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ORGANIZATIONAL VALUE CREATION AND DESTRUCTION IN CORPORATE VENTURING

In search of international competitive advantage

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Abstract

This dissertation focuses on one of the central themes in strategic management research: the creation and sustainability of competitive advantage. This theme is explored in the context of high-technology corporate ventures. In this context, the environment is unpredictable and competitive. The international dimension adds additional complexity. High innovativeness, organizational uncertainty and inter-organizational activity portray the organizations studied empirically in this research. The research question of the dissertation is: how do internal corporate ventures achieve and sustain international competitive advantage in a high-technology environment?

The method used in this dissertation is theory-building multiple-case study. Four cases of Finnish internal corporate ventures are analyzed over a period of four years: from 1998 to 2001. The main data consists of 22 semi-structured interviews with key informants and insider observations in the venture organizations throughout the investigation period. In addition, public documents (press releases, announcements, annual reports, web pages, industry reports) and internal documentation (business plans, business support documentation, internal announcements, minutes of meetings) are analyzed to support and complement the main data.

The theoretical starting point for the analysis is the relational view of competitive advantage, which describes how inter-organizational processes may lead to economic rents. As a result of the cross-case theory-building analysis, the explicit mechanisms how economic value is both gained and destroyed are presented. The developed model is a system, where the two categories, value creation and destruction are further divided into organizational and inter-organizational mechanisms. The data analysis also suggests that value creation and destruction are interrelated and interdependent in complex ways.

The found value destruction mechanisms in corporate venturing include management failures, opportunism, politics, bureaucracy and collective blindness on the organizational level and on the inter-organizational level, power asymmetries, cultural

complexity, conflicting interests and collective blindness. Examples of explicit value creation mechanisms are also given in the study, the findings support earlier research on competitive advantage of organizations. In internal corporate venturing, the relationship between the parent organization and the venture is identified to be as of crucial importance. The concept of parent-venture dependence is introduced to describe the level of reliance between the organizations. Based on the findings, it is proposed that growth may not be the best measure of performance for venture organizations, because high growth rate can be artificially created for example through parent-venture relationship. This kind of growth may also lead to value destruction.

The main contribution of this study is to the debate on the competitiveness of organizations. The relations between value destruction mechanisms, growth and the creation of competitive advantage have not been widely addressed in previous research. The findings of this dissertation are applicable in a wider context, even though the data analysis is based on a case-study on internal corporate ventures.

“Knowledge is replaced in most quarters by belief. All that can be known with certainty are our impressions. This knowledge cannot be articulated since it is immediate and irreducible. Except for this type of knowledge, we are committed to skepticism – if we accept the empirical analysis of scientific method.”

-Churchman & Ackoff, 1950

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I consider this dissertation as my biggest single achievement. However, it is not only my achievement. The successful completion of this research would not have been possible without the efforts of many people. I would like to express my deepest gratitude to all those who have helped me during the various stages of the research process.

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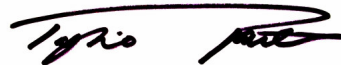
The interviewees in case organizations devoted their valuable time to my research, I appreciate that very highly. I will leave their names out of here for confidentiality reasons. I feel obliged to all colleagues, who provided me with information and material, and with whom I exchanged ideas. This research was dependent on the insights of the practitioners inside the organizations and I am deeply grateful to all of them.

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The completion of the dissertation is supposed to be only the beginning of life-long devotion to science and the scientific method. I hope that the knowledge I have acquired during last five years will guide me in the future challenges and act as a good foundation for learning. Similarly, I hope that the people I have had the chance to meet and know during this journey will stay with me and that our paths will cross also in the future.

Helsinki, September 16th, 2005

A handwritten signature in black ink, appearing to read 'Tapio Ranta', with a stylized flourish at the end.

Tapio Ranta

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1 Introduction

1.1 Motivation for the study

The objective of strategy is to outperform competitors. Starting from ancient military, this issue has been a topic of interest to leaders, academics and business people throughout our history. Why is it that some groups of people are able to be stronger, more effective or more innovative than others? Why do armies, governments and businesses succeed? And, more importantly, why do they fail? In our modern society, this question is culminated in the competition between companies. Organizations are seeking ways to find and sustain advantage over other organizations to be able to survive in the modern economic system. The rules of this game are the same for everybody, but yet the line between success and failure is a mystery. The underlying factors that determine winners and losers continue to puzzle us.

Since the ancient times, the concept of strategy has evolved. In the past, a successful strategist won the battle or the war and left the field as the winner. When modern organizations succeed and are able to provide value to their customers, stakeholders and to the society, it is only the beginning of the battle. It is a self-evident fact that the economy is in constant motion and our society never stops developing. Therefore, also companies must be able to repeat the success, constantly find new ways to outperform competitors and grow further. Winning must be a process, not an event. Continuous growth, on the other hand, means that the organizations and the people belonging to them must re-invent themselves, find new ways of creating value and adapt themselves to different circumstances. This constant change in our environment, culture and economy requires new ways of thinking about strategy and management.

I have been working for several years in a Finnish telecommunications company that has fiercely pursued gaining entrance to new business areas and generating new growth through them. For example, there have been several different attempts to enter foreign markets. By establishing corporate venture units, an international competitive advantage

has been sought. To some extent, the company has been successful, but in some cases, the failures have been significant. Following this process has been one of the key drivers for starting this research. I have been raising questions not as a researcher, but as a professional.

Following the example of Nokia, many other corporations in Finland have established venture operations and new growth businesses in the area of high-technology, but most of them have not been able to replicate Nokia's success story — or even bring any value to their stakeholders. Even though it is known that venturing is high-risk activity where true success is very rare and impossible to forecast, it is reasonable to expect that if high investments are made and the best and most competent managers are put to work, some value would be created. This has not, however, always been the case.

Research on international entrepreneurship has bloomed, especially in the Nordic countries and in Finland, in particular (Alahuhta, 1990; Luostarinen et al., 1994; Holmlund & Kock, 1998; Vaara, 1999; Yli-Renko et al., 2001). Figure 1, which describes the growth of high-technology exports in certain OECD countries, shows how this small market has developed. Over the last decade, Finland has leapt from traditional industry exporter to a country with relatively one of the highest high-technology export volumes in the world. New high-technology companies — with Nokia leading the way — have changed the economy of Finland so that it is more dependent on high-technology innovation and ventures. Even though national borders still represent certain types of discontinuities, the barriers of entry to international markets are lower than ever before.

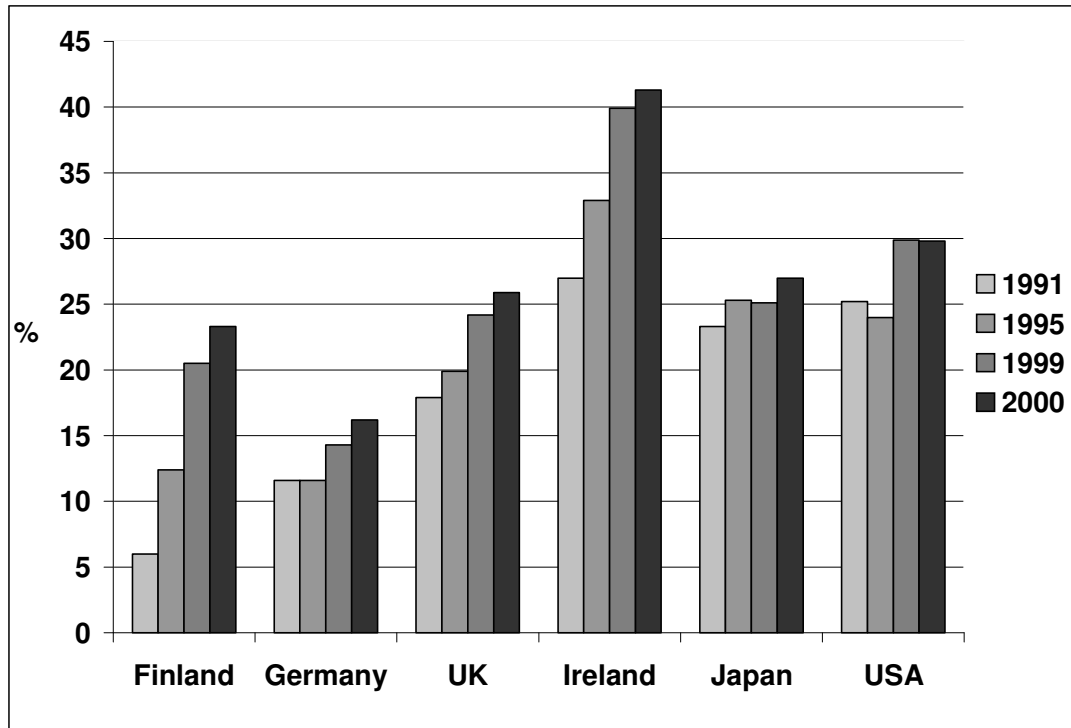


Figure 1. High-technology exports as a percentage of total exports (Statistics Finland, 2003)

The fundamental idea behind corporate venturing is “to exploit the complementarities of small firm capabilities to explore new opportunities and large firm capabilities to exploit existing competencies” (Quinn, 1985). Growing into new markets is also one of the many different motives for corporate entrepreneurship (Zahra, 1991; Dess et al., 2003). Even though corporate ventures compete and co-operate in a market environment in similar factor endowments as independent ventures, research has shown that there are some important separating factors (McDougall et al., 1992; Shrader & Simon, 1997).

In a dynamic and more rapidly changing environment, the role that relationships and networks play is emphasized. The scholarly community investigating inter-company and intra-company relations is broad-ranging and there are numerous different approaches for different purposes (Foss, 2000). In strategic management research, this topic has accumulated an impressive body of research (Doz, 1996; Eisenhardt & Schoonhoven, 1996; Gulati, 1998; Dyer & Singh, 1998; Oliver & Ebers, 1998; Tsai & Ghoshal, 1998; Eisenhardt & Galunic, 2000; Tsai, 2002; Rothaermel & Deeds, 2004). Based on this, it can be proposed that inter-organizational relationships are one of the

key elements in understanding competitive advantage, value creation, and growth in dynamic environments.

In this research, I seek to integrate these different themes and provide a new point of view on understanding how competitive advantage is gained and lost in international markets. Drawing on existing frameworks and previous discussion on the topic, I aim at presenting new knowledge on what makes a venture organization internationally competitive and why some organizations are able to create more value for their customers, stockholders and eventually, for themselves, than others. I argue that there is still a lack of understanding on what the determinants and mechanisms of competitiveness and value creation are. The current body of knowledge does not fully address all of the aspects of the problem. My objective in introducing novel data on international corporate ventures and carrying out theory-building analysis on this data is to contribute to the academic discussion as well as provide new managerial insights.

1.2 Research problem

The research problem for this dissertation is:

How do internal corporate ventures achieve and sustain international competitive advantage in a high-technology environment?

The following sub-questions can be derived from the research problem and formulated:

- What kind of inter- or intra-organizational mechanisms lead to the creation of a sustainable international competitive advantage for internal corporate ventures?
- How do internal corporate ventures grow internationally and what is the role of different inter-organizational relationships in the process?
- What is the relation between international growth, competitive advantage, and inter-organizational relationships?

Inter-organizational relationships refer to both internal and external relationships, e.g., inter-unit, parent-venture, external inter-organizational relationships, etc.

1.3 Research methods

The research approach should be derived from the nature of the social phenomena that are to be explored (Morgan & Smircich, 1980). Based on this rationale, I have chosen a theory-building multiple-case study, which is recommended for this type of research by several scholars, as my approach (Parkhe, 1993; Yin, 1991; Eisenhardt, 1989; Miles & Huberman, 1984). The objective is to investigate the contemporary phenomena and cope with the technically distinctive situation where one has many more variables of interest than data points. Case studies can be employed in an exploratory manner in order to achieve insights into a previously uncharted area. Hitt et al. (1998) also suggested that the creative use of longitudinal, historical case studies and qualitative data provides a richer and more in-depth understanding of company-based idiosyncratic valuable resources and other specialized topics.

I selected four cases of Finnish internal corporate ventures to represent different types of “experiments” and to achieve the needed theoretical polarity. The events in the sampling frame of cases included different sizes of organizations in distinct phases of their life cycle and dissimilar types of parent-venture relationships. Each case venture had pursued several strategies to grow internationally and used different market entry modes; for example, two of the case organizations had carried out acquisitions and all of them had set up local offices in foreign markets.

The main source of information was interviews with people who were involved in the strategy planning and internationalization operations of the case organizations that were examined. This research takes an idiographic theory-building approach, which is individual-centered and uses naturalistic environmental contexts and qualitative methods to recognize the particular and unique experiences of the subject (Parkhe 1993). I was able to follow the development of the investigated organizations as an insider throughout the four-year period, but I did not take part in the actual decision-making. I took notes and wrote down my impressions throughout the data collection process. In addition to the interview data and notes, I collected an extensive amount of various types of secondary data to support the interviews.

The data was analyzed within-case and cross-case by using several different data analysis methods. By using the method called triangulation (Jick, 1979), the aim was to increase the validity and reliability of the results. By induction, I developed theoretical concepts and relationships between them. Based on the analysis, the concepts were integrated into a theoretical model. Finally, I went back to the previous body of literature to discuss the implications of the developed model in light of the previous research.

1.4 Contributions

Internal corporate venturing in a high-technology environment is an activity where the role of both internal and external relationships is emphasized. The markets are unpredictable, highly competitive, dynamic, and international. A high-level of innovativeness, organizational uncertainty, and high risk portray the organizations investigated in this dissertation. It is unclear whether the prior models explaining the creation of a sustainable competitive advantage apply in this kind of environment (Eisenhardt & Bourgeois, 1988; Rindova & Kotha, 2001). This dissertation mainly contributes to the discussion on how the competitive advantage of organizations is explained. The three main contributions are briefly presented below.

The first contribution is to take part in the on-going discussion about the determinants of competitive advantage. According to the findings of this dissertation, the creation of superior economic value and thus, competitive advantage cannot be fully explained by organizational or inter-organizational resources and capabilities. In spite of valuable, rare, non-imitable, and non-substitutable resources (Barney, 1991) that organizations or clusters of organizations might possess, they may fail to create value and to sustain competitive advantage. Despite the managers' ability to "integrate, build and reconfigure internal and external competences to address rapidly changing environments" (Teece et al., 1997) or the processes by which managers alter their resource base (Eisenhardt & Martin, 2000), they may not find that they have a competitive advantage. I argue that, in addition to the determinants of value creation and capture, the determinants of value destruction and the factors that hinder value from being created and captured must be considered. Organizational and inter-organizational

mechanisms may or may not lead to competitive advantage, and this process cannot be fully understood by investigating certain types of value creation and capture mechanisms. I propose that in order to understand competitive advantage, we must investigate a complex system, where value creation and value destruction are equally important forces and that the determinants of these forces are interdependent and interrelated. This system must be considered as a single unit. Furthermore, if we accept this kind of view, the sustainability of competitive advantage becomes a question of the sustainability of the whole system, not just some parts of it. The determinants of organizational sustainable competitive advantage become a paradox, since such determinants can lead to value destruction mechanisms as well as value creation mechanisms. Optimizing certain parts of the system does not lead to optimal performance of the entire system.

Second, explaining organizational growth or the creation of advantage requires analysis beyond the organizational boundaries. Even though the competitive advantage is measured by the economic profits related to the organization, the value system is larger than the organization itself. By focusing solely on what single organizations do or have, the underlying factors might not be fully uncovered. In this dissertation, this was shown by investigating internal corporate ventures and the mechanisms in the parent-venture relationship and in external market relationships. The creation of international competitive advantage may be seen in its context only by extending the analysis to the mechanisms in the parent-venture relationship and to the mechanisms between the organization and its partners, customers and other external stakeholders.

The third contribution is in examining the relationship between organizational growth and value creation. As suggested by Ackoff (1999), growth is not always the right measure for organizational performance and success; in fact, according to the results of this dissertation, less growth might even lead to a better long-term value creation. In the empirical part of this dissertation, I observed four organizations that grew very rapidly in international markets. However, in all cases, the growth did not lead to superior performance or value creation, as was expected. I argue that growth can be “artificially” created and investing too much into the growth of venture organizations might lead to value destruction processes. The system may produce growth for the organization

without generating value. “If each part of a system, considered separately, is made to operate as efficiently as possible, the system as a whole will not operate as efficiently as possible” (Ackoff, 1999). In the case of internal corporate ventures, I argue that making the venture rely too much on the support of the parent makes it more vulnerable for value destruction mechanisms. Even though growth may be achieved by providing lots of resources and heavy financial support, it may lead to value destruction rather than value creation.

1.5 Core concepts

1.5.1 Competitive advantage and value creation

The concept of competitive advantage has been under active debate throughout the history of management and strategy research. The definition, creation, sustainability, and preconditions of competitive advantage have been addressed in previous works. It has been argued that the very foundations, the previous definitions of sustainable competitive advantage by the key authors in the field, e.g., Barney (1991) or Peteraf (1993), have been contradictory and not entirely clear (Foss & Knudsen, 2001). There is still disagreement on what the determinants are, how they should be measured, and whether it is possible to establish sustainability at any level. This section only superficially addresses the topic and defines the concept in the scope of this dissertation.¹

Barney (1991; emphasis in original) defines sustainable competitive advantage in terms of the strategies that companies implement in product markets: “A firm is said to have *competitive advantage* when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors. A firm is said to have a *sustained competitive advantage* when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors *and* when these other firms are unable to duplicate the benefits of this strategy.” According to Barney, the determinants of sustainable competitive advantage are

valuable, rare, non-imitable, and non-substitutable resources. Peteraf (1993) offers a definition for sustainable competitive advantage with more economic terms, as “sustained above-normal returns”. According to Peteraf, sustained competitive advantage is simply “positive *differential profits in excess of opportunity costs (including the cost of capital) that are sustained in equilibrium*” (Foss & Knudsen, 2001; emphasis in original). Peteraf’s (1993) sustainable competitive advantage is determined by four conditions: heterogeneity, ex post limits to competition, imperfect mobility, and ex ante limits to competition.

In the scope of this dissertation, I adopt the latter definition by Peteraf, mainly because it is identical to the economic term “economic profits”. Economic profits have been precisely defined in previous economics works as the difference between revenues and costs including opportunity costs. This type of unambiguous definition makes the variable easier to operationalize. In addition, defining sustainable competitive advantage as sustained differential economic profits extends the scope to inter-industry as well as intra-industry, whereas Barney’s (1991) analysis is in terms of product markets (Foss & Knudsen, 2001). This definition also captures the international dimension of competitive advantage, as product markets might be limited to certain geographical area, but the process measuring economic profitability is similar regardless of the location of the organization. A more thorough explanation on how competitive advantage (economic profit) is measured and analyzed in this study is carried out in the methodological part of this dissertation.

The concept of competitive advantage is closely related to the notion of value creation. Barney (1991) referred to “value creation strategy” and “valuable” resources and further discussed the parametrizing value in his 2001 article (Barney, 2001). Through cost effectiveness and the creation of a superior value for customers, superior differential profits can also be attained and thus the shareholder value can be increased. From the industry point of view, by finding a position on the market where customer value creation is optimal and costs are low, competitive advantage can also be achieved, if new entrants cannot enter at the same position (Porter, 1980). From an organizational point of view, by picking resources that are the most valuable (Barney, 1991) or by

¹ For a more complete analysis of the concept, cf. Hoffman (2000) and Foss & Knudsen (2001).

developing capabilities (Teece et al., 1997) that cannot be imitated, economic profits can be generated.

