value on a scale of 1 (unimportant) to 5 (very important).

Staff life satisfaction in the preparation phase ($M=3.6$; $SD=0.71$,) was greater than in the sojourn phase ($M=3.2$; $SD=0.79$,) and than in the return phase ($M=3.3$, $SD=0.69$, $p<.10$, $F=2.53$), is an indication of the stress experienced during the assignment or is an expression of too high

expectations of the assignment. This is also confirmed by the job stress results (example item "My work is stress for me"). Job stress during assignment ($M=2.55$, $SD=0.6$) and upon return ($M=2.4$, $SD=0.73$) is greater than during preparation ($M=2.2$, $SD=0.50$, $p<.10$, $F=2.61$).

The perceived company support during the sojourn phase ($M=3.0$, $SD=0.80$) is less than during the preparation phase ($M=3.4$, $SD=0.71$) and the return phase ($M=3.2$, $SD=0.75$, $p<.05$). This result is confirmed by other studies according to which companies invest most in the preparation phase and the least in the return phase.

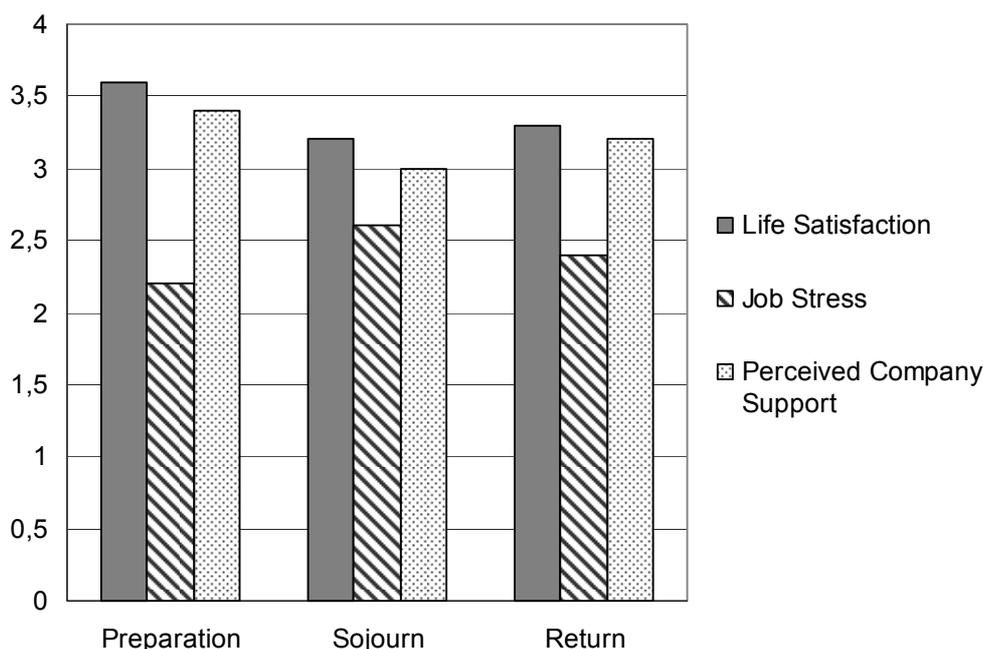


Figure 2: Life Satisfaction, Job Stress and Perceived Company Support in the Different Phases

In addition, the transferees were asked how they perceived the support by the colleagues in the country of assignment and by the colleagues at home during the three phases. The employees felt more supported by their colleagues at home during the preparation phase ($M=3.93$, $SD=0.92$) than during the sojourn ($M=2.83$, $SD=1.31$, $p<.05$) and during the return phase ($M=2.94$, $SD=1.37$, $p<.01$). Whereas the expatriates felt more supported by the colleagues from the guest country during the return phase ($M=4.19$, $SD=0.88$) than during the sojourn ($M=3.66$, $SD=1.06$, $p<.01$).