Value creation specifically has been extensively discussed by Moran and Ghoshal (1999) and Ghoshal et al. (2000). According to Moran and Ghoshal (1999), “the creation of economic value, be it by individuals or organizations, is a process that involves the use of resources.” Thus, their definition follows in the line of Barney (1991) and Teece et al. (1997). However, Moran and Ghoshal make a clearer distinction between the creation of value potential and the realization of this potential. Ghoshal et al. (2000) stated that “companies create new value for society by continuously creating innovative products and services and by finding better ways to make and offer existing ones; markets, however, relentlessly force companies to surrender most of this value to others.” These discussions on value creation, however, refer to the concept in terms of economic development of the markets, not the organization as the focal unit. From the point of view of the stakeholders of the organization, what creates value for the society or the markets is not necessarily beneficial for the organization itself. The process of “creative destruction”, where after the value creation, the organization surrenders the created value to other market actors, workers, shareholders and consumers (Moran & Ghoshal, 1999) might lead to the organization not benefiting from the fruits of its own work.

Value creation is similarly a controversial concept as sustainable competitive advantage is. Typically, value creation of an organization is measured through changes in stock price (Anand & Khanna, 2000), etc., although this kind of measurement is not possible in companies that are not listed on a stock exchange. This kind of measure only captures how organizational value realization is perceived by the external markets and what are the expectations on future value creation. The concepts of value chain and value nets have been introduced as systems of value creation and capture. Value can be measured purely in economic terms (i.e., profits) or in more qualitative and indirect terms, e.g., *via* learning or capability development. It can be argued that indirect value creation (e.g., learning) can only be turned into economic profit in the future and that this causal ambiguity poses challenges for examining such mechanisms. As the basic dilemma of this dissertation is to understand why some organizations are able to perform better than

others, the focus is on the value creation and realization inside the organization. Based on the definition of competitive advantage, this study adopts a simple definition of value creation as the process of increasing the economic profit and thus competitive advantage of the organization.

1.5.2 Inter-organizational relationship

Discussion about inter-organizational relationships (IORs) is related to the concept of a network. A network on a general level has been defined as “a set of nodes (e.g., people, organizations) linked by a set of social relationships (e.g., friendship, transfer of funds, overlapping membership) of a specified type” (Laumann, et al., 1978). Inter-organizational relationships tie the nodes of an organizational network to each other. An inter-organizational relationship has been defined as an arrangement between organizations involving the exchange, sharing, or co-development of products, technologies, or services (Gulati, 1998). Products, technologies, or services could be considered resources that also involve intangible resources, i.e., knowledge and expertise. These relationships can be, for example, buyer-seller relationships, sales partnerships, R&D co-operation alliances, joint ventures, joint memberships in an organization, etc. They can be established for a wide range of motives and goals and occur across vertical and horizontal boundaries (Gulati, 1998). No formal legal agreements are required, although it is expected that some form of statement about the established relationship exists. Besides an agreement, this could be a press release about co-operation, a declaration of joint membership in an organization or some other such similar arrangement.

The two most common approaches to IORs are the dyadic and network/multiple approaches. Dyadic ties are the study of the relationship between two parties. The network perspective is concerned with the relationships amongst multiple parties, and the studies usually approach the subject through social theories and models, such as the concept of social capital (Bordieu, 1986; Nahapiet & Ghoshal, 1998), resource dependence, or embeddedness. The units of analysis are different in these two approaches. The network perspective is usually concerned with the performance or operation of a network as a whole, while the dyadic perspective concentrates on a single organization or relationship. In this study, the IORs are treated as dyadic relations. The

level of analysis in the scope of this thesis is that of the organization, i.e., the focus is on the properties or actions of individual organizations. Other possibilities for levels of analysis would be individual, groups of individuals, groups of organizations, industry, or society. Research on networks and relationships on all of these levels has taken place.²

1.5.3 Internal corporate venture

The fundamental idea behind corporate venturing is “to exploit the complementarities of small firm capabilities to explore new opportunities and large firm capabilities to exploit existing competencies” (Quinn, 1985). The direct motivations for corporate venturing include new business development, growth, and diversification through new ventures. The indirect motives include strategic renewal, the development of new competencies and technologies, the promotion of diversity, the promotion of an innovative corporate culture, and learning through exploration (Backholm, 1999).

In this thesis, I use the definition of corporate ventures developed by Block and MacMillan (1999). The term “internal corporate venture” is used to refer to these kinds of ventures in order to distinguish them from external corporate ventures, i.e., venturing capital, spin-offs, and other external investments. The internal corporate venturing process, like any other entrepreneurial activity, is characterized by uncertainty and ambiguity (Garud & Van de Ven, 1992). Block and MacMillan (1999; emphasis in original) defined an internal corporate venture by using the following characteristics:

- Involves an activity *new* to the organization
- Is initiated or conducted *internally*
- Involves a significantly *higher risk* of failure or large losses than the organization’s base business
- Is characterized by *greater uncertainty* than the base business is
- Will be *managed separately* at some time during its life
- Is undertaken for the purpose of increasing sales, profit, productivity, or quality

² For a comprehensive review of different approaches, cf. Oliver & Ebers (1998).

The requirement of newness means that the venture organization has existed and the business operations have been conducted for no more than a maximum of 6–8 years (McDougall & Oviatt, 1996; Zahra, 2000). In internationalization research, corporate venture has often been considered to be one form of a new venture and included in the same category as the independent ones. In some new venture studies, corporate environments are separated only by a dummy variable denoting the origin of the venture (Backholm, 1999). However, even though corporate ventures compete and co-operate in a market environment using similar factor endowments as independent ventures do, research has shown that there are some important separating factors (McDougall et al., 1992; Shrader & Simon, 1997). These differences are more thoroughly discussed in the literature review Chapter and only the two most substantial differences are presented below.

First, corporate ventures are not usually short on resources. From the time they are established, they usually have, if not a vast amount of resources, at least more adequate resources at hand than independent ventures do. The parent organization often plays a more active role in providing assets, both intangible and tangible, and this may mean a better market position than independent ventures might have. The real challenge is in managing these resources in an effective and dynamic manner. Corporate venture managers encounter difficulties in applying resources to strategies and not in accessing resources (Shrader & Simon, 1997). The second substantial difference between these and independent new ventures is the close connection to the parent organization. Corporate ventures have to operate on two fronts simultaneously. Product success or success in the service market and success in establishing legitimacy and the exploitation of the resources of the parent company are very much intertwined (Backholm, 1999). There are several dimensions on which the venture has to find a way to fit in with the parent; Thornhill and Amit (2001) identified relational and economic dimensions. A relational fit reflects organizational culture and structure, while an economic fit is a function of the needs of the venture and the resources of the parent. The strategy of the venture is heavily influenced by the strategy of the parent organization. The fact that the new venture is rarely fully independent makes it more difficult to promote real entrepreneurship inside the organization. If the venture is successful, action persistence

creates heroes. If the venture is unsuccessful, action persistence creates villains who continued with a failing course of action (Garud & Van de Ven, 1992).

1.5.4 High-technology environment

In previous works, a lot of discussion about the concepts of a high-technology environment, high-technology markets, high-technology companies or fast-changing, dynamic industries has taken place (Eisenhardt & Bourgeois, 1988; Alahuhta, 1990; Oviatt & McDougall, 1994; Preece et al., 1999; Zahra et al., 2000a; Rindova & Kotha, 2001). These concepts are widely used with different meanings in other literature. In the scope of this dissertation, high-technology environment is characterized by five identifiable key parameters (Zahra, 2000):

- Rapidly changing
- Focused on research and development
- Knowledge-intensive
- Fiercely competitive across national borders
- Networked

First, there is constant and rapid change in the environment. This means that there may be change in demand, competitors, technology, or regulation (Eisenhardt & Bourgeois, 1988). Second, because the environment is so turbulent, the most critical function is usually R&D and the time windows tend to be short (Autio & Burgel, 1999). The life cycle of a typical new product is very short and companies spend more than the average on research and development. Time-to-market, the number of new products, or product quality are important measures of performance. The third characteristic describing the environment is closely related to research and development: high knowledge-intensity. This concept can be defined as “the extent to which a firm depends on the knowledge inherent in its activities and outputs as a source of competitive advantage” (Autio et al., 2000). Knowledge can be seen as one of the most valuable resources of high-technology companies. Fourth, as far as fierce competition is considered, new players are entering the market and the industry is perpetually in motion. Competition also extends beyond national borders — it is expected that similar customer needs exist in several markets and that new innovations and products can be sold to several markets. Therefore,

companies operating only in one national market also face competition from other markets and from international players. Fifth, the industries are networked and because of the competition and fast development, a network of relationships is essential for success on all interaction levels — the industrial, corporate, and individual levels. The new ventures usually need support from several directions to be able to grow as much as they are expected to. It has been argued that fast growth can be achieved by creating a network of businesses and establishing relationships (Oliver & Ebers, 1998; Eisenhardt & Galunic, 2000).

1.6 Structure of the dissertation

The overall structure of this dissertation is depicted in Figure 2. In the first Chapter, the reader is presented with the subject and motivation for the research, research questions, and objectives. In Chapter 1, I also discuss and define the most important concepts that occur throughout the dissertation to ensure consistent terminology. The concepts that are presented are competitive advantage and value creation, inter-organizational relationship, internal corporate venture, and high-technology environment.

The theoretical perspective for the purposes of this research has been selected based on the research questions and objectives; I present these choices and their justifications in Chapter 2. The chapter commences with a discussion of the different theories that explain competitive advantage. The theoretical approach that I have selected is the relational view, a theory of inter-organizational competitive advantage. This view is analyzed in detail in Chapter 2.

Previous works related to venturing and business growth are presented in Chapter 3. A lot of research related to these themes has been produced; therefore, in this chapter, I review and summarize the most relevant pieces of research from the point of view of this dissertation. The aim of the chapter is to point out the gaps in the current body of knowledge and to show that the topic of this dissertation is relevant.

In Chapter 4, I discuss the research approach in the empirical part of the study and put forth the methodological choices made in this dissertation. The tactics for meeting the

scientific criteria for good research are presented. In the chapter, I deal with such issues as reliability, validity, sampling, and objectivity. I also describe the data collection and analysis process.

Chapters 5–6 form the empirical part of the dissertation. In these chapters, the data is presented, theoretical models are developed, and the evidence on which the analysis is based is shown. In Chapter 5, I present the separate case descriptions. A longitudinal analysis is carried out by outlining the general development of each case and the most important milestones of each organization during the investigation period. The parent-venture relationship and external relationships of each case are presented and dealt with in more detail.

In Chapter 6, I carry out a cross-case analysis of the cases by presenting the different categorizations, the themes that emerged from the data and the tools that were used to codify and categorize the data. Evidence is shown from the initial categorizations to the different comparisons that were made between the themes and constructs in each case. The cross-case analysis forms the basis for theory development. Based on the cross-case analysis, I present variables, define the concepts and relations between them, and integrate them into a tentative theoretical model.

Finally, in Chapter 7, I summarize and analyze the contributions this research makes. The empirical findings are linked to previous research and a comparison with earlier results is carried out. A critical investigation is carried out by discussing the limitations of the results. In the final chapter, I also point out some possible directions for future research.

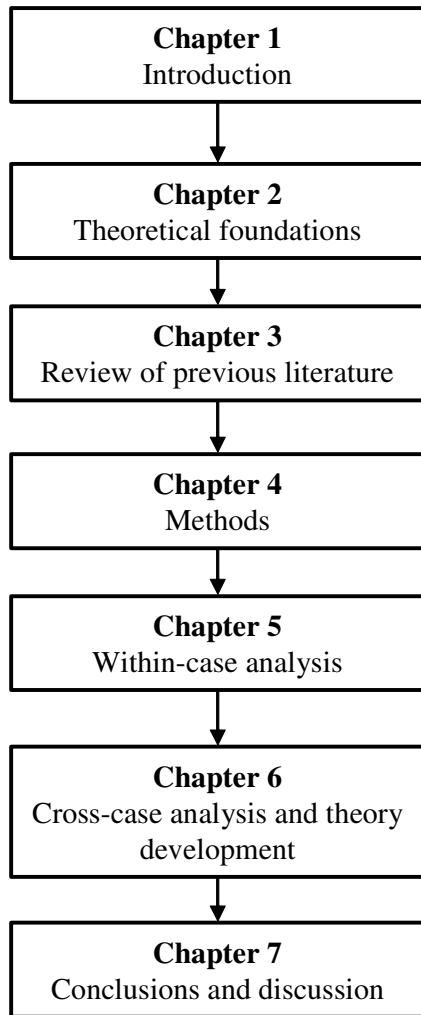


Figure 2. Structure of the dissertation

2 Theory of inter-organizational competitive advantage

This chapter outlines the basic theoretical choices made in this dissertation and makes the reader familiar with the theoretical framework within which the results of the research are interpreted. My purpose in this chapter is to present the “tools” that are used for tackling the research problem and why these particular tools have been chosen. In addition, all theories have shortcomings and it is good to recognize the limitations and critique of the theory approach that has been selected; I discuss these issues in this chapter. Given the versatility of different approaches in the current state-of-the-art research, the theoretical discussion is often a very challenging task. The development of certain theoretical approaches might be incoherent and during the theory’s development history, the interpretations and applications it has may even be contradictory. Hence, the justification of the underlying theoretical choices must be done thoroughly. Parsing a coherent entity of the main theoretical framework, the relational view, is the main objective of this chapter.

2.1 Search for a theoretical approach

Research in any science should be based on a theory or theories that are suitable for the purpose. The theoretical approach or approaches should directly address the area of the research question and offer the best possible framework for finding answers to the questions at hand. In the social sciences, theories are often described as “lenses” that can be used to view a certain phenomenon and to give various perspectives on it. Several theoretical contexts are sometimes used in studies to support each other, and to obtain a more complete reflection of the investigated phenomena. Many of the theoretical views in management sciences have common historical roots and it is usually required that several related views be discussed in order to provide a more complete understanding of the theoretical background of the study. This can, however, also cause conceptual and methodological confusion, and oftentimes it does not lead to the desired result. The process of creating and defining a theory is often a messy one, and “perspectives”, “approaches”, and “11 views” that are not theory may still guide research (Priem & Butler, 2001a). A lack of agreement as to whether or not a model and

a theory can be distinguished, whether or not a typology is properly labeled a theory, whether or not the strength of a theory depends on how interesting it is, and whether or not falsifiability is a prerequisite for the very existence of a theory exist (Sutton & Staw, 1995).

This dissertation examines an activity where inter-organizational relationships are emphasized. One of the aims is to clarify how relationships can affect the creation of a competitive advantage for internal corporate ventures. Thus, the theoretical approach should reflect the aspects of organizational relationships and offer a framework for analyzing the characteristics of different business organizations, the linkages between them and their growth. A central unit of analysis in this research is a relationship between two organizations, the internal corporate venture, and its stakeholder. Hence, the chosen theory approach should focus on explaining the differing success of organizations by reflecting the network of relationships in which the organization is embedded. On a high level, the question of differential organizational success can be approached from two basic perspectives: the industry structure or resource-based view (Teece et al., 1997; Dyer & Singh, 1998; Ghemawat, 2002; Makhija, 2003).

The industry structure view builds on a subfield of economics called industrial organization. The roots of industrial organization date back to the 1950s when Joe Bain from the Harvard Economics Department published two studies that explored the profitability of different industries and how in some industries there are lower barriers of entry than in others (Ghemawat, 2002). Industrial organization is concerned with the structural reasons as to why some industries are more profitable than others are. In 1980, Michael Porter published his landmark book “Competitive strategy”, which first introduced the “five forces” approach to understanding the attractiveness of an industry environment. Since then, Porter (1980, 1996, 2001; Porter & Fuller, 1986) has modified his view and described in several contexts the structure of the industry and the forces that affect the rivalry amongst existing competitors.

The industry structure model treats companies as equal “average” units. It does not take into account that companies could have unique resources or knowledge that provides them with an advantage over the other companies. Porter’s model explains what kind of

environment a company should choose and what kind of forces there are in an industry. What the company should itself do and how it should organize its activities is not directly addressed by the model. Each organization also operates in several different contexts, with the competitive market landscape described by Porter being one. The competitiveness of a company must always be considered in relation to the contexts that the company finds itself in. These contexts are also in perpetual motion; the environment is dynamic in the same way as the organization itself is. Therefore, one of the contexts is always the context of change (Mintzberg & Westley, 1991). A detailed analysis has been carried out suggesting that industry, corporate-level, and business-specific effects are related in complex ways (McGahan & Porter, 1997).

The other fundamental view on differential organizational success, the resource-based view, turns the spotlight on the focal organization. In the scope of the resource-based view, it is argued that companies are sets, or bundles of resources. The resource-based theory has mainly been developed based on the seminal work of Edith Penrose (1959), which in fact describes the growth of the company rather than the creation of a competitive advantage. The basic thesis in the resource-based view is that all companies have different sets of resources and the competitive advantage is created through rare, valuable, non-substitutable, and/or non-imitable resources (Barney, 1991). Resources can be tangible, e.g., physical assets, people, etc., or intangible, e.g., knowledge or processes. The creation of economic rents is thus based on the scarcity of these resources. I will discuss the concept of economic rent later in this chapter.

Wernerfelt published an article in *Strategic Management Journal* in 1984 entitled “A Resource-based View of the Firm”. One major contribution of this article was to direct strategy scholars back toward resources as important antecedents to products, and, ultimately, company performance (Priem & Butler, 2001a). In that sense, the article did not set out to compete with the industry structure view, but to remind people that there are “two sides to the coin”. Wernerfelt (1984) focused on the corporate-level implications of resource heterogeneity. Two years later, Barney (1986) set forth new arguments about the creation of competitive advantage and value. In fact, value is fully endogenous to Barney's framework, as the value of resources that a company acquires is hypothesized to be a function of the private information it possesses about the resources

available for purchase. In his 1991 article, Barney (1991) focused on how competitive advantages and value, once created, can be sustained. Finally, Peteraf (1993) tied all of the pieces together in a single coherent framework encompassing how competitive advantage is created and how it is sustained, with applications at both the business-unit and corporate levels. (Makadok, 2001a)

Teece et al. (1997), amongst others (Nelson & Winter, 1982; Kogut & Zander, 1992; 1993; 1995; 1996; Amit & Schoemaker, 1993), suggested a dynamic capabilities model, which also treats companies as the primary unit of analysis, but then builds on the notions of capabilities and competencies rather than resources. This shifts the focus of developing competitive advantage to capability development rather than resource picking. The influential article on core competencies by Prahalad and Hamel (1990) is also based on this insight. Companies are heterogeneous with respect to their resources, capabilities, and endowments. Furthermore, resource endowments are “sticky”, companies may have to live with what they lack, as business development is viewed as an extremely complex process and new innovations or competences are not quickly implemented. (Teece et al., 1997; Eisenhardt & Martin, 2000; Rindova & Kotha, 2001)

A text from the 1960s suggested that “the capability of an organization is its demonstrated and potential ability to accomplish against the opposition of circumstance or competition, whatever it sets out to do. Every organization has actual and potential strengths and weaknesses; it is important to try to determine what they are and to distinguish one from the other. Resources like this create rents that give companies advantage over others.” (Learned et al., 1969) It has also been suggested, that knowledge is the key resource that should be focused on, when considering the competitive advantage of companies (Kogut & Zander, 1993; Nonaka & Takeuchi, 1995; Grant, 1996; Liebeskind, 1996; Mowrey et al., 1996; Spender & Grant, 1996). The theory of a knowledge-based view is based on a similar Schumpeterian logic as the dynamic capabilities model is. Hence, the focus is shifted towards acquiring new knowledge through learning, innovating, and knowledge-exchange. In Schumpeterian value creation environment, all companies are able to mimic any particular company’s behaviour and, therefore, to replicate that company’s performance and, eventually, appropriate some or all of its rent streams (Moran & Ghoshal, 1999). There is no clear

consensus as to whether or not the resource-based view, the knowledge-based view, and the dynamic capabilities model are separate entities, different interpretations of the same theoretical roots or whether or not the capabilities and knowledge models merely represent sub-categories of the resource-based view.

A well-known fact is that the scholarly community that works on inter-company relationships is extremely broad-ranging; for example, this community encompasses management scholars, economic geographers, sociologists, and new industrial organization economists, in addition to transaction cost and resource/capability theorists. All of these individuals study inter-company relations using different approaches and for different purposes (Foss, 2000). In history, the starting point for understanding inter-organizational relationships has been the interaction between the company, a specific stakeholder of the company and the market (Hayek, 1949; White, 1981). Andrews (1971) stated that the strategic actions of companies are the outcome of a match between a company's existing competence and the availability of new opportunities. Andrews' view was one of the early approaches on how companies enter different IORs, alliances, or partnerships.

As a branch of theory development, the resource-based view can also be used for investigating inter-organizational relationships and networks (Eisenhardt & Schoonhoven, 1996). One possibility — suggested by Molina (1999) — is to revise some of the principles behind the resource-based view — those referring to the unit of analysis — so that, rather than offering an alternative perspective, the existing one is reformulated. This line is followed by Molina and Camisón (1998). Through partnerships, organizations may gain access to new or complementary resources or may be able to utilize and leverage existing ones. Donada (2002) also used the resource-based view, together with several other views, to investigate co-operative gain in vertical partnerships. Combs and Ketchen Jr. (1999) explained inter-company co-operation and performance by reconciling both the resource-based view and the industrial organization. These theories that explain competitive advantage do not, however, directly assess *how to systematically examine the inter-organizational rent-generating process* (Dyer & Singh, 1998).

Another stream of theory, the transaction cost economics, offers an alternative approach to analyzing inter-organizational relationships. According to the transaction cost theory, the performance of the organization can be maximized (Combs & Ketchen Jr., 1999) by minimizing the costs of governance in the transactions between organizations. “Transaction costs are the economic equivalent of friction in physical systems” and the transaction is the fundamental unit of analysis (Williamson, 1985). The managers should then be preoccupied with the origins, incidence, and ramifications of transaction costs (Williamson, 1979). Transaction cost theory also comes to term with bounded rationality and the notion of opportunism — self-interest seeking that is an essential part of economic organization and the concept of governance that is enforced (partly) to mitigate the hazards caused by opportunism (Williamson, 1999).

Gulati (1998) identified some of the theoretical explanations for entering alliances or partnerships, one of them stemming from the transaction cost economics: transaction costs resulting from small numbers bargaining, strategic behaviour that leads companies to try to enhance their competitive positioning or market power and a quest for organizational knowledge or learning. On a high level, “transaction cost economics also can be reduced to tautology: hierarchical forms of governance will replace market forms of governance when the costs of market governance are greater than the costs of hierarchical governance. Indeed, this is known as Coasian tautology.” (Barney, 2001)

From a strategic point of view, the transaction cost theory both complements and competes with the resource- and capability-based views (Williamson, 1999). It has been suggested that a more integrative view of combining elements from both the transaction cost economics point of view and the resource-based point of view should be pursued, as previous research has shown that neither fully explains the mechanisms between the organizations and their performance implications (Combs & Ketchen Jr., 1999; Ahmadjian & Lincoln, 2001).

Based on the rationale explained above, I chose the relational view of the competitive advantage (Dyer & Singh, 1998) as a central model in this thesis. As written below, this choice is justified by first examining the background of the theory, its main theses, how it has been applied in previous research and finally, by discussing how the theory

addresses the context of this dissertation. The relational view explains the growth of organizations through inter-organizational linkages and how the competitive advantage is embedded in inter-company routines. The view has been influenced by both transaction cost economics and the resource-based view. This uses both advantages and problems related to the view and these issues will be discussed in the following chapters, as well as a more thorough explanation of the view.

2.2 *The relational view*

2.2.1 General

The basic underlying argument behind the relational view has been recently presented by several scholars: companies are embedded in networks of social, professional, and exchange relationships with other organizational actors. This means that the advantage an individual company has are often linked to the advantage that the network of relationships in which the company is embedded has (Grant & Baden-Fuller, 1995; Dyer & Singh, 1998; Gulati, 1998; Khanna et al., 1998; Gulati et al., 2000; Andersson et al., 2002). Relationships can be either arm's length or embedded. Embedded relationships involve the social exchange of private knowledge and self-enforcing governance (Uzzi, 1999). Arm's length ties "are characterized by lean and sporadic transactions and function without any prolonged human or social contact between parties" (Uzzi, 1999). The parties involved in the exchange do not need to enter into recurrent or continuing relations as a result of which they would get to know each other better. The main proposition related to arm's-length ties is that "they determine the degree to which an actor can access heterogeneous information in a market, even if that information is publicly available through advertising or publicity, as actors use network ties to search for opportunities and investments" (Uzzi, 1999).

The related concept of weak, non-intense, infrequent ties that are restricted to a narrow type of relationship has been discussed by Granovetter (1973). Granovetter hypothesized that a company having diverse weak ties would have access to more resources and more knowledge. This in turn provides both opportunities and constraints

for companies and can have implications for their behaviour and performance. Viewed from this standpoint, much of the research on strategic alliances represents an under-socialized account of company behaviour. (Gulati, 1998) It was, however, emphasized by Dyer and Singh (1998) that arm's length relationships or weak ties cannot act as sources for a long-term competitive advantage, as they are not rare or difficult to imitate. Some special qualities or routines in the relationship must exist in order for the parties involved in sustainable competitive advantage to obtain it.

The theory of relational rents has been derived from the characteristics of arm's length relationships. By reflecting the basic propositions behind theorizing with arm's length relationships and considering the requirement of sustainability and non-imitability, the basic arguments for the sources of relational rents and their preserving mechanisms can be derived. Many of the concepts in the relational view also relate to transaction cost economics and Williamson's (1985) discussion on companies, markets and relational contracting. Before discussing the actual determinants of relational rents, processes facilitating relational rents and the preserving mechanisms, the notion of relational rent must be considered.

Dyer and Singh (1998) define the relational rents as "a supernormal profit jointly generated in an exchange relationship that cannot be generated by either company in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners". This type of definition poses challenges when categorizing the relational rents in light of previous research. A discussion on economic rents follows below.

All economic rents are based on scarcity. "Earnings in excess of breakeven are called rents, rather than profits, if their existence does not induce new competition" (Peteraf, 1993). Four basic types of economic rents are usually distinguished: Ricardian rent, Schumpeterian rent, Pareto rent, and monopoly rent. The rent generation of resource-based view is mostly based on Ricardian rents. "According to the Ricardian logic, heterogeneity in performance is due to ownership of resources that have differential productivity" (Makadok, 2001b). Thus, an organization must "outsmart" other organizations by picking the right resources, those capable of generating the economic

rent. Schumpeterian logic, on the other hand, emphasizes capability-building rather than resource picking (Makadok, 2001b). Unlike resources, capabilities are based on developing, carrying, and exchanging information through the organization's intellectual capital (Amit & Schoemaker, 1993). "Capabilities reflect an organization's ability to achieve new and innovative forms of competitive advantage" (Teece et al., 1997). Schumpeterian rent occurs when competitors take time to build the capabilities developed by the market leader. Hence, the scarcity related to Schumpeterian rent is temporal. The dynamic capabilities model and the knowledge-based view can be said to be based on the Schumpeterian logic. It can also be seen that Schumpeterian rent is the source of other rents. Pareto rent is defined as "the difference between the payments to a resource in its best and second best use" (Amit & Schomaker, 1993). Pareto may also be referred as quasi-rent — suggesting that the rents are not permanent in nature (Dyer & Singh, 1998). Monopoly rent occurs when the scarcity of the resource is artificially limited or governed by an authority (i.e., government or other regulatory body).

What makes the interpretation and operationalization of relational rents challenging is that Dyer and Singh's (1998) definition includes Pareto, Ricardian, and Schumpeterian logic. Even though the developers categorize relational rents as a type of quasi-rent (Dyer & Singh, 1998), the definition of Pareto rent does not fully address all of the aspects of the relational view. In previous literature, the relational view has often been categorized as an extension of the resource-based view (Hillman & Hitt, 1999; Ahuja, 2000b; Griffith & Harvey, 2001; Hite & Hesterly, 2001; Kotha et al., 2001; Farjoun, 2002; Douglas & Ryman, 2003) or representing the knowledge-based or capabilities-based views (Gulati, 1999; Chung et al., 2000; Doh, 2000; Kale et al., 2000; Kogut, 2000; Stuart, 2000; Rosenkopf & Nerkar, 2001; Sarkar et al, 2001; Mustakallio et al., 2002). As I will explain in the following chapters, the different sources for relational rents consist of such elements that Pareto, Ricardian, Schumpeterian, and sometimes even monopoly rent generating logic can be found in them. Thus, the relational view can be loosely labeled as a type of "meta-theory" that has been built on the theoretical foundations of multitude of previously separate streams of theoretical literature. By doing so, it addresses a question not directly addressed before and offers normative prescriptions that contradict the previous explanations (Dyer & Singh, 1998; Doh, 2000; Donada, 2002; Douglas & Ryman, 2003). On the other hand, comprehensiveness

usually correlates with complexity and abstraction level. It may be more difficult to apply the model by using the previously known application models and methods, as it requires operationalizing a single entity that consists of various interrelated parts. I discuss these parts, the determinants of relational rents, and the facilitating sub-processes below.

2.2.2 Sources for competitive advantage

In their model, Dyer and Singh (1998) identified four sources of inter-organizational competitive advantage based on previous research:

- Relation-specific assets
- Knowledge-sharing routines
- Complementary resources/capabilities
- Effective governance

The notion of relation-specific assets and more specifically, asset specificity, can be traced back to transaction-cost economics and arguments made by Williamson (1985). Williamson (1985) stated that “asset specificity refers to durable investments that are undertaken in support of particular transaction, the opportunity cost of which investment is much lower in best alternative uses or by alternative users should the original transaction be prematurely terminated” and “at least four different types of asset specificity are usefully distinguished: site specificity, physical asset specificity; human asset specificity; and dedicated assets.” Hence, the assets invested in the relationship can be location-bound (e.g., a certain geographical proximity to the production facilities of co-operating parties), physical (e.g., property, production facilities, plant, or equipment), or human (e.g., personnel working in a joint venture) (Amit & Schoemaker, 1993; Teece et al., 1997; Dyer & Singh, 1998). Dedicated asset specificity refers, for example, to investments in expanding an existing plant on behalf of a particular partner (Williamson, 1985). Evidence of relation-specific assets as a source for competitive advantage was found by Dyer (1996). Dyer carried out a survey of the supplier network of the automotive industry. One of the conclusions was that specialization and heavier involvement in the design process generated extraordinary returns for the supplier network members. Bensau and Anderson (1999) found in their research on automaker

suppliers that specific assets also provide a way of coping with a scarcity of qualified suppliers, particularly as part of the larger relationship between two companies.

Two key sub-processes that influence the ability of partners to generate relational rents through relation-specific assets are the duration of safeguards and the volume of inter-organizational transactions (Dyer & Singh, 1998). Williamson (1985) formulated the notion of safeguards with the following imperative: “organize transaction so as to economize on bounded rationality while simultaneously safeguarding them against the hazards of opportunism.” Safeguards can take several forms, for example, common ownership or a contract period. Poppo and Zenger (2002) referred to trust as a self-enforcing safeguard. I will deal with the notion of trust and other safeguards in paragraphs below in connection with effective governance. According to Dyer and Singh (1998), it is the duration of the safeguards that affects the potential to generate relational rents.

The volume (both scale and scope) of the transactions is a self-evident sub-process facilitating relational rents under the relation-specific assets. The concept of volume can be compared with the economies of scale in production operations. According to transaction cost economics, the frequency of transactions is a relevant dimension when considering the asset specificity. One reason for this is that the cost of specialized governance structures would be easier to recover for large recurring transactions (Williamson, 1985; Dyer & Singh, 1998).

Knowledge-sharing routines — the second source of a competitive advantage in the relational view — are defined as “a regular pattern of inter-company interactions that permits the transfer, recombination, or creation of specialized knowledge” (Grant, 1996; Grant & Baden-Fuller, 1995). Intense interaction indicates that the parties in the relationship have both a great incentive and opportunity to share knowledge (Ahuja, 2000b). In fact, there is a distinct class of “learning alliances” where the primary purpose of the co-operation is to share knowledge and learn from each other (Khanna et al., 1998). The ambiguous definition of knowledge must be briefly discussed to fully understand the implications of the concept of knowledge in the theory; this I do below.

The classical theory of knowledge says that (Goldman, 1986; Niiniluoto, 1999):

X knows that p, iff

- a) *X believes (is convinced that) p,*
- b) *X has evidence that p,*
- c) *p is true.*

Condition a) separates knowledge from a *guess*, b) from an *assumption*, and c) from a *mistake*. In short, the classical theory states, that knowledge is a *well-justified, true belief*. From the point of view of management and human sciences, this definition has some shortcomings.

For example, content of knowledge is an assertion or a group of assertions in the form of a proposition. The knowledge object can be a single phenomenon, a process or a fact (singular knowledge) or laws and causalities (general knowledge). The subject of the knowledge is usually considered a person, a human that knows. In the case of organizational knowledge, knowledge is *inter-subjective*, i.e., it is shared by a group of people (Niiniluoto, 1999). In the case of inter-subjective knowledge, however, it is very hard to define whether the content of the knowledge is the same, especially if the content is something else than factual knowledge (subjective knowledge, tacit knowledge, etc.; these concepts are discussed later on). In the scope of this theory, it can be assumed that, if the content and the object are *nearly enough* similar to several individuals, the knowing subject can be a group of individuals, i.e., an organization. This is an awkward definition and it can only be measured by observing the members of the organization and their application or expression of their knowledge. To test a hypothesis, one would need to develop gauges for inter-organizational differences in the stock of proprietary tacit knowledge (McFetridge, 1995). It has also been suggested, by Spender and Grant (1996), etc., that organizations could as such be learning entities, in addition to individuals: “While an individual’s knowledge is inherently transferable, moving with the person, the social types of knowledge are either publicly available or collective and embedded in the company’s routines, norms and culture”. This view makes the utilization of knowledge in management sciences even more problematic: it is less clear what it is about an organization that facilitates the generation and

subsequent application of such knowledge and learning. (Spender & Grant, 1996) Even more unclear is how to actually measure or operationalize these concepts.

In this dissertation, knowledge is considered a “dynamic human process of justifying personal belief toward the ‘truth’” (Nonaka & Takeuchi, 1995). Furthermore, a distinction is usually made between two different types of knowledge: “knowing that” and “knowing how” (expertise). “Knowing that” is based on propositions; one can always articulate what is known. Expertise can be articulable, i.e., explicit, or not articulable, i.e., tacit (Polanyi, 1966; Nonaka & Takeuchi, 1995; Orlikowski, 2002). Especially in industries where science and technology rapidly advance, collaborative arrangements between companies are likely to occupy an important role in the transfer and integration of explicit knowledge (Grant & Baden-Fuller, 1995). The relational view focuses on the routines of how knowledge is shared, and therefore partly succeeds in escaping the tricky operationalization of knowledge itself.

Under knowledge-sharing routines, key sub-processes are partner-specific absorptive capacity and incentives to encourage transparency and discourage free riding (Dyer & Singh, 1998). Absorptive capacity is defined as the ability of a company to recognize the value of new external information, assimilate it, and apply it to commercial ends (Cohen & Levinthal, 1990). This is a function of the company’s level of prior related knowledge and the capacity may also be partner-specific (Cohen & Levinthal, 1990; Dyer & Singh, 1998). Repeated interactions and relationships seem to improve the capability transfer tacit information (Rosenkopf & Nerkar, 2001). The complexities of absorptive capacity lie in the tacitness of inter-organizational co-operative routines. Thus, specific investments of managerial time and effort to learn from past co-operative experiences may be important for cultivating relational capabilities. This may require, e.g., identifying, codifying, and discussing systematically the activities that were carried out in the past (Zollo et al., 2002).

Informal and formal incentives also facilitate knowledge-sharing routines. These incentives may be formal (e.g., equity arrangements) or informal (e.g., dense social interactions) (Dyer & Singh, 1998). Common goals and a shared vision between the

parties may also be informal incentives to share knowledge; these kinds of mechanisms relate to the theory of social capital (Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998).

The third source for competitive advantage is complementary resources and capabilities. In other words, the organizations are mutually supplying what the other organization lacks. It means that the alliance partners have distinctive resources or capabilities that collectively generate greater rents than the sum of those obtained from the individual provisions of each partner (Dyer & Singh, 1998). External linkages between organizations have an important bearing on the rate and direction of innovation and on how competences and capabilities co-evolve (Teece et al., 1997). Capabilities refer to an organization's ability to deploy resources, usually combined, using organizational processes to achieve the desired end (Amit & Schoemaker, 1993). In dynamic high-technology markets, this refers to integrating, building, and reconfiguring internal and external competencies to address rapidly changing environments (Teece et al., 1997; Eisenhardt & Martin, 2000). The generation of relational rents may also require the ability to identify and evaluate potential complementarities and depends on the role of organizational complementarities to access benefits of strategic resource complementarity (Dyer & Singh, 1998); for example, reputation is often highlighted as an intangible resource in studies investigating internationalization (Kotha et al., 2001). Organizations that have reputations or brands that complement each other (e.g., the other organization is known in different geographical areas) may have a higher probability of success in internationalization than the alliance partners would have separately. Identifying the right alliance partners is the key to generating relational rent and, according to Dyer and Singh (1998), the identification ability can increase through three factors:

1. prior alliance experience
2. investment in internal search and evaluation capability
3. ability to obtain information through social networks

Thus, one sub-process that facilitates the generation of complementary resources and capabilities is the ability to identify and evaluate complementarities.

Leveraging an organization's strategic capabilities with access to the complementary capabilities of other organizations requires that the organization's own processes,

systems, and cultures support the activity as well as offering a certain degree of complementarity with the other party (Dyer & Singh, 1998; Chung et al., 2000). In other words, even though there would be strategic complementarity between the parties, it may not realize, without the organizational complementarity and competence to take advantage of the complementarities. This is the other sub-process facilitating complementary resources and capabilities.