The measured distance between the own and the foreign culture: During the return the distance to the foreign culture is perceived less ($M=1.33$, $SD=0.57$, $p<.01$) than during the sojourn ($M=1.76$, $SD=0.63$, $p<.01$) and the preparation ($M=1.64$, $SD=0.77$).

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11
1. Job Satisfaction	3.30	.76	.82										
2. Life Satisfaction	3.61	.58	.29**	.68									
3. Job Stress	2.48	.64	-.26**	-.28**	.79								
4. Commitment	3.24	.71	.70***	.36***	-.18*	.86							
5. Socio-emotional Support	2.69	.95	.16	.11	-.08	.12	.89						
6. Instrumental Support	3.08	1.00	.33***	.21*	-.27**	.30**	.76***	.92					
7. NP Supervisor/s	3.35	1.08	.34***	.31***	-.27**	.36***	.19*	.33***	.91				
8. NP Coworker/s	3.33	.77	.22**	.20*	-.13	.27**	.10	.30**	.36***	.82			
9. NP Spouse/Husband	4.00	1.37	.02	.33***	-.01	.14	-.01	.04	.02	-.04	.94		
10. NP Friend/s	3.65	.91	.16	.38***	-.13	.28**	.09	.10	.34***	.24**	.13	.84	
11. POS	3.07	.79	.62***	.37***	-.26**	.71***	.19*	.35***	.46***	.29***	.07	.37***	.91

Table 1: Means, Standard Deviations, and Correlations^a

^a $n = 144$; reliability coefficients are reported along the diagonal: Means and standard deviations reported here are for unstandardized variables. NP Network Partner, POS Perceived Organizational Support.

* $p < .05$

** $p < .01$

*** $p < .001$.

Two-tailed tests

Hypotheses were tested by correlations and regression analyses. There is a significant relationship between support by supervisor ($r=.33$, $p<.001$) and coworker ($r=.30$, $p<.01$) and instrumental support. Job satisfaction also correlates to support by network partner supervisor ($r=.34$, $p<.001$) and coworker ($r=.22$, $p<.01$) and to perceived organizational support ($r=.62$, $p<.001$). Life satisfaction correlates highly significantly to support by spouse/husband ($r=.33$, $p<.001$) and friends ($r=.38$, $p<.001$) but also to support by supervisor ($r=.31$, $p<.001$) and coworker ($r=.20$, $p<.05$).

As predicted, job stress is negatively correlated to job satisfaction ($r=-.26$, $p<.01$), life satisfaction ($r=-.28$, $p<.01$) and support by supervisor ($r=-.27$, $p<.01$). Moreover, there is a significant, negative relation to commitment ($r=-.18$, $p<.05$), instrumental support ($r=-.27$, $p<.01$) and perceived organizational support ($r=-.28$, $p<.01$).

Life satisfaction ($\beta = -.20$, $p<.05$) and job satisfaction ($\beta = -.19$, $p<.005$) predict job stress. The tested model is significant ($R^2=.10$, $p<.01$).

Support by friends ($\beta = .36$, $p<.001$) and spouse ($\beta = .27$, $p<.001$) predict life satisfaction. The socio-emotional support hardly explains the additional variance ($\beta = .08$, n.s.). The tested model is highly significant ($R^2=.23$, $p<.001$). Support by supervisor/s ($\beta = .24$, $p<.01$) and instrumental support ($\beta = .24$, $p<.01$) predict job satisfaction. Support by co-workers hardly explains the additional variance ($\beta = .02$, n.s.). The tested model is highly significant ($R^2=.16$, $p<.001$). Moreover, support by friends moderated the relationship between the type of company and the perceived support (Stroppa & Spiess, in press).

Results of Regression Analysis for life satisfaction and job satisfaction^a

Variable	life satisfaction	Variable	job satisfaction
support by friends	.36***	support by supervisor	.24**
support by spouse	.27***	support by coworker	.02
socio-emotional support	.08	instrumental support	.24**
R ²	.23	R ²	.16
F	11.47***	F	7.23***
Adjusted R ²	.21	Adjusted R ²	.14

an = 127. Values are standardized estimates.