The last of the sources for relational rents is effective governance. Organizations must control, direct, and influence the actions and conduct of the parties in the relationship. The actors and stakeholders of the relationship exert a determining or guiding influence in or over the relationship.³ Governance plays a key role in the network relationships because “it influences transaction costs as well as the willingness of alliance partners to engage in value-creation initiatives” (Dyer & Singh, 1998). Inter-organizational relationships are complex organizational arrangements that can require multiple levels of internal approval, search issues in identifying partners, and detailed negotiations and contracts (Ring & Van de Ven, 1994). The possession of relationship formation capabilities can therefore be a significant resource for companies due to the managerial challenges associated with forming and managing the relationship networks (Gulati et al., 2000).

Governance in inter-organizational relationships can be further divided into two categories according to the enforcement: third-party enforcement (e.g., legal contracts) and self-enforcement (e.g., trust, reputation, financial hostages). Self-enforcement is further divided into formal and informal (Dyer & Singh, 1998). Since its beginnings, transaction cost economics has been concerned with governance, and minimizing the costs of different governance mechanisms (Williamson, 1979; 1999). In transaction cost economics, “governance is a means by which to infuse *order* in a relation where potential *conflict* threatens to undo or upset opportunities to realize *mutual gains*” (Williamson, 1999, emphasis in original). In addition, “governance emerges from the values and agreed-upon processes found in social relationships” (Poppo & Zenger, 2002).

Formal contracts are crafted for the purposes mentioned above. The more risks and potential conflicts there are, the more complex the contract will be. “The more complex is the contract, the greater is the specification of promises, obligations, and processes for dispute resolution” (Poppo & Zenger, 2002). Furthermore, the more complex the contract is, the more costly it will be to create and enforce it. This is the dilemma of transaction cost economics and third-party enforcing. More formal governance means more costs through negotiation and enforcement; less formal governance means more risks and hence more costs through risk management. In the relational view, it is considered that the ability to employ more self-enforcing safeguards rather than formal contracts facilitates the creation of relational rents due to self-enforcing mechanisms minimizing transaction costs and maximizing the possibility of value-creation initiatives. (Dyer & Singh, 1998)

The importance of self-enforcing safeguards in inter-organizational activities has been widely recognized in previous literature (Williamson, 1985; 1999; Ring & Van de Ven, 1995; Das & Teng, 1998; Dyer & Singh, 1998; Gulati, 1998; Nahapiet & Ghoshal, 1998; Uzzi, 1999). A frequent example of informal safeguard, especially in the social relationship literature stream, is trust or trustworthiness. The concept of trust here is defined as confidence in the goodwill of others. Trust and its underlying normative behaviours may operate as a self-enforcing safeguard that is a more effective and less costly alternative to both contracts and vertical integration (Poppo & Zenger, 2002). The interaction between trust and co-operation is also two-way: trust lubricates co-operation and co-operation itself breeds trust. Where there is more trust, people are more willing to take risks in the exchange of knowledge (Nahapiet & Ghoshal, 1998). It emphasizes faith in moral integrity or goodwill, which is produced through interpersonal interactions that lead to social-psychological bonds of mutual norms, sentiments, and friendships in dealing with uncertainty (Ring & Van de Ven, 1995). Previous research has shown that trust is created from a shared vision and interaction ties and that trust and trustworthiness may result in different levels of resource exchange and combination (Tsai & Ghoshal, 1998). Tsai (2000) also stated that the benefits of intra-organizational strategic linkages can be achieved only if trustworthiness exists among organizational units. Transaction cost economics, however, considers trust to be

³ Definition of governance adopted and modified from the Merriam-Webster On-line Dictionary

either an “environmental” variable that creates differences in contracting needs or a “weakness” of the contracting parties that makes the contracts fragile and subject to exploitation by more opportunistic agents (Williamson, 1985). To express this more clearly, from purely a transaction cost economics point of view, trust is just another hazard of opportunism that may cause the organization involved in the relationship to incur costs. This kind of approach has recently been rejected by many of the management scholars and trust has been seen as a positive force in inter-organizational relationships that should also be considered in addition to transaction costs (Gulati, 1995).

Gulati (1998) noted that a social network of prior ties promotes trust. Informal self-enforcing safeguards are, however, subject to two key liabilities: they require substantial time to develop, as they require a history of interaction and personal ties and they are subject to the “paradox of trust”, which means that trust provides the opportunity for abuse (Dyer & Singh, 1998). Locke (1999) pointed out that putting too strong an emphasis on personal relationships and trust generated through them might lead to creating “politics” (i.e., who you know rather than what the facts are) in organization’s dominant operating philosophy, which is not the desired situation.

Figure 3 summarizes the determinants of relational rents and the key sub-processes facilitating them.

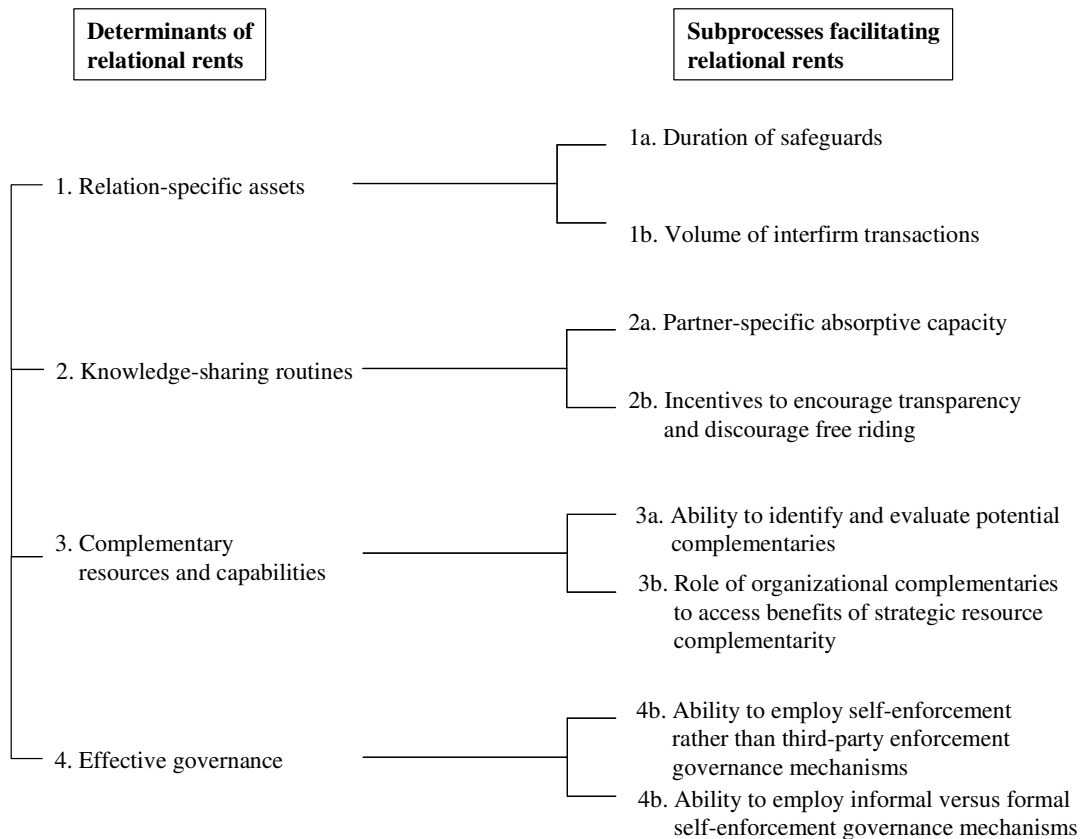


Figure 3. *Determinants of inter-organizational competitive advantage (Dyer & Singh, 1998)*

The concepts and processes described in this chapter and depicted in the figure above define the overall framework as to how relational rents are created, and thus competitive advantage, through inter-organizational relationships. In the following chapter, I deal with the mechanisms that may preserve the relational rents.

2.2.3 Preserving mechanisms

According to Dyer & Singh (1998), the following mechanisms preserve relational rents:

- Causal ambiguity
- Time compression diseconomies
- Inter-organizational asset interconnectedness
- Partner scarcity (rarity)
- Resource indivisibility (co-evolution of capabilities)
- Institutional environment

Causal ambiguity occurs when the link between the resources, capabilities, or activities of an organization and its sustained competitive advantage is not understood, or understood only imperfectly. This is one of the very root problems of all social sciences, although it is also a pragmatic problem for managers. It cannot be assumed that the processes leading to competitive advantage are both deterministic and continuous. The stochastic nature of the process may stem from the inability to identify some of the relevant variables as well as the inability to control them (Dierickx & Cool, 1989). This is especially the case with the complex and situation-specific processes, i.e., the development of trust (Dyer & Singh, 1998).

Time compression diseconomies are related to the Schumpeterian logic of rent generation; for example, tacit knowledge or capabilities take time to develop and time, as such, cannot be bought or sold in the marketplace (Dierickx & Cool, 1989; Amit & Schoemaker, 1993; Teece et al., 1997). Time compression diseconomies and imitability are related; basically, most resources, capabilities, and mechanisms can be imitated, it is only a matter of how long it takes to do so. High absorptive capacity in an organization means that a certain capability may be imitated more quickly and thus decreasing the effect of time compression diseconomies.

Even though described as a “mechanism not discussed previously in the literature” (Dyer & Singh, 1998), the concept of asset interconnectedness is quite similar to the “interconnectedness of asset stocks” as discussed by Dierickx and Cool (1989), etc. In the relational view, the concept is just extended beyond the organizational boundaries. As an example of asset interconnectedness, Dyer and Singh (1998) used a case from the automotive industry, comparing the ways that Nissan and GM operate with their suppliers. By building plants on adjacent properties, Nissan and its supplier created a connection between their assets. The investments created a situation where the physical proximity of the plants acted as a preserving mechanism for their joint co-operation. GM’s supplier, on the other hand did not make any site-specific investments so this kind of preserving mechanism was not created and there was no incentive to make further relation-specific investments.

Partner scarcity is one of the basic underlying preserving mechanisms of relational rents. The fewer potential partners there are in the market, the less possibilities there are for companies to create a sustainable competitive advantage through inter-organizational relationships. A partnership of two companies creates a competitive advantage for the parties as competitors “cannot find a partner with the requisite complementary strategic resources or relational capability” (Dyer & Singh, 1998). In addition to a preserving mechanism, partner scarcity is, of course, one of the prerequisites for the initial creation of the rent.

Resource indivisibility is a preserving mechanism based on the Ricardian logic of rent generation. If the complementary resources jointly generated in an inter-organizational relationship are such that others cannot replicate or buy them, a competitive advantage over other competitors has been created. Indivisible resources are, according to the resource-based view, valuable, rare, and difficult to imitate (Barney, 1991). “The use of external resources, acquired through long-term relationships, can generate growth and can help in the pursuit of opportunities” (Beekman & Robinson, 2004). Competitors cannot access the resources of a potential partner, as these resources may have co-evolved with another company (Dyer & Singh, 1998).

The last preserving mechanism is institutional environment. As an example of a different institutional environment preserving relational rent, Japanese companies incur lower transaction costs than U.S. companies and generate higher relational rents, in part because of a country-specific institutional environment that fosters goodwill, trust, and co-operation (Dyer & Singh, 2003; Huff & Kelley, 2003). Learning or the transfer of tacit knowledge is thus contingent upon the exchange environment and the mechanisms that exist between the alliance partners (Kale et al., 2002). In the context of Japanese companies, environment refers to the different cultural environment. Kotler (2000) has identified six different “forces” that may also be used as different contexts from which the institutional environment can be approached: demographic, economic, natural, technological, political-legal, and social-cultural. As these forces also have causal interactions, they cannot be artificially separated from each other.

2.3 Application of relational view in this dissertation

The comments made on the relational view are mainly related to the applicability and usability of the theoretical framework (Molina, 1999). It has been argued by Molina (1999) that shifting the unit of analysis from the individual company to the inter-organizational relationship(s) does not essentially contradict the previous theories — as a resource-based view — and that this kind of new model is not required. Instead, the old models should be reformulated to fit the new perspective. Developers responded to this commentary stating that there are some differences and in some instances, it offers an independent set of explanation on how companies earn rents (Dyer, 1999). The applicability of the relational view in different types of networks and IORs has been questioned. One must be aware of the different types of networks when applying Dyer and Singh's (1999) model and it is best suited for only certain types of network structures and not for all network structures (Molina, 1999). New insights about competitive advantage can, however, be gleaned by studying networks and inter-organizational relationships (Dyer, 1999). The most recent research implies that the relational view may even better explain why some companies succeed better through inter-organizational relationships as compared to the resource-based view or transaction cost economics (Donada, 2002).

To illustrate the operationalization of the theory, I give a few examples of concepts from the relational view, how they address the topic of this dissertation, and how the issues have been approached in previous works. Knowledge-sharing routines offer answers to the research questions of this dissertation by explaining how internal corporate venture organizations learn from their internal co-operation partners and external market actors through these routines and are thus more innovative (Ahuja, 2000a). “Depending on the alliance form, the nature and type of resource allocations will be different, as will the process of learning, motives for learning, competitive dynamics, learning mechanisms, and knowledge types” (Inkpen, 2000a). Relation-specific assets explain the international competitive advantage of internal corporate ventures purely by implying that the volume of resources committed to international inter-organizational transactions leads to the internationalization and onto the creation of a competitive advantage. The duration of safeguards in these relationships also addresses the research question as safeguards are necessary pre-requisites in internal

and external relationships to ensure the continuity of co-operation and hence facilitate the benefits gained from the relationship. The resource endowments in the relational view address the research question of this dissertation by suggesting that concrete resources must be endowed by the parties in a relationship. Only through this mechanism is the creation of an international competitive advantage possible. A venture operating in an international environment must commit resources to the relationships in order to succeed and outperform its competitors and grow. The institutional environment has been explored for preserving mechanisms in previous research; for example, Huff and Kelley (2003) compared the level of trust in organizations in seven nations. Kotabe et al (2003) investigated the difference between U.S. and Japan. In the internationalization literature stream, the institutional environment has also been an issue. Reardon et al. (1996) had several variables related to the environment, e.g., culture, in their study of service company internationalization. Sherman et al. (1998) investigated the effect of regulatory environment on international growth and Zahra et al. (1997) studied the domestic competitive environment. The different variables analyzed in the previous internationalization research are discussed in more detail in Chapter 3.

One of the basic premises in this dissertation is that the relational view addresses the questions of this dissertation by offering an overall framework for analyzing the different aspects of inter-organizational relationships of internal corporate ventures and their effect on the creation and sustainability of an international competitive advantage. I suggest that this theoretical lens is suitable for investigating, describing, and explaining the phenomena within the scope of this research. This statement is further justified in the following chapters by exploring previous literature for corporate and international venturing. I intend to show, based on previous literature, that corporate venturing and international growth are phenomena where the role of inter-organizational relationships is essential, the research questions are relevant and that there is an identifiable gap in the literature.

3 Review of previous literature on venturing

In this chapter, I analyze the previous research on the concepts important to this dissertation: venturing, new business generation in dynamic industries and creation of international growth. Where the previous chapter concentrated on the general theoretical foundations behind this research and how the inter-organizational relationships are interpreted and analyzed, this chapter outlines how the topical research areas have been investigated and treated in the past. The themes of venturing, internal corporate venturing and venturing as an option for international growth are treated separately and conclusions from the literature analysis are drawn at the end of the chapter.

The concept of corporate venturing has been widely discussed in previous works and the highlights of these works from the point of view of this dissertation are presented in this chapter. There are similarities and links between the literature on independent venturing and corporate venturing; therefore, this chapter also includes pointers to research on venturing in general, even though the empirical part focuses on investigating only internal corporate ventures. Understanding how independent and corporate ventures differ is one of the objectives of this chapter. The results concerning the performance of corporate ventures and independent ventures are mixed, perspectives vary, and the research on the subject in general is vast and sometimes confusing in its diversity.⁴

3.1 Overview of venturing and entrepreneurship

“The meaning of *entrepreneurship* is intimately bound up with the concept of uncertainty” (Jones & Butler, 1992; emphasis in original). Uncertainty, lack of sureness about the something, mainly caused by the complexity of reality and inability to forecast state of affairs in the future, may range from a falling short of certainty to an almost complete lack of conviction or knowledge especially about an outcome or

⁴ For a more thorough analysis of previous works, I recommend Backholm (1999) and Thornhill & Amit (2001).

result.⁵ Uncertainty precludes the setting of objective probabilities and one of its manifestations is variable returns (Jones & Butler, 1992; McGrath, 1999). “In an uncertain environment – that is, when the parameters that influenced the more the future states of nature are unforeseeable – the question is not so much knowing whether it is profitable to invest but whether it is opportune to invest immediately instead of waiting.” (Sauner-Leroy, 2004).

As stated by McGrath (1999), entrepreneurship creates new processes, puts underutilized resources to new uses and initiates the formation of new industries. Early studies on entrepreneurship were mainly studies on innovation and new business development. Innovation is seen as a departure from the status quo; an opportunity to not face the restricting control of mature operations is a prerequisite (Schumpeter, 1934). Penrose (1959) and Schumpeter can be said to be the early “pioneers” explaining innovation and development of new business, Schumpeter mainly with economic terms and Penrose with early forms of resource-based arguments. Ansoff (1965) addressed the question of business development from the corporate strategy point of view, stating that corporate strategy is considered a guideline setting the scope for where the company should be involved in. Similarly, the questions of innovation and diversification in large organizations were tackled from different perspectives by Burns and Stalker (1961), Marquis (1969), Bower (1970), Kirzner (1973), von Hippel (1977), and Cooper (1979).

Table 1 compares the characteristics of independent ventures (IV) and corporate ventures (CV) as collected from different sources. It can be seen that several substantial differences have been found between these two types of ventures. The results related to the performance, profitability, ROI and the origin of ventures, however, are mixed (McDougall et al., 1992). Corporate ventures compete and co-operate in market environments with similar factor endowments as independent ventures do (Backholm, 1999). According to Shrader and Simon (1997), the performance differences between the two venture types are not significant.

⁵ Description of uncertainty adopted and modified from Merriam-Webster Online Dictionary

Table 1. Independent and corporate ventures (modified from Shrader & Simon, 1999 and Zahra, 1996)

Capital
CVs frequently have access to more capital. The retained earnings or depreciation charges of the corporate parent may allow them to move into new markets.
CVs can frequently obtain outside capital more cheaply than other newcomers can.
The funds of CVs are provided through politicized budgetary processes.
IVs supported by venture capital companies may have a longer term commitment of funds. Often the timing of cash inflows is consistent with the business development process.
Controls
CVs have multiple review levels.
CV sponsors impose tight cost controls and strict, relatively short-term quantitative targets.
IV managers have a great deal of autonomy.
IVs do not suffer from bureaucratic inertia.
IVs have simple, centralized structures, allowing for quick action.
Managerial motivations
CV managers often view venture assignments as unwelcome.
CV managers must balance a variety of political and corporate objectives that pull the venture manager in different directions.
CV managers are often evaluated on how closely they adhere to a plan.
IV founders are oriented toward the ends achieved, as they are compensated based on venture performance.
IV founders must make a success of the venture, as they do not have the luxury to be in business with high, continual losses.
IVs have clear and definite objectives.
Personnel and functional orientation
CVs have easier access to executives from diverse functional areas.
CVs emphasize the marketing function.
IVs top management teams are more likely to be dominated by personnel with technological backgrounds.
IVs may have greater access to entrepreneurial managers.
Assets provided by the parent companies of CVs
CVs may be able to gain from the brand reputations or trademarks of the parent company.
CVs, through the existing facilities of parent companies, may have access to effective distribution systems and dealers at a low cost.
CVs may be able to exert more control over input suppliers through entry by vertical integration.
CVs may be able to access the underused capacity of their parent companies, thus gaining economies of scale.
Technology strategy and performance
Heavy R&D spending, the use of both internal and external R&D sources, frequent product introductions, and patenting seem to be positively associated with the performance of CVs.
Pioneering, a focus on applied R&D, and the extensive use of internal R&D sources seem to be positively associated with the performance of IVs

These differences comprise the context of corporate ventures as they differ from independent ventures; therefore, the propositions that also apply to independent ventures do not necessarily apply to corporate ventures. In particular, the context of internal environment and the role of politics are emphasized with corporate ventures. Corporate venture managers face the risks of being an entrepreneur combined with the internal politics and bureaucracy of large corporations and without the possibility of

similar awards and with the risks of losing their career in the organization. While independent entrepreneurs often face the loss of personal assets and life, corporate entrepreneurs do not invest their own money in the venture, although they risk their personal career by carrying out entrepreneurial activities. The different governance mechanisms needed to support corporate entrepreneurship has been recently studied by Zahra et al. (2000b), Chesbrough (2000) and Chesbrough and Socolof (2000).

Chesbrough (2000) and Chesbrough and Socolof (2000) further identified the differences between corporate venturing and venture capital. When comparing these two, differences can be identified at least in the dimensions of scale, scope, goal, success measures, portfolio approach, focus of work, governance, decision-making, funding, compensation and environment (Chesbrough & Socoloff, 2000). Therefore, corporate ventures cannot do well by just mimicking venture capital companies, but they must be able to leverage potential advantages of corporate ventures (Chesbrough, 2000).

Different categorizations have been suggested for corporate venturing in the previous literature. According to Zahra (1996b), corporate entrepreneurship, in general, includes radical product innovation, risk taking, proactiveness, business venturing, intrapreneuring, and organizational renewal. Corporate entrepreneurship has two basic dimensions: innovation aimed at business creation and venturing, and strategic renewal. These dimensions can be seen as company processes, which systematically interact with corporate venturing. Studies on diversification, capability development and organizational learning are also linked to the study of corporate venturing (Backholm, 1999; Keil, 2003).

On a high level, the most common categorization of corporate venturing is done into two main categories: internal and external. In internal corporate venturing, ventures are kept within the established organization and therefore have a strong link to them. External corporate venturing, on the other hand, refers to activities where the parent organization does not necessarily wholly own the venture and that result in the creation of semi-autonomous or autonomous organizational entities that reside outside the existing organization (Sharma & Chrisman, 1999; Keil, 2003). The modes of external

venturing are corporate venturing capital, venturing alliances and transformational arrangements, e.g., acquisitions and spin-offs. Even though this study mainly focuses on internal venturing, external venturing modes and their related strategies are quite often used to support internal corporate ventures and the distinction between these two forms is sometimes artificial in practice. During its life-cycle, a business unit within a corporation may start as an internal corporate venture and at the same time, invest corporate venturing capital or make acquisitions; it may be incorporated and finally spun-off as an independent company (Parhankangas & Arenius, 2003).

Campbell et al. (2003) categorized corporate ventures according to objectives set for them. While the common joint objectives were always new business creation and growth, four additional subcategories were found. These categories included ecosystem venturing, innovation venturing, harvest venturing and private equity venturing. “Ecosystem venturing supports and encourages a company’s network of customers, suppliers and complementary businesses; innovation venturing improves the effectiveness of some of a company’s existing activity; harvest venturing increases a company’s cash resources by harvesting its spare intellectual property or other assets; private equity venturing diversifies a company’s business into the venture capital industry.” (Campbell et al., 2003)

It can be concluded that most of the research that has been made about venturing and new business creation apply on all types of ventures, corporate and independent, internal and external. However, there are some issues that are specific to internal corporate ventures. In the next section, I focus specifically on internal corporate ventures and the previous literature on them.

3.2 Internal corporate venturing

The literature on internal corporate venturing and entrepreneurship started to bloom in the 1980s. Burgelman (1983a, 1983b, 1984a, 1984b, 1988) published several pieces of research on the subject, depicting the process models and its relationship to the corporate strategy process. Macmillan et al. (1986) provided different alternatives for corporate venturing and discussing the effects of experience on performance as well as

the parent organization's support options for the venture. Several studies were published on the performance and success factors of corporate ventures (Sykes, 1986; Miller et al., 1988; Sykes & Block, 1989; Miller et al., 1989; Sykes, 1992). Issues of compensation and importance criteria were addressed by Block and Ornati (1987), Desarbo et al. (1987), Chesbrough, (2000) and Chesbrough and Socolof, (2000). Measurement and reward issues arise, as it is often misleading to measure new venture performance in the same way as an established business is measured (Backholm, 1999).

In the 1990s, studies on radical innovation, organizational learning, and inter-organizational relationships started to be more common in corporate venturing literature. More structured frameworks were also sought. Kuratko et al. (1990) identified three groups of measurable parameters, management support for corporate entrepreneurship, organizational structure and resource availability, for conditions needed to foster entrepreneurial activities within corporations. The question of measurement and parameters for corporate venture performance was addressed frequently by Zahra (1991, 1993, 1995, 1996b; Zahra & Covin, 1995; Zahra & Garvis 2000), McDougall et al. (1992), Shrader and Simon (1997), Thompson and McNamara (2001), etc. It has been explicitly suggested that corporate entrepreneurship improves company performance in the long term (Zahra & Covin, 1995). More modern and recent approaches to corporate ventures include the agency theory approach (Jones & Butler, 1992), which examined how agency problems affect the dynamics of internal corporate entrepreneurship and the level of entrepreneurial behaviour. The process of internal venturing was also discussed by Garud and Van de Ven (1992), Brazeal (1993), Hornsby et al. (1993), Day (1994), Hitt et al. (1999) and Dess et al. (1999), to name a few. Issues like championing processes, trial-and-error learning, action persistence and processes that characterize evolutionary and revolutionary changes were of interest in these process studies. Day (1994) recognized that successful entrepreneurship can be championed both top-down or bottom-up or these processes can coexist. This was an important realization, because it brought top management of the corporation more significant role in corporate venturing. According to Day (1994), "understanding the importance of a direct role for corporate top management in some ventures is crucial." On the other hand, developing successful innovations without the support of top management or even secretly from them, "bootlegging", has been suggested to produce

successful result in certain types of cultures and venturing activities (Abetti, 1997; Augsdorfer, 2005). Hence, it is uncertain whether top management support is needed, what are the conditions when it should be avoided and promoted and what kind of support leads to success and what kind of support leads to failure.

The cultural context, both internal and external to the corporation, has been identified to have an important role in innovation and corporate venturing (Dougherty, 1992). Abetti (1997) found out that attributes involved in corporate venture success included national culture, organizational setting and personal qualities of the entrepreneurs. Cross-cultural differences in individualism versus collectivism and their effects on corporate entrepreneurship were studied by Morris et al., (1994). This same issue was recently approached from corporate culture and ethical point of view by Kuratko and Goldsby (2004), who stated that “without an organization providing the proper entrepreneurial environment and ethical guidance, some middle managers may display rogue behavior in attaining these goals. In other words, they cross the line of good judgment and commit unethical acts with the hopes of personal gain.” Hornsby et al. (2000) also identified the organizational factors to support entrepreneurship from the point of view of middle managers. These factors were management support, work autonomy, rewards and reinforcement, time availability, and organizational boundaries. It has been identified that the concepts of management, entrepreneurship and leadership are intersecting (Brazeal, 1996; Cogliser & Brigham, 2004) and this holds true especially in large corporations seeking new innovations.

Knowledge- and learning-based approaches have emerged during the last few years (Floyd & Woolridge, 1999; Zahra et al., 1999; Day et al., 2001); these investigate how organizational knowledge and competences can be created, processed, and used through corporate venturing and what effect social networks have on the venture performance. Types of innovation in corporate entrepreneurship (David, 1994) and breakthrough innovations specifically (Ahuja & Lampert, 2001) have been topics in the area of innovation studies. Strategic management literature has also handled corporate venturing and its links to corporate strategy and sustainable competitive advantage (Barringer & Bluedorn, 1999; Covin & Miles, 1999) or different types of corporate

entrepreneurship and innovation as sources for economic rents (McGrath et al., 1994; McGrath et al., 1996; Miles et al., 2003).

Despite that most of internal corporate projects fail, the determinants of failure or mechanisms leading to it have been quite rarely explicitly analyzed in the impressive body of corporate venturing literature. It is widely recognized that failure is more probable than success in internal corporate venturing and many of the studies in the area include failed cases, but the internal processes that lead to failure are not fully revealed by these studies. The specific question why so many of the internal corporate ventures fail was addressed recently by Chesbrough (2000) and Campbell et al. (2003). Chesbrough (2000) described internal corporate venturing program of the company Exxon, where 19 internal corporate venturing units were established to grasp new market opportunities. None of the 19 ventures were able to reach break-even points. Campbell et al. (2003), on the other hand, stated that “although each model is subject to its own pitfalls, the greatest cause of corporate venturing failure is companies’ inability to define which model their venture unit is supposed to be following. As a result, the strategic and/or financial objectives are ambiguous, the structure and staffing decisions are out of alignment, and the unit’s managers find themselves being pushed in several directions at once.”

To be able to understand corporate venturing as a phenomenon and to further analyze the different aspects of the concept, the issue must be approached from a process perspective. The development of the organization and the operations from idea to successful business is long and includes different phases that have been investigated in the previous literature. It is beneficial to identify these phases and how they have been dealt with in the previous research. I present the different approaches more in detail in the following section.

3.3 Internal corporate venturing process

The process of internal corporate venturing has received attention from researchers, especially during the 1980s and in the beginning of the 1990s. Robert Burgelman’s dissertation and the research stemming from it (Burgelman, 1983a, 1984b, 1984a,

1984b, 1988) are among the most important pieces of work in this area. His research extended the theory of strategic management by providing a conceptual integration of literature on entrepreneurship in organizations and on the strategic process (Burgelman, 1983a). It has been argued that the venturing process is, above all, an iterative trial-and-error learning process and that action persistence — entrepreneurs continuing on a certain course of action despite experiencing negative outcome — is likely to occur in the presence of ambiguity and when slack resources are available (Garud & Van de Ven, 1992). Venturing is considered one of many strategy options for a corporation to enter a new business and the process of internal corporate venturing has several advantages and disadvantages compared with the other options, e.g., internal development or acquisitions (Roberts & Berry, 1985). The general venturing process has been described by Block and MacMillan (1993) with the following specific stages:

1. Laying the groundwork for venturing: Conditions conducive to the generation of entrepreneurial ideas are created, and the process for managing entrepreneurial activity is designed.
2. Choosing ventures: Opportunities (i.e., ideas or needs) are identified, evaluated to determine whether they are feasible and worth the effort, and then selected. Managers are selected to implement the venturing program.
3. Planning, organizing and starting the venture: The venture's location within the organization is determined, a business plan is developed, use of the required resources (people, money, plant and equipment is obtained, and operations commence).
4. Monitoring and controlling the venture: The overall venturing process is monitored and controlled, as are the day-to-day operations of the venture itself and the level of risk associated with it.
5. Championing the venture: As the new entity is expanded, institutionalized, and established as an ongoing activity of the organization, its management learns to survive and manage the internal corporate politics of venturing.
6. Learning from experience: By collecting and examining information on the venturing experience, the organization learns to manage both individual ventures and the overall venturing process more effectively.

Another point of view to internal corporate venturing process was developed by Abetti (1997). He used the analogy of human life from conception to adulthood, when describing the phases of internal corporate ventures. The phases included stillbirths, conception, gestation, adolescence and adulthood. Each phase included certain reactions and actions of corporate entrepreneurs and champions.

The details of the process model described and discussed here are mainly based on Burgelman's work; there are also some other detailed studies in the subject on how, for example, the relationship between the parent and the venture evolves as the venture matures (Garud & Van de Ven, 1992; Schrader & Simon, 1997; Sykes, 1986). Some research has suggested that employing venturing as an organization's source of growth and renewal is preferably a strategic decision (Block & Macmillan, 1993; Burgelman, 1984b). The establishment of an internal corporate venture and links to the corporate growth strategy process and goals are described below (Figure 4).

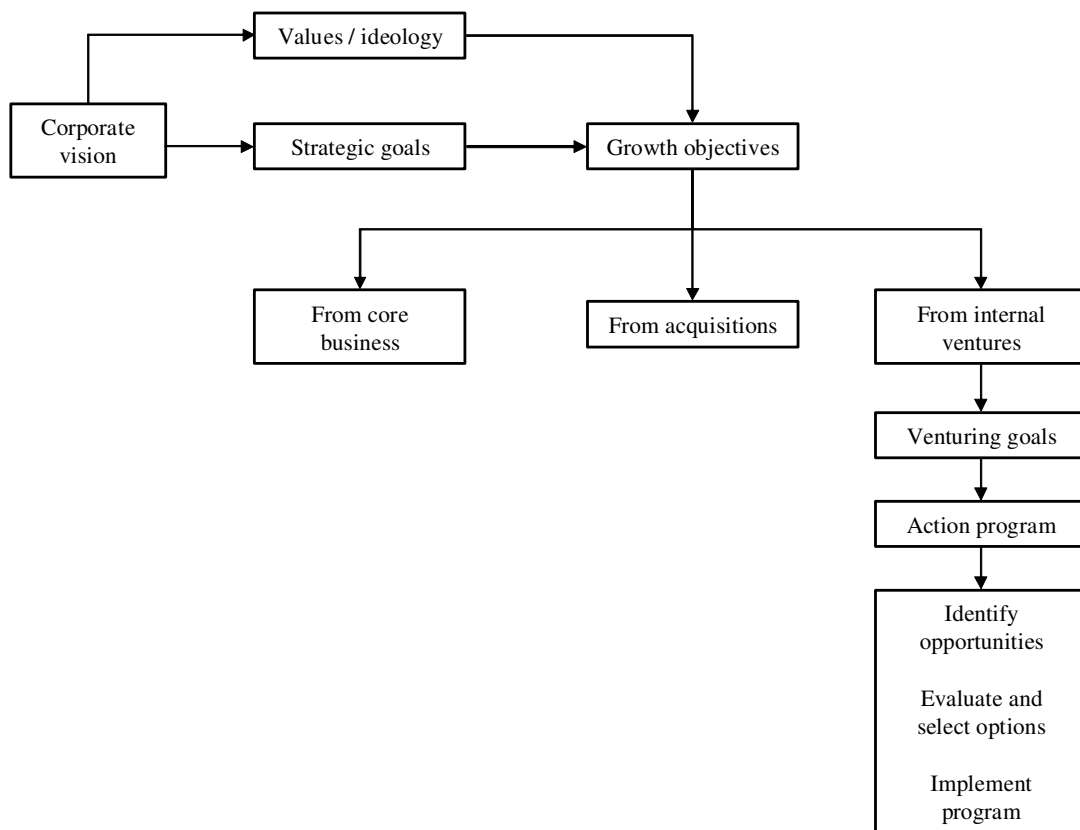


Figure 4. Venturing as a strategic growth option (Block & Macmillan, 1993)

Burgelman's (1984a) framework focuses on two key dimensions of strategic decision-making concerning internal entrepreneurial proposals: strategic importance for corporate development and operational relatedness, which is the degree to which proposals are related to the core capabilities of corporation. There are clear linkages in Burgelman's model to the resource-based view and Prahalad's and Hamel's (1990) concept of "core competence". According to Burgelman (1984a), after an assessment of the entrepreneurial proposal or activity on these two dimensions, the administrative and operational linkages must be determined and the organizational design alternatives chosen. Figure 5 describes the different organizational mode options.

Operational relatedness	Unrelated	Special business units	Independent business units	Complete spin-off
	Partly related	New product / business department	New venture division	Contracting
	Strongly related	Direct integration	Micro new ventures department	Nurturing and contracting
		Very important	Uncertain	Not important
Strategic importance				

Figure 5. Organization designs for corporate entrepreneurship (Burgelman, 1984a)

Three major issues and potential problems have been identified in the implementation of these design alternatives: the communities of interest and interdependencies, reward systems and dynamic nature of strategic importance and operational relatedness (Burgelman, 1984a). A better understanding of the entrepreneurial process at the corporate level may reduce the size of the oscillations in commitment to corporate entrepreneurship, as well as provide better and earlier evaluation of the merits of particular entrepreneurial projects (Burgelman, 1983a). The venture must also

determine which activity should be the venture's focal point and major driver, which is determined by what major challenges must be met if the venture is to succeed (Block & MacMillan, 1993). From the venture manager's point of view, the organizational design of the venture, the operational relatedness and communication with the parent organization are key issues; the available resource and strategic moves may be determined and limited depending on the decisions made about these matters; for example, the options related to international market entry will depend on the financial resources available from the parent organization.

Sorrentino and Williams (1995) studied 88 corporate ventures and concluded that when there is relatedness between the venture organization and the parent organization, it is more likely that the venture benefits from the parent's resources and know-how. However, they also stated that level of relatedness does not explain the success of the venture. Sorrentino and Williams (1995) defined relatedness more with operational terms, sharing of personnel, plant, equipment, marketing activities and customers. They were not concerned of the strategic dimension of relatedness, nor social relatedness, the shared understanding and vision between the corporate management and venture management.

According to Dougherty and Hardy (1996), there are three key characteristics in the parent-venture relationship: 1) resource availability, 2) collaboration to solve problems and to connect innovations with existing businesses, and 3) fusing innovation with meaning in strategic context. In addition, internal politics, the personal relationships of the venture managers with the managers in the parent company and the previous roles of venture management are issues of importance as suggested by Shrader and Simon (1997).

This study is specifically interested in internal corporate ventures that grow internationally. Because it is assumed that high-technology environment is international by definition, the venture set up to compete in this industry, must be able to grow internationally. They may also be set up for the specific reason to grow beyond the home market of the corporation. Therefore, in the next section, I analyze the internationalization literature relevant to this study.

3.4 Venturing as an option for international growth

Recently, it has been suggested that the link between corporate entrepreneurship and internationalization is an emerging subject of great interest to entrepreneurship, international business, and hence strategy scholars (Dess et al., 2003). “In their search for new growth opportunities, managers realize that the pickings adjacent to their existing businesses are limited. They therefore start searching more widely and latch onto corporate venturing as a low-cost way of experimenting and trying out new businesses.” (Campbell et al., 2003) The internal corporate ventures that have been established for the specific reason of international growth is a relevant research topic: it has been suggested by Zahra et al. (2000b) that international venturing is positively related to company’s future performance.

According to the corporate behavioural theory, internationalization is seen as a process in which “the enterprise gradually increases its international involvement” (Johanson & Vahlne, 1990). The process can be manifested in the establishment of foreign subsidiaries, in international joint ventures, in licensing agreements, in international advertising campaigns, in international trade, exhibitions and other events and actions (Johanson & Vahlne, 1990). In this thesis, the concepts of internationalization and international growth are used with the same meaning. Even though it may be questioned whether the term “global” is necessary (Kogut, 1989), here it refers to the organization operating or the phenomenon in question appearing on several (at least three) continents.

Internationalization as a phenomenon has been studied for decades. Table 2 describes these different approaches in general. This model is artificial as the researchers in the field usually tend to be influenced by several approaches and several theories are used to explain the phenomena, although it gives a good framework for analyzing the body of knowledge.

Table 2. Different approaches to internationalization

Economic approach	Eclectic paradigm
	Foreign direct investment
	Transaction cost
Behavioural approach	Uppsala model
	Other stage models
Strategy theories approach	Resource-based model
	Knowledge-based model, organizational and individual learning
	Industry structure model
Network approach	Inter-organizational networks
	Social networks, cultural aspects
Entrepreneurial approach	“Born global” model
	Entrepreneurial theories

Early research focused on the behaviour of big multinational companies and developed models that explained the phenomenon essentially with economic theories and behaviourally oriented theories. In the past, most multinational enterprises developed from large, mature, domestic companies (Buckley & Casson, 1977; Chandler, 1977; Henart, 1982). Economic approaches, as well as the foreign direct investment (FDI) (Hymen, 1960; Dunning, 1981) and eclectic paradigm (Dunning, 1988) have been widely used in previous literature. This theory argues that for a company to invest in a foreign market, internalization, ownership-specific, and location-specific advantages must be present (Coviello & Martin, 1999).

These approaches present the decision-maker as a rational creature that chooses the most optimal solution by using the perfect available information. The fact that various decision-makers can make different strategic decisions is not acknowledged by these approaches (Anderson, 2000). The availability of information usually restricts using these theories in practice. In a high-technology environment, the information might not be available or it is inaccurate by the time it is received. The environment might be too dynamic for obtaining the necessary data, processing it, and thus using it for commercial purposes.

The early theories also include behaviourally oriented stage models; among these, the Uppsala model (Johansson & Vahlne, 1977; Johansson & Vahlne, 1990) is considered one of the most important models in this field. The Uppsala model presents a framework of company behaviour, where the internationalization process proceeds

incrementally, as experience with and knowledge about the foreign markets increase. The first model concentrated solely on company behaviour and did not include the effect the environment had on the internationalization process. In response to criticism, Johansson and Vahlne developed the model further to take into account the networks of companies and the environment in which the company operates. Hence, the importance of networks was already acknowledged by these early models, even though the development of the theory was not taken very far and there was no empirical data to support the theory. It was stated that personal relationships and networks are especially important in turbulent, high-technology industries (Johansson & Vahlne, 1990).

The theories of competitive advantage (i.e., theories drawing on some established strategy framework, e.g., resource-based view, industry structure) have also served as a platform for many different points of view on internationalization. Even with the rapid globalization of competition, the company's domestic industry environment remains a key frame of reference in determining strategic moves (Zahra et al., 1997); for example, general human capital resources, management expertise, industry expertise, the ability to obtain financial resources and variables relating to resource availability have been used as factors in the resource-based studies of internationalization (Westhead et al., 2001). The resource-based view has been combined with behavioural models to obtain more explanatory power for the internationalization of SMEs (Reuber & Fischer, 1997). One stream of research has been increasingly focused on the factors that affect the accumulation of knowledge in the internationalization process of companies (Eriksson et al., 2000). A premise in this genre is that knowledge about international markets and operations, as well as the efficiency, by which such knowledge is learned, is an important determinant for the international sales growth of entrepreneurial companies (Autio et al., 2000).

One way to analyze a company's internationalization is to use the network approach as the starting point. This approach provides an appropriate framework for understanding small companies, in particular, as embedded actors in business networks (Holmlund & Kock, 1998). This type of research draws on the theories of social exchange and resource dependency and focuses on company behaviour in the context of inter-organizational and interpersonal relationships. Internationalization also emerges as

patterns of behaviour influenced by network members, whereas economic approaches assume a rational, strategic decision-making (Coviello & Martin, 1999).

The recent development of a high-technology environment has also shown that these early models are not applicable to certain types of new companies that are international from the day they are established. Basically, in the late eighties and in the early nineties several researchers noticed that there is a new category of ventures that have strategies other than that which the old models suggest (Alahuhta, 1990; Gupta, 1989). The academic community started to develop a new model for new ventures that would explain this phenomenon (Oviatt & McDougall, 1994). This new venture model emphasizes the importance of entrepreneurial vision and the initial resource endowment of the company in allowing early internationalization decisions (Autio & Burgler, 1999). Lately, the research paths of international business and entrepreneurship have been intersecting with an increasing frequency (McDougall & Oviatt, 2000; Zahra et al., 2000a). There are two major themes that have been appearing in the articles: the internationalization of entrepreneurial businesses (Autio et al., 2000) and a comparison of national cultures that are associated with entrepreneurial activities (Mitchell et al., 2000).

The traditional stage theories suggest that the internationalization of a company is a continuum, where the choices for mode of entry include exporting, licensing, alliances, and start-ups (Andersen, 1993). The entry mode literature has further developed the evolution of international supply methods, including licensing and joint venture arrangements (Root, 1998). Zahra et al. (2000a) added that some new ventures may forgo these stages and undertake “high-control” transactions, such as mergers and acquisitions. According to Trautwein (1990), one motive for mergers is to ford and conquer international markets. Summarized from previous literature, the different modes of entry are (Kogut, 1988, 1991; Kogut & Singh, 1988; Johanson & Vahlne, 1990; O’Farrel et al., 1998; Roberts, 1999; Zahra et al., 2000a):

- Exporting
- Licensing
- Partnering, alliances
- Joint ventures

- Foreign direct investment (“greenfield” operations)
- Mergers and acquisitions

These entry modes differ from each other in their key dimensions such as the amount of resource commitment, extent of risk, potential for returns, and degree of control. The same options apply for new ventures as well as for established international companies. It can be said, however, that new ventures have more limited possibilities of taking advantage of these options, due to their scarcer resources (O’Farrell et al., 1998). The reason why independent ventures prefer indirect modes of representation here is that “very small internationalizing companies, confronting a need to quickly establish global reach for an innovative product within a limited window of opportunity, lack the resources to achieve the needed market scale quickly by foreign direct investment (FDI). The rationales that drive the agent/ownership choice in traditional theorizing do not concern themselves with the problem of limited time, or of the multi-fold expansion in scale required of internationalizing SMEs.” (Chetty & Campbell-Hunt, 2003) Whilst corporate ventures do not usually have this limitation, they have more freedom and possibilities to use these options than independent new ventures do, provided that the parent organization supports them.

Exporting is an important means of expanding, especially among new ventures, which may not have the expertise or resources in the beginning to pursue broader international strategies (Zahra et al., 1997). Exporting fits the capabilities of small business by offering a greater degree of flexibility and minimal resource commitment yet limits the company’s risk exposure (Wolff & Pett, 2000). Empirical findings have shown that initial exports markets are usually those situated in countries nearby and that these also tend to remain important export markets (Holmlund & Kock, 1998).

Even though there are high costs associated with licensing, there are various reasons non-equity forms of international involvement are increasing (Lau, 1992). According to Contractor (1981), licensing could be a good alternative for market expansion if managed properly. Motivations for joint ventures have been reduced to three factors: the “evasion of small number bargaining, enhancement of competitive positioning (or market power) and mechanisms to transfer organizational knowledge” (Kogut, 1988).

Inter-organizational arrangements, e.g., partnering, alliances and joint ventures, are strategies to enter new markets, obtain new skills, and to share risks and resources (Inkpen & Beamish, 1997). Inkpen & Beamish (1997) studied bargaining power and local knowledge acquisition in international joint ventures. It was found that individual and structural attachment lower the likelihood of international joint venture instability, thus making it possible for the parties to take full advantage of the relationship. In addition, Kogut (1988, 1991) and Inkpen (2000b) found similar results: personal and structural ties are related to the success of international joint ventures and thus to the international growth of the parties involved. This stream of literature is not, however, directly linked with internationalization research. Given that the focal company's success in a given foreign market is intertwined with and sometimes even completely dependent on the performance of the partnership, a major challenge for its management is to ensure that the partner company conforms to its contractual obligations to optimize partnership performance (Aulakh et al., 1996). Cross-border marketing partnerships (Aulakh et al., 1996), international joint ventures (Inkpen & Beamish, 1997), and technology alliances (Steensma et al., 2000) are amongst the different possibilities to take benefit of inter-organizational relationships in internationalization.

Mergers and acquisitions are a tool to increase the speed of a company's technological learning, gather market and competitive data quickly, analyze trends and rapidly obtain feedback from its stakeholders (Zahra et al., 2000a). When the acquisition opportunity is sound, the expected synergies have to be realized during the integration phase (Zahra et al., 2000a). This is especially challenging in cross-border mergers and acquisitions. The process of integration has been examined from several perspectives: psychological, organizational, managerial, strategic, economic, macroeconomic, etc. Larsson and Finkelstein (1999) took several perspectives and integrated them in their study. They also suggested that researchers should consider several perspectives simultaneously.

Table 3 includes those studies that have concentrated specifically on venture internationalization. The purpose of this table is to show how little research has been done on corporate ventures and how they have been treated in the same category as independent ventures have been.

Table 3. *Units of analysis and samples in studies of venture internationalization*

Author(s)	Unit of analysis/sample	Comments
McDougall & Oviatt, 1996	62 U.S. new ventures	No information on the ownership structure in the sample
Reuber & Fischer, 1997	Independent ventures/132 Canadian SMEs	No subsidiaries of another company
Zahra et al., 1997	531 U.S. new ventures	No information about the ownership structure in the sample
Holmlund & Kock, 1998	312 Finnish SMEs	No information about the ownership structure in the sample
Autio & Burgel, 1999	Independent ventures/230 British SMEs	Legally independent companies
Chetty, 1999	5 New Zealand –based SMEs	No information about the ownership structure of the cases
Coviello & Martin, 1999	4 New Zealand –based SMEs	No information about the ownership structure of the cases
Jones, 1999	860 British SMEs	Both independent and not wholly independent
Andersson, 2000	3 Swedish companies	No corporate ventures
Autio et al., 2000	Independent ventures/134 Finnish SMEs	No subsidiaries of another company
Crick & Jones, 2000	10 UK–based SMEs	Domestically owned companies, no other information about the ownership structure
Wolff & Pett, 2000	Independent ventures/1,600 small U.S. companies	No information about the ownership structure in the sample
Zahra et al., 2000a	New ventures/321 U.S. ventures	Both corporate and private new ventures
Westhead et al., 2001	Independent ventures/621 British SMEs	Only independent ventures
Chetty & Campbell-Hunt, 2003	4 New-Zealand-based SMEs	No information about the ownership structure of the cases
Bell et al., 2004	30 UK-based SME manufacturing companies	Different ownership structures, not subsidiaries of larger domestic or international companies

The table shows that only a few authors have indicated what the ownership structure in the investigated organizations is. Mostly it is assumed that the sample is composed of independent ventures; only a couple of pieces of research have actually included both independent and not independent ventures or compared results between these two types (Jones, 1999; Zahra et al., 2000a). Several authors have specifically stated that subsidiaries of other companies have been excluded from the population.

3.5 Conclusion

Together, Chapters 2 and 3 comprise the pre-understanding of the phenomena investigated in this dissertation. Based on these chapters, the overall *a priori* understanding of the investigated phenomenon is formulated. This understanding is further developed into the interview framework and the constructs used in the data collection. Venturing and inter-organizational relationships are related in complex ways. Internationalization plays an important role when investigating ventures that operate in a high-technology environment as the markets are international. Partnering and relationships beyond national borders are a necessity for ventures that seek international operations. It cannot be reasonably argued that corporate ventures should be classified under the same category as independent ventures as earlier research has shown some substantial differences between these two types of venturing.

In addition, the purpose of this chapter was to show that there are still identifiable gaps in the literature and that the research questions formed for this dissertation are attempting to address these “gray areas”. The process of internationalization has not been investigated from the point of view of corporate ventures. Only a couple of authors have been concerned with the issue of ownership structure and the dependence of the venture organization. In connection with the corporate venturing research, it was shown that the characteristics in corporate ventures make them a special case. The models developed for independent ventures are not applicable for corporate ventures as such.

Venture growth has been studied widely, but the previous literature does not succeed well in connecting new business creation, growth and the creation of competitive advantage. It was shown that even though international business and internationalization of ventures has been studied for decades, the specific case of internal corporate ventures has not received much attention in academic research.

Based on the analysis in these chapters, I argue that studying international internal corporate ventures and their inter-organizational relationships adds new insight to understanding how organizations grow beyond national borders and what are the mechanisms that facilitate the creation of international competitive advantage. There are gaps in the literature and deepening the understanding related to these issues requires

more research and combination of previous research topics. As stated in the introduction of this dissertation, one of the objectives here is to create such an integrative model. The next chapter deals with the methods to achieve the goals.

4 Methods

In this chapter, I present the research procedure in this dissertation. First, I discuss the choice of methods and the general research approach, after which I outline the different phases in the research and the research procedures in each phase from the sampling procedure to data collection and analysis. Finally, the methodological issues of validity, reliability, and objectivity are addressed.

4.1 Choice of methods

This research investigates complex phenomena, searches for relationships between variables and aims at finding a framework of concepts related to the process of creating international competitive advantage for internal corporate ventures. The research questions are formulated as starting with “how” and “what kind of”. By using models available from the previous theory, the research problem cannot be addressed in a satisfactory manner; there is an identifiable gap in the existing body of knowledge. I also suggest that the investigated phenomenon conflicts with the patterns of earlier findings discussed in the literature review chapters. According to Morgan and Smirchich (1980), the research approach should derive from the nature of social phenomena to be explored. Based on this rationale, I have chosen the theory-building multiple-case study, recommended for this type of research by several scholars (Miles & Huberman, 1984; Eisenhardt, 1989; Yin, 1991; Parkhe, 1993; Chetty, 1996) as the research method for the empirical part of this research. My objective is to investigate the contemporary phenomenon and cope with the technically distinctive situation in which there will be many more variables of interest than data points. Case studies can be employed in exploratory manner in order to achieve insights into a previously uncharted area (Bryman, 1989). Hitt et al. (1998) also suggested that the creative use of longitudinal, historical case studies and qualitative data provides a richer and more in-depth understanding of company-based idiosyncratic valuable resources and other specialized topics. This research benefits from the prior development of theoretical propositions to guide data collection and analysis.

A distinction can be made between “experimental” and “correlative” studies (McGrath, 1982).⁶ The first refers to designs that compare average values for different batches of cases (relative to the variation in values within each batch) for some attribute. The second refers to designs that examine the co-variation of the values of two or more attributes, among the cases of a single batch (McGrath, 1982). Because of the setting of the research question in this thesis, the approach is more the latter one. The two designs are not completely exclusive and the underlying logic in both of them is the same: finding out the Baconian logic-of-relations between events or properties of events. The method of this study can also be loosely labeled as inductive, i.e., the researcher discovers recurrent phenomena in the stream of local experience with an incremental approach to case selection and data gathering and ends up with a theoretical framework of links between factors, events, and their possible causes. (Miles & Huberman, 1984; Eisenhardt, 1989)

The model developed by Eisenhardt (1989) for theory-building multiple-case study is modified for the purpose of this research. Derived from this model, the phases in the method are:

1. State the research problem
2. Read the theory and previous research and investigate for possible research constructs
3. Carry out pre-research to find the constructs, theory background and cases
4. State the *a priori* understanding and research models and constructs
5. Collect the data
 - a. Describe the case 1
 - b. Collect data from case 1
 - c. Repeat phases a) and b) for cases 2 to N (N being the number of cases)
6. Analyze the collected case data within each case
7. Make a cross-case analysis of the collected case data
8. Carry out theory-building together with the previous theory and literature

The phases are described as a flow diagram in Figure 6.

⁶ Cf. Cronbach (1957).

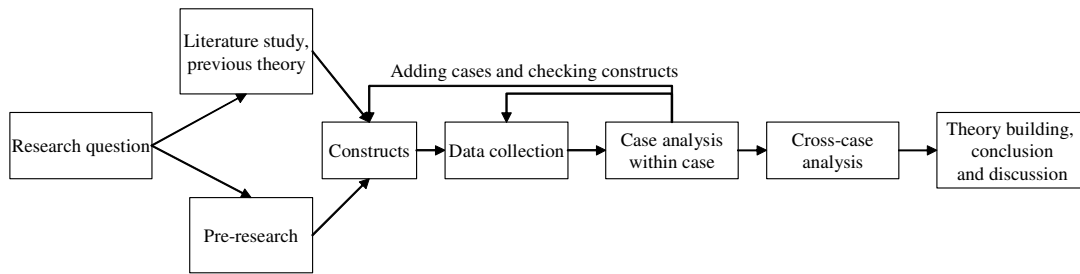


Figure 6. Theory-building multiple-case study method

The first phase of the research was to state the initial research problem. After that, the pre-understanding of the topic and the constructs were established. I derived the initial models and constructs by combining three different sources of information: previous literature, my own experience, and small-scale pre-research made in potential case organizations. During the pre-research phase, I surveyed potential cases according to the chosen sampling criteria. My own experience also guided the search for cases and constructs. Experience helped in figuring out where to start looking.

After the pre-research and literature study, I chose the theoretical frameworks, the initial models (constructs) and the first cases. The next step was to go out in the field and start collecting data. A key feature of theory-building case research is the freedom to make adjustments during the data collection process (Eisenhardt, 1989). Cases are added until the certain theoretical saturation point is reached. This means that no new information could be gained by adding more cases. At this point, incremental learning is minimal as the researcher(s) observing the phenomena have seen it before.

I started analyzing the data during the data collection phase. This is a widely used tactic in case study research; for example, Burgelman (1983b) kept extensive idea booklets to record his ongoing thoughts in a study of internal corporate venturing. During data collection and analysis, the tools and research questions can still be modified and sharpened (Eisenhardt, 1989). New constructs also naturally arose from the data. During the process, however, research questions and methods were altered with extreme caution. It can easily happen that the researcher starts to guide the data rather than the data guiding the researcher. I analyzed the cases separately and then a cross-case analysis was carried out by using replication logic. The data collection and analysis procedures are described in more detail in the following chapters. Subsequently, I

shaped the results and theoretical models based on the analysis. Finally, I compared these new models with the previous literature and drew conclusions pertaining to the contributions of the research.

Numagami (1998) argued that two of the criteria for nomothetic social science often failed in case studies: 1) reliability and replicability, and 2) external validity. This argumentation is related to the discussion as to whether or not these criteria are relevant and whether invariant laws exist and should be looked for in management sciences. These issues are discussed in the following chapters, by first discussing the processes of case selection and sampling, data collection and data analysis and what were my tactics for maintaining scientific rigor in each phase.

4.2 Case selection and sampling

Whether or not it is believed that invariant laws should be sought, the academic community agrees that there is value in investigating single cases and in a deep understanding of the phenomena that cannot be replicated or generalized (Numagami, 1998). However, if the purpose of the research is to develop a model based on reoccurring patterns, several cases are needed. Thus, the number of cases (population) must be discussed and defined. The population defines the set of entities from which the research sample is “drawn”, and a sample of four to twelve cases has been suggested for theory-building multiple-case studies (Eisenhardt, 1989). The population in the context of my research is the internal corporate ventures. In addition to the sampling of the cases themselves, sampling also involves decisions on other parameters, e.g., people to observe or interview.

The goal of theoretical sampling in a theory-building case study is to choose cases that are likely to be able to be replicated or extend the emergent theory (Eisenhardt, 1989). Thus, the cases must encompass different aspects of the phenomenon that is being investigated. The aim is to establish analytic generality instead of statistical generality. For the purposes of this research, I chose corporate ventures in different stages of growth cycle, at the same time making sure that the chosen organizations can be considered as “ventures” according to the definition adopted in this dissertation. In

addition, I searched for internal corporate ventures that have chosen different strategies for their international growth, had different types of relationships with the parent organization and were operating in different competitive contexts. Questions of practicability, however, must also be considered. The availability of data, time, and resources are limiting factors. There is a finite amount of time, with variable access to different actors and events, and an abundance of logistical problems (Miles & Huberman, 1984). One cannot easily obtain data for corporate ventures as the companies protect their new businesses quite fiercely.

Miles and Huberman (1984) listed the following parameters to sample: settings, actors, events, and processes. These parameters are partially set by the selected theoretical framework and the research question. The choices made in this study concerning the sampling parameters are summarized in Table 4. This was another sampling framework that I used in the search for cases, interviewees and other possible secondary data sources. This framework also helps to understand the units and levels of analysis in this dissertation.

Table 4. Sampling frame

Sampling parameter	Choices
Settings	International internal corporate ventures, high-technology environment
Actors	Organizations through their top executives, managers
Events	International growth, partnering, acquisitions, international entry, joint ventures, foreign investments
Processes	Internationalization, business development, entrepreneurship, learning, innovation

The settings in the research include international internal corporate ventures and the high-technology environment that the ventures are operating in. The actors are the organizations through their top executives and operational managers. These are the people interviewed to obtain information about the mechanisms and relevant factors. The events studied include international growth as the main focus of interest; other related events are partnerships, acquisitions, market entry, joint ventures, and foreign investments. Similarly, the main process followed in the focal organizations is internationalization, and the related processes are business development and

entrepreneurship in the organizations and knowledge accumulation through learning and innovation.

Table 5 lists more detailed theoretical sampling criteria, i.e., the parameters that I expected to remain constant in the selected cases and choices I made to achieve theoretical polarity. These parameters also guided the pre-research phase, when the potential cases for investigation were searched.

Table 5. Sampling parameters in case selection

Parameter	Choices	Comments
Parent organization	No polarity, all cases have the same parent organization	Parent organization is same for all ventures, because the aim is to investigate different relationships to the parent.
The relationship with the parent organization	Internal units, subsidiaries, close to distant, both bottom-up and top-down types of venturing	Different types of relationships were sought
Strategy	All cases have intention to grow internationally	Different modes of entry in the cases
Stage of international development	Early stage to more advanced	10%–95% of sales coming from outside home markets
Organization	Different sizes of organizations	<100–1000 employees
Age	At least 2 years during the investigation period, maximum 8 years	According to the definition of corporate venture
Customers	Both consumers and corporate customers, different segments	
Financial situation	Profitable and making losses	Different maturities in business, profitable and non-profitable
Partnering strategy	Aggressive and cautious	Measured by publicly announced partnerships and internal documentation

The first parameter in the table, the parent organization was the same in all of the cases. I chose this approach in the beginning of the research process as it enabled one of the environmental factors, the parent organization, to remain the same throughout the cases. However, I expected that the governing modes of internal corporate ventures are different, varying from internal business units with a close relationship with their parent organization to more independent subsidiaries. As suggested by Day (1994), both types of ventures with bottom-up and top-down types of managers were selected. I also made sure that the internationalization strategies of the cases organizations varied between cases. It was checked that different entry modes were included in the data. I searched for cases with a different speed of internationalization. I anticipated that the range of

cases should include those ventures that have started internationalization quite soon after being established and also those that had been cautious in their international operations and conducted market operations in their home market before entering international markets. Different sizes of organizations were sought, ranging from 100 employees to no more than 1,000. Organizations larger than 500 full-time employees are typically considered to be large in internationalization studies (Wolff & Pett, 2000). In corporate venturing, however, there are more resources available and business units can grow in size quite rapidly once they have been established. Table 6 shows the average sizes of the chosen organizations during the investigation period. From 1998, no exact data was available, because some of the organizations were not fully formed and some were an integral part of the parent organization.

Table 6. Average number of personnel in case organizations during the investigation period

	1999*	2000	2001
Alfa	50	490	443
Beta	400	640	754
Gamma	600	602	628
Epsilon	30	174	352

*estimates

My main objective was to obtain different sizes of organizations. According to the definition of internal corporate ventures in this dissertation (see Chapter 1), the business cannot be more than 6–8-years old. I took into account this guideline when selecting my cases. Three of the cases (Alfa, Beta and Epsilon) had no revenues in the beginning of the investigation period. There were no strict limitations on the nature of the businesses themselves, as long as they were dealing with a high-technology environment. The customer segments, as well as the financial situation, of the cases were expected to be different, businesses with relations to both corporate and consumer customers were searched for. One of the most important issues was to ensure that the internal corporate ventures that have been selected as the cases in the study were conducting different types of partnerships and heavily relying on inter-organizational relationships in their international growth. I investigated this from the press releases and internal announcements of the potential case organizations and by making some preliminary queries inside the organizations.

4.3 Data collection

The data collection and analysis for each case was commenced in the pre-research phase of the case study process. During pre-research, I determined the possible available cases according to the sampling criteria and analyzed the types of available data. I did this by conducting small-scale interviews, having discussions with experts in the organizations, and scanning the available internal and external documentation. In the early phases of pre-research, some of the case operations had not actually been commenced yet. The results of the pre-research phase were short descriptions of the first potential cases and some initial notes on *a priori* constructs. I combined these results with the results of the literature review. After that, the first cases were chosen and I started collecting main empirical data.

As is recommended for the theory-building case study method, the data in this research includes multiple sources of information and both qualitative and quantitative data. Mixing qualitative and quantitative methods of data collection is recommended to establish internal validity (Jick, 1979; Eisenhardt, 1989). The main data source was semi-structured interviews with key informants. In these interviews, I used a semi-structured questionnaire, but recognized that departures would occur if interesting themes emerged from what respondents said (Bryman, 1989). The list of themes used in the interviews has been appended to this study as Appendix 1. The interviewees included at least two upper executives and at least two from operational/middle management of the case organization. Altogether, 22 interviews were carried out between December 2001 and November 2002. The numbers of interviews in the different organizations consisted of five in Alfa, five in Beta, six in Gamma, five in Epsilon, and one in the parent organization. Interviews lasted from 45 minutes to 1.5 hours. I transcribed all of the interviews and sent the written transcriptions to the interviewees for checking. In addition, I wrote down notes and impressions throughout the data collection process.

I chose the interviewees based on my previous knowledge about the investigated organizations. I also used the organizational chart of the case ventures and verified the list of interviewed people from the interviewees themselves. By these procedures, I aimed at minimizing the impact of the so-called “selection problem”, i.e., the problem

of identifying competent informants (Kumar et al., 1993). I updated the list of interviewees during the interview process according to feedback from the interviewees themselves. According to my experiences during the data collection, not much new information was acquired after 4–5 interviews. Therefore, no more than six interviews were conducted per case, even though the list of possible interviewees would have been longer. I also ensured in the selection of the interviewees, that I acquired information about all kinds of used entry options and different types of inter-organizational relationships. This was done by choosing the informants according to what projects they were involved in and by checking from the informants themselves whom should be interviewed about different issues.

During the time of data collection, I was an employee in the parent organization under which the studied cases operated. This made it possible for me to access company confidential data that would not have been accessible otherwise. I could check the data and follow the development of the case organizations inside the corporation. I was not directly involved in the case organizations' operations during the investigation period. For instance, my daily work did not include interaction with the interviewees and this made it possible to make the interviews as an “outsider” to the investigated phenomenon itself. However, during the investigation period, I had discussions also with other informants related to the investigated organizations almost on daily basis. Some of the analysis presented in the empirical part is based on these discussions, my observations and my interpretation of events inside the investigated organizations. These observations and discussions are partly stored in notes wrote down during the data collection process. The possibility to work near the studied organizations has provided me with an excellent opportunity to get detailed first-hand information of the events to support the interviews and analyzed documentation. Thus, there are some elements of action research my data collection process. There is always some subjectivity involved in qualitative data collection and the analysis process and I discuss this issue from the point of view of my research as well as the interviewees' bias problem later in this chapter.

In addition to interviews and observations in the organization, business descriptions, public (press releases, announcements, annual reports, web pages), and internal

documentation (descriptions, business support documentation, internal announcements, minutes of meetings) were used to back up the interview data. Some of the interviewees provided documentation to support their statements. I searched the internal web pages and announcement archives for material related to the subject at hand. The database of secondary data included four annual reports (more than 300 pages), more than 80 public press releases, industry reports and more than 300 pages of other internal documentation (e.g., strategy documents, minutes, presentations, guidelines, internal communication, and announcements).

The quantitative data used in this study included, for example, financial data, organizational figures, other related variables (venture age, time of entry, number of foreign executives, etc.), and data from the inter-organizational relationships (number of partnerships, the financial value of acquisitions, etc.). I collected this data mainly from public records, annual reports, financial reports, web pages, and press releases of the case organizations. All in all, the data included information on 75 inter-organizational relationships. The table depicting the relationships, the cases and what kind of data was collected from each relationship is included as Appendix 2 to this dissertation.

4.4 Data analysis

After the organizing of the data, I started the analysis by going through the available data, reading the interview reports, listening to the tapes and going through documentation. I made a longitudinal case analysis from each case and wrote down a detailed case report. I coded the data from several points of view: by using the relational view as a framework, by organizing the evidence into a process, by searching for new themes rising from the data, by linking these themes to the existing frameworks, and then by shaping them. By direct interpretation, single instances were looked at and meanings were deduced for them without looking for multiple instances, as suggested by Creswell (1998).

The next step in the highly iterative process of data collection and analysis was to systematically compare the emergent frame with the evidence from each case in order to assess how well or poorly it fits the case data (Eisenhardt, 1989). From the within-site

analysis plus various cross-site tactics and overall impressions, tentative themes, concepts, and even relationships between variables began to emerge. I used replication logic in the cross-case analysis. This means that I treated each case as an independent experiment that confirms, extends, or contradicts the emergent theory. The situations, where different or contradictory results are found, can often provide an opportunity to refine and extend the theory.

My data analysis process included the following phases (modified from Creswell, 1998):

1. Data management: creating and organizing files for data.
2. Reading, memos: reading through text, listening tapes, making notes, forming initial codes.
3. Describing: describing the case and its context.
4. Classifying: using categorical aggregation, establishing patterns of categories.
5. Interpreting: using direct interpretation, generalizations.
6. Representing, visualizing: presenting narrative through quotes, tables, and figures.

After I categorized some of the themes found in the data, I compared these categories across cases and clustered them into groups of concepts. I looked for patterns, themes, concepts, and correspondence between two or more categories. I used the counting of themes when rapidly verifying the propositions rising from the data. In addition, when presenting some relations between variables, quantitative measures were used to simplify the presentation of a relationship or to summarize the results of the analysis.

In the operationalization of the measure for internationalization, i.e., international growth of an organization, I used measures that are adopted from the frameworks of Sullivan (1994, 1996) and Zahra et al. (2000a). The availability of data restricted the usability of different variables to some extent; for example, it was not possible to obtain exact data about the profitability of foreign operations. The following measures were used:

- Foreign sales as a percentage of total sales (%)

- Top management international experience (the percentage of international/Finnish individuals in the management team)
- The number of countries in which the company has foreign business operations (n)
- The number of diverse social cultures of the countries in which the company operates (High/Medium/Low)
- The geographic diversity of a company's foreign markets (High/Medium/Low)
- Number of foreign subsidiaries (n)

In this dissertation, the ability to create value means that the organization is both able to create value and also realize it (Moran & Ghoshal, 1999). Both processes are needed for the balance of the economic system (Teece et al., 1997). Hence, if company is able to create value potential, realize and capture it, it may achieve competitive advantage and generate economic rent. The competitive advantage of the case organizations was evaluated through two methods: EVA (economic value-added) and a qualitative analysis of case data. By calculating the EVA for each year, I aimed at evaluating the true economic profits of the cases and thus the ability to generate rents. "Economic Value Added is the financial performance measure that comes closer than any other to capturing the true economic profit of an enterprise. EVA also is the performance measure most directly linked to the creation of shareholder wealth over time." (Stern Steward & Co, 2004) EVA is calculated for the cases with the basic formula: net operating profit minus an appropriate charge for the opportunity cost of all capital invested in the venture. Using EVA also makes it possible to include the investments made by the parent organization in the operations of the venture and thus capture the opportunity costs. I used the cost of capital at 10% for all of the cases, as this would be a reasonable level for expected returns on investments. As no exact number was available on how much capital was invested in the ventures each year, I used estimations by gathering the data from the annual reports, interviews, and internal and external documents. Even though the figures were not exact, they provided an adequate level of accuracy as to how much economic value the ventures created. The other gauge used for competitive advantage was to evaluate the more "intangible" elements, i.e., learning and capability development, from the case data. This was done by analyzing the interviews and secondary data and evaluating the level of how much "intangible"

value was generated based on the analysis. In the analysis, I used the variables and criteria described in Table 7. Based on the criteria presented in the table, I evaluated how much “hidden” strategic value was created each year. The purpose of the qualitative evaluation was to support the EVA calculation. As competitive advantage was defined in this dissertation as economic profits, the hidden value only provided secondary, additional information about the competitiveness of the organization. This evaluation, however, was useful, especially for the two first years of the investigation period, when exact financial data for most of the cases was not yet available.

Table 7. Criteria for the qualitative analysis of value creation

Variable	Analysis
Learning	Did several interviewees mention that new knowledge was acquired and utilized? Did the case data contain any specific situations where learning effects can be recognized (e.g., a new product or process that made the organization more competitive)? Did the interviewees consider the organization to be more innovative than its competitors were? Was there evidence of innovativeness in secondary data, e.g., a faster product development cycle, external recognition of innovativeness, etc.?
Capability development	Did big organizational or managerial changes occur in the organization? Did the interviewees state that new processes or routines would have affected the competitiveness of the organization? Did the interviewees consider that the organization had more strategic capabilities than its competitors did?

I did not use any sophisticated quantitative analysis methods due to the research approach that had been selected and the nature of the data. When I identified variables, themes and concepts from the data, I aimed to understand the relationships between them and rated how well the relationships could be verified.

I also considered alternative explanations and inspected spurious relations throughout the data analysis process. The generated explanations were also put to test in conformity with “Occam’s razor”, the philosophical rule that the simplest of competing theories is preferred to the more complex theory. If there was room for simplifications in the generated models, I continued the analysis and repeated the verification processes. By doing so, I pursued the criterion of parsimony (Whetten, 1989).

4.5 Reliability, validity and objectivity analysis

One of the most widely used criteria for science is reliability, which simply refers to the fact that two or more researchers studying the same phenomenon with similar purposes should more or less reach the same conclusion(s). A study with high reliability can thus be replicated by others (Gummesson, 1991). One can use the notion of “doing things with reasonable care” with reliability. In this research, only one researcher collected and analyzed the data. Even though special emphasis has been placed on a rigorous and thorough documentation of the data collection and analysis phases, there is room for speculation about its reliability and replicability. To minimize this speculation, I created an “audit trail” during the data collection and retained all of the relevant data.

Miles and Huberman (1984) listed the following relevant queries in this domain to ensure the reliability of the research. I raised these questions regarding my own work during the data collection and analysis process:

1. Are the research questions clear and are the features of the study design congruent with them?
2. Is the researcher’s role and status explicitly described?
3. Do findings show meaningful parallelism across data sources (informants, contexts, and times)?
4. Are basic paradigms and analytic constructs clearly specified?
5. Was data collected across the full range of appropriate settings, times, respondents, etc., as suggested by the research questions?
6. If multiple field-workers were involved, did they have comparable data collection protocols?
7. Were coding checks made and did they show adequate agreement?
8. Were data quality checks made (e.g., for bias, deceit, informant knowledgeability)?
9. Do the accounts of multiple observers converge in instances, settings, or times when they might be expected to?
10. Were any forms of peer or colleague review in place?

The objective of raising these questions is to convince an outside reviewer about the reliability of the research methods and it has been recommended that information on

these processes should be provided in the research report (Eisenhardt, 1989). “Whatever documentation a researcher devises, the ultimate quality of the research findings from qualitative approaches ought to vary with his or her social and conceptual skills” (Numagami, 1998). That is, if these criteria are applied strictly, even some of the most rigorous quantitative survey studies cannot meet the requirements as language systems and thus the meanings of wordings vary over time and space. In the context of this dissertation, I have taken a more pragmatic approach to the issue of reliability. If an external reviewer can agree, after investigating the process of data collection and analysis, that the conclusions made are justified, even though there is room for alternative explanations, the results can be considered to be reliable. I have presented and discussed the analysis and the resulting models with experts and managers throughout the research process. As the goal is a new theory, replication as such is not fully appropriate (Eisenhardt, 1989). I assumed that the interpretations made do not represent an invariant law. The resultant theory is likely to be empirically valid as it is intimately bound by evidence and it presents new insights, although whether or not it applies to other, different settings can be questioned and is left for the reader to assess.

Validity means in essence that a theory, model, concept, or category describes reality with a good fit, just like a good map properly describes Earth, or an architect’s blueprint is useful for erecting a functioning building (Gummersson, 1991). Three types of validity can be identified: internal, external and construct validity. The validity of research can also be evaluated in terms of comprehensiveness and parsimony. The results of the research should include all of the relevant factors that relate to the research question, but no more than those factors; if a factor adds little additional value to understanding, it should be deleted (Whetten, 1989).

Internal validity refers to the credibility and authenticity of the results. In ensuring internal validity, emphasis should be placed on the process of checking, questioning, and theorizing (Miles & Huberman, 1984). This kind of criterion is relevant regardless of whether or not invariant laws are believed to exist. I used multiple informants and multiple sources of data to strengthen the internal validity of data; I checked the informant reports against other available secondary data, when possible. I used multiple

data analysis methods to rule out alternative explanations and the interview reports were accepted by the interviewee to reduce researcher bias.

The question of external validity is often raised in connection with case studies. External validity in this dissertation is considered not to mean the existence of universal laws and the gauge for how many settings the developed theory can be applied in, i.e., how universal it is. What I aimed for was a description of results so that they can easily be compared with other similar settings. Miles and Huberman (1994) noted that the process of generalizing is far from mechanical; it is more like translating, refuting, or synthesizing two or more studies of similar phenomena. It is a question of interpretation and subjective point of view.

Systematically using such methods as replication logic and theoretical sampling makes it easier for the reader to start a reflective dialogue among researchers and professionals about the results of this research. The quality of the insights offered by this study is difficult to define by any external criteria since no statistical methods have been used. I describe the cases to the extent that was possible without breaking their confidentiality. This enables the reader to understand the settings and the data that is being used and evaluate the scope in which they can be generalized. I show detailed evidence of the data and the analysis process, with direct quotations from the interviews to convince the reader with the connections to the original data. Finally, the results of the study are compared widely with previous research and similar research settings.

To have construct validity means that the constructs formed during the research are checked against multiple sources of data and that no alternative explanations exist; for example, constructs that are similar could replace the suggested constructs that may emerge. In this study, I ensured the construct validity with multiple sources of data and establishing chains of evidence, explicit links from research questions to the data in use and finally to the results and conclusions made.

Generally, several forms of bias might be encountered during research: bias because of the researcher's background, bias in the interpretation of the data, bias in the data itself (interviewees have motivations of their own, annual reports are biased since they are

marketing the company to stockholders, internal documents are written for management, etc.), bias caused by the method (e.g., the use of a recorder during interviews may cause the interviewee to behave in a “special” way). According to Kumar et al. (1993), informant reports may suffer from an individual’s memory failure, or inaccurate recalling of past events, as well as from memory distortion. The latter can result from hindsight bias, attributional bias, subconscious attempts to maintain self-esteem, or impression management. The use of retrospective data and its shortcomings have been dealt with in previous research (Daft et al, 1987; Golden, 1992; 1997). As strategies to reduce bias, the acknowledgement of the nature of possibly biased data (“retrospective accounts of past facts or behaviors are likely to be more accurate than accounts of past beliefs and intentions”), the use of multiple respondents, the creation of incentives to provide correct data, being wary of collecting data shortly after big organizational changes and using multiple sources of data are mentioned (Golden, 1992). Because the research relied very heavily on the interviews of key informants, I applied these strategies during the data collection and analysis process.

5 Cases

This chapter familiarizes the reader with the longitudinal case data utilized in the empirical part of the dissertation. In this chapter, I present the most important evidence related to each case in the study. The analysis includes the general longitudinal description of each case organization and its development, the most important quantitative measures, a description of the parent-venture relationship, and the different external inter-organizational relationships during the investigation period. The chapter begins by first introducing the common denominator for all of the cases: the parent organization. For confidentiality reasons, the descriptions are at some parts superficial and I have removed the company names, interviewees' names, and some other parts from direct quotations.

5.1 Parent organization

The parent organization has a long historical background of doing business in Finland. The company has offered telecommunications, high-technology, and ICT-related services and products to companies and consumers in Finland for several decades. The size of the organization during the investigation period (1998–2001) was at its highest with more than 10,000 employees. In 2001, the company was listed on the stock exchange and had a wide range of public and private owners. During the 1990s, the parent organization made a number of major investments in companies outside of Finland. These investments were mostly minor stakes in foreign companies. At the end of the decade, most of the corporation's revenues were still coming from its home market, Finland.

In public documents published during 1998–1999, the CEO of the corporation described the challenges and direction of the company in the following manner:

We are determined to further develop these strengths [technical expertise and experience in marketing] and to foster the growth of our core businesses in the international market. [Parent organization] is actively seeking co-operation models

that will enable us to leverage our expertise, achieve international growth, and build shareholder value.

According to the annual reports of the parent organization before and during the investigation period, the parent organization adopted a strategy of two parallel and mutually complementary paths: developing new international service businesses and significantly expanding its market area. According to the company's statements, both strategic paths rested on its core expertise: the innovative development of services and efficiency of operations. Apart from continuous innovation, the development of services was being promoted through acquisitions in the high-technology field as well as by forming partnerships in areas that were related to the services provided. This strategy included setting up new ventures and expanding the existing new businesses internationally beyond the markets where the corporation was operating at that time. During 1997–2001, the company aggressively implemented its strategy. New ventures were established and these ventures started aggressive internationalization strategies with variable success. The inter-organizational arrangements of the new ventures can be described as especially aggressive. During the investigation period, there was evidence of over 70 partnerships or co-operation relationships publicly announced by the newly established venture organizations. Most of these inter-organizational relationships were international in nature and aimed at boosting the international growth of the ventures.

Development inputs into the service businesses were based on the premise of substantial short and long-term growth potential. The parent organization had a reputation as a pioneer as being the first in the world to offer a number of new technology-based services to its customers. A new departure for the parent company was the company's decision to begin developing and offering new services for a new customer group: operators and service providers; for example, the main target markets for such businesses as Alfa and Epsilon were in Europe and, in part, also in Asia and the United States. These ventures also included operations that were somewhat unfamiliar to the parent organization's previous history, e.g., developing software and selling it to such completely new target customers as financial institutions on the European market.

In 2001, the company listed as its major future challenges the areas of human resources development, retaining and increasing the company's global competitiveness and

managing an organization made of experts. In addition, the ability to adapt to change and to ensure the growth of new areas were also seen as one of the key objectives at the time. During that year, the technology-related companies' growth slowed down as market demand weakened, and the parent organization began to scale down its service offerings through aggressive cost-cutting. New start-up businesses were not supported and old ones had to significantly cut costs, which was due to the rapid change in the market environment. Organizations were downsized and operations were pulled out of some new markets. The international growth of the new businesses continued, however, and none of the previously started new ventures was completely discontinued or sold. The focus of the strategy was changed and this also meant that the ventures had to adjust themselves to the new situation. At the end of 2001, the parent organization announced a spin-off of one of the ventures and the intention was to sell some of the other new ventures as well during 2002.

5.2 Alfa

Establishing Alfa was, from a strategic perspective, the biggest leap out of the parent organization's core business. The business started from scratch and it was not based on any operation conducted by the parent organization before. The business plan was built around certain technology innovations by a few entrepreneurial people in the company. This also showed in the development of the venture as it operated more freely on the market and resembled a more independent venture than one being under a corporate parent. Alfa formed the highest number of partnerships of the case organizations. From the establishment, it tried to establish relationships in many directions in the external markets, many of which did not bring benefits or growth to the organizations by any scale.

5.2.1 Longitudinal analysis

The history of Alfa dates back to 1998, at which time, few innovative people developed new technology in the product development organization of the parent organization. A business plan was set up and the new unit was established in 1999. The idea behind the venture represented a revolutionary application of high-technology by combining two

different concepts in the area of telecommunications. The early employees of the organization described the idea:

It was a revolutionary idea to bring something on to the markets that clearly aims at a certain discontinuity point and the offering for the period after the discontinuity point.

It all started about four years ago, when we started to form a unit around [technology].

It started from [Alfa] looking to be a certain technology area.

The development of the technology and the business plan was continued in a separate organization as the business model and the target customers substantially differed from the parent organization's business and customers. Alfa's initial business plan was to sell products and services to service providers, mobile operators, and financial institutions.

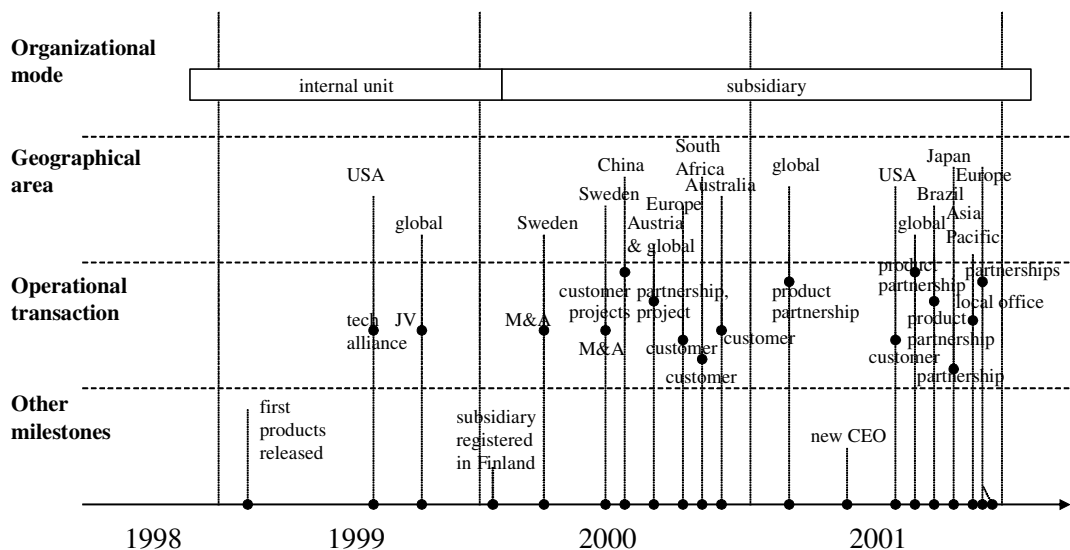


Figure 7. Longitudinal analysis of Alfa 1998–2001

Figure 7 describes generally the longitudinal development of the venture after it was established. All of the major milestones and transactions are included. Alfa developed the technology and intellectual property rights into sellable products during 1999. The first public presentations were made in February 1999 at an international exhibition.

After it was established, the market launch was done with great fanfare and a lot of publicity, as one of the management team members described:

It was a child of its own time, meaning that it started very aggressively finding customers and marketing itself elsewhere in the world.

During 1999, Alfa got its first customers and also two big international partnerships were announced. In addition, Alfa was a founding member in a global forum of industry players that was formed to promote the compatible solutions of different vendors and service providers. As references, Alfa used pilot customers from Finland, even though the actual volumes were low:

There were two reference customers in Finland, [name removed] and [name removed], but they were meant as references, in particular, they were so small in volume...

...Customer cases were a small portfolio, early stage pilots, pilot projects, there was not any good customer portfolio.

In 2000, Alfa started to actually implement its aggressive growth strategy. It made two fairly big acquisitions in Sweden, buying companies that would complement its product portfolio and both bring international customers and product development resources. Alfa acquired both products and customers, trying to complement its product portfolio and the range of technologies supported by the venture. The financial cost for the acquisitions was very high as the stock prices were high and the valuations had risen to all time highs. There was lots of hype around high-technology industry. The following quotes are from people that were closely involved in planning and implementing the acquisitions:

It was both buying products and customers.

We tried to... strengthen the product strategy and vision by buying these companies.

There we bought their customers and we bought the competitor out of the markets... But it happened that they swallowed the old [Alfa] and not other way around.

Especially [acquired company – name removed] had a very good customer base.

It was a good match, because they [acquired company] saw [Alfa] as a great threat, all interest was towards [Alfa], because they were 'dull'. [Alfa], on the other hand, had own problems, because concretely cases were lost to those, who had already something to offer.

As the last quote describes, the problem that Alfa was facing was that the company had an appealing concept and had succeeded in awakening the interest of the markets and customers, but it did not have anything concrete to deliver at that point in time. Salespersons and directors of Alfa had done presentations and exhibitions around Europe for potential customers and the overall attitude towards them was good. However, when the discussions moved to delivering solutions, Alfa could not respond.

Alfa did not have its own products ready and the deals were lost to companies that already did have something to deliver. The interviewees described the challenges in the following manner:

Turning them into practical ideas was quite difficult since, with these kinds of revolutionary ideas, it is difficult to make it concrete and to start selling it immediately.

We have been to the customer, we have sold the idea, but it has been very difficult to do the technical implementation.

The markets were growing fast and there seemed to be a real hurry to buy something and to obtain real customers and products. This meant that the management of the venture was quite ready to make drastic solutions to get sales growing, as the following quotes show:

...We had this due diligence group that went to investigate the company and they said that it's not worth buying... It was still bought, even though the experts said not to.

I did the basic... analysis, the investment paper, but if I had known what kind of prices we are talking about in the end, I would probably never have submitted the paper.

The acquisitions brought ready products to the portfolio and a truly international customer base. As described by the people involved in the planning and implementation, the change in business was drastic:

Then, when [Alfa] at some point did these two acquisitions... It changed quite drastically, because we got a ready organization that had a longer history and sales offices around the world...

Our sales at the moment are based very much on their [acquired company] references... One can only say that many times acquisitions are necessary to internationalize and to obtain access to certain markets.

The acquired companies were not, however, directly in line with Alfa's initial business plan. The product development carried out by the organization originally established for the purpose of the original plan faced a competition situation with already launched products of the acquired companies. After the acquisitions, there was no real integration experience in Alfa and the three existing product lines started an internal competition with each other.

The organizations that had been bought were similar size to Alfa itself. Because of a lack of experience and a clear integration plan, the confusion with different products caused delay for the growth. Consults were hired to provide their expertise in the process, but, according to the interviewees, the people that were in charge at the organization did not have the necessary qualifications or experience to handle the actual projects.

...There were [name removed] consults here and all kind of people telling us how these things should be handled. They showed us with slides how this process should go, but we put completely inexperienced people as project managers to handle those things.

We wasted a year in between. We might be even further now, if somebody would have known how to handle those acquisitions.

After the acquisitions, Alfa had customers on all of the continents and there were about 60 operator customers and 160 service provider customers. There were several different product lines, tailored solutions for large business customers, more standardized software for service providers and even bulk software for corporate and consumer end users. As the CEO of Alfa described, the business started to find its focus and shift away from its original plans:

The business has changed from the original idea to something very different...We found customers in the mobile management side, and that niche area...

In 2000, Alfa had revenues of approximately EUR 18 million, of which the majority came from foreign markets, and had more than 400 employees. Product development was distributed between Finland and Sweden. There were offices in several parts of the world: in Asia, the United States, and Europe. Aggressive partnering strategy was still being pursued. During 2000, approximately ten partnerships, co-operation programs, and alliances were published. Big customer projects around the world also boosted the growth towards the end of 2000 and these projects also required local resources and setting up local offices, e.g., in Australia and South Africa. Because of the nature of their business and the expertise required to sell their products, the sales had to be organized locally. As described by a manager being involved in setting up sales processes:

We had in all of the most important markets and most important countries our own offices, where we had local employees.

We use local salespersons and they all have own contacts.

They [salespersons] are always local, especially those who are in our infrastructure sales.

In 2001, the international market climate started to change. Costly UMTS license investments in Europe weakened the position of telecom operators, which also

negatively affected the smaller high-technology companies that provided solutions for operators; Alfa was one of these companies. The global economy started its downswing in 2001. Alfa also had internal problems. The integration of acquired companies into the business had not gone as planned. There were internal tensions and problems with different organizational cultures and products. The strategy and the focus of the business were not clear. The old CEO, one of the key people responsible for the establishment of the venture, left the company and a new CEO was appointed for the venture.

There were difficulties in finding new customers and the management did not achieve the goals set for the venture business. To adjust to the new situation, Alfa downsized its organization. However, the aggressive partnering strategy continued in 2001. More than 25 different international partnerships, joint ventures, and co-operations were announced. Despite the tough market situation, Alfa succeeded in increasing its sales to EUR 36 million and decreasing its costs. The international diversification continued, as well as technological diversification. 64% of sales came from software products; geographically, sales were distributed amongst Europe, the Middle East and Africa 62%, Asia 27%, and America 11%.

Table 8. Quantitative analysis of Alfa

	1998	1999	2000	2001
Sales (MEUR)	N/A	14	18	36
Profit/Loss (MEUR)	N/A	N/A	-63	-77
EVA*	N/A	N/A	-178	-77
Foreign sales as a percentage of total sales (%)*	N/A	80%	90%	95%
Top management international experience (percentage of international/Finnish in management team)	0%	0%	50%	75%
The number of countries in which the company has foreign business operations (n)	2	6	N/A	41
The number of diverse social cultures of the countries in which the company operates (H/M/L)	L	M	H	H
The geographic diversity of a company's foreign markets (H/M/L)	L	M	H	H
Number of foreign subsidiaries (n)	0	4	12	15

*estimates

Table 8 summarizes the quantitative data of Alfa. It shows that most of Alfa's markets were abroad, and Alfa's operations were truly international as it had 15 foreign subsidiaries. The venture grew through two big acquisitions in 2000, which is visible as a big change in terms of revenues and the number of countries where the company has

business operations. In addition, the composition of the management team changed mainly because of these acquisitions. During the whole investigation period, the business was suffering heavy losses and it was not able to create value for the parent organization.

5.2.2 Relationship with the parent organization

In Alfa, the venture creation decision and objectives for internationalization were set in the strategy process of the parent organization and the strategists involved most heavily in the planning were also the ones transferred to the venture organization to start the business. This laid the ground for good personal relationships between the managers of the parent organization and the venture.

The people that were involved in the strategy process during the time of Alfa's first steps described the process as follows:

As a result of the strategy process — that's how I interpreted it — was born this idea... We have two arrow heads — namely [Epsilon] and [Alfa].

It all started about four years ago, when we [from parent organization] started to form a unit around...

After the venture was established and organized into a separate unit, the parent organization gave the acting management of the venture fairly free hands to create business planning and act on it. There was not much operational governance between the organizations. The lack of operational control was also due to the fact that Alfa operated in a specialized niche market that was quite far from the core business of the parent organization. There were no complementarities or synergies between the organizations. Knowledge was not shared between the operational organizations of the venture and the parent. The managers in the parent side saw that they had no competence in Alfa's business area:

People in [parent organization] side knew from the beginning that the [parent organization] does not have the competence to guide this business area and understanding this area — international software business...

...It's better to give this kind of 'arm's length relationship' and this empowerment to that, to do and show.

The parent organization took a role of a financial investor, as described by the CEO of Alfa:

The position of the parent has been more like a financial investor, because the parent's core business is so different from ours.

The financial support that the parent organization provided Alfa with was strong. Because it was seen by the analysts that the markets would grow fast and that the business opportunity was big, an aggressive marketing strategy was chosen by Alfa. It had the freedom to develop its own brand and start significant international marketing operations. All of the market signals seemed to be positive and, based on these signals, a high growth strategy was formed for the venture:

It started very much as a part of [parent organization]... [Alfa] tried to take use of [parent organization] on a wide range, established subsidiaries here and there and got a physical footprint in Belgium, London and some guys were in the States... We did early stage piloting.

The actions required significant investments from the parent organization. The managers from Alfa's side were even amazed at the support and trust the parent organization showed:

We wondered how long that enormous financial support from [parent organization] can continue...

In the beginning, we had that imago support, which as related to financing and to acquiring certain credibility. Perhaps that was even too successful, the whole brand and road shows and so on.

Even though Alfa was not tightly controlled by the corporation, the relationships between the management of the parent organization and the management of Alfa were close. They had intense interaction and frequently shared knowledge. This interaction increased as Alfa's operations progressed. In 1999, the CEO reported directly to the

parent organization CEO and in 2000 and 2001. The chairperson of Alfa's Board of Directors was also appointed to the management group of the parent organization in 2001. Hence, the personal networks in the management between Alfa and the parent organization seemed to play an important role, particularly in the early stages of venture development. One of the employees quite close to the CEO described the governance in the following manner:

I would say that during [Alfa's CEO's] time, all of the managing that came, came from [the parent organization's CEO] to [Alfa's CEO]...

The overall high-technology market grew fast and in the beginning of 2000, Alfa was incorporated and changed its status from internal unit to wholly owned subsidiary of the parent organization. This move was done to further separate the operations of the venture and the parent. There were plans for carrying out IPO for Alfa and mergers and acquisitions were also already being planned. It was also considered to be easier for Alfa to do the integration as a separate legal unit.

From the beginning of 2000, [Alfa] was incorporated, whereby it became a wholly owned subsidiary of [parent organization]. Thanks to the incorporation, [Alfa] can offer its services independently of [parent organization's] ... functions and react faster to the changes taking place in new ... services.

In Alfa's case, the ultimate expression for trust from the parent organization was visible in the resource availability for acquisitions made during 2000. Even though their reasonability was questioned by the experts that scanned the companies, the CEO announced that these acquisitions should be made. The parent organization management accepted and financed the transactions. This was done by using the shares of the parent organization in the acquisitions.

However, towards the end of the year 2000, there were personal relationship problems between the CEO of Alfa and the CEO of the parent organization