+p < .10, * p < .05, ** p < .01, *** p < .001. Two tailed tests.

Only about half of the interviewees answered the questions concerning the effectiveness of the support and the building and cultivation of networks. The answers to the open questions contained multiple mentions. They were arranged in a ranking sequence and divided into large corporations and small companies. In this study, only the top ranked were considered and interpreted.

For preparation, to the question who helped most effectively in preparation, in large corporations the company ranked first, in small companies it was the

family. For emotional support the spouse, respectively the family, ranked first both for small and medium-sized companies and large corporations. For the sojourn, to the question what type of contact was sought to the locals, what was mentioned most in all companies was the contact to friends/acquaintances. To the questions concerning the most effective and emotional support, spouse/family ranked first in all companies. To the question concerning support during the sojourn, in large corporations "organizational" ranked first, "no assistance" came second. In small companies it was reverse. As to the question how private contacts came about during the sojourn, in all companies most said "through work". As examples, how private contacts were cultivated, the internet ranked first and the telephone second.

For the return phase, in the memory of the returnees of all companies contact with the locals came about through colleagues. The most effective support upon return differs: For the small and medium-sized companies it was friends and acquaintances, whereas in the large corporations it was the company, respectively the colleagues. In small and medium-sized companies, emotional support was provided by friends and acquaintances; in large corporations it was the family. Accordingly, returnees of small companies reported that the company did not provide any support at all, whereas in large corporations the company provided organizational support.

Forming private contacts was also seen differently in hindsight. In large corporations, they came about through work; in the small companies by going out to eat. For cultivating contacts, the answer was given by large corporations: it occurred through invitations.

The results allow the interpretation that to the most interviewed, the family was very important, which is also confirmed by the results of the qualitative interviews. On the other hand, for the interviewees of large corporations, the company was most important. The staff of small companies needed to take more initiative.

5. Conclusion and Discussion

The cultural risks of the interviewed - ignorance of the do's and don'ts in the foreign culture – can best be avoided in the preparation phase. Relevant information, education and training can enlighten and sensitize and in this way improve intercultural action and acting with confidence in the interviewees' foreign-cultured business world.

On foreign assignment, important were both an interpersonal network which provided social support and relations within the interpersonal network. In other words, to what extent spouses, friends, colleagues and superiors are in contact with each other. The interview results revealed that in small companies involving family and friends is left to the transferees themselves. They tried to arouse the interest of their spouses in the country of assignment though conversation and going on vacation together.

There was little time left for cultivating friendships. There is hardly any contact between network partners, which, apart from family and friends, also includes co-workers, the company in general, locals, other expatriates and supportive

organization. Most small and medium-sized companies offer only formal assistance. Apart from language teaching, there was no adequate intercultural training. The companies also did not try to involve the spouse. On the other hand, their demands on the staff and their expectations of success were quite high. The quantitative survey results showed that there were definite differences compared to large corporations, whose staff received more organizational help. However, comparison of the various phases on life and job satisfaction and experienced job stress and experienced company support revealed that all the interviewed expatriates experienced the sojourn phase significantly as most unsatisfactory and most stressful.

First analyses show that the network partner is very important for life and for job satisfaction in the phases of sojourn and return. For life satisfaction the spouse and friends are more important than perceived socio-emotional support. For job satisfaction the supervisor and the perceived instrumental support play a major role.

In conclusion, there is a great need for action especially when staff of small and medium-sized companies is sent on foreign assignment. It is important to prepare the transferees better and with more relevance and to provide them with information about the culture in addition to information about the country and the job. Equally important is that the company continues the support beyond the sojourn itself. Improving the contact between the network partners, which, apart from family and friends, also includes co-workers, the company itself, locals, other expatriates and supportive organizations can contribute to reducing the risks involved with the sojourn.

Other, more in depth evaluations will follow. A panel study is planned which takes the preparation phase as the point of departure, the assignment as the 2nd question period and the return as the 3rd question period.

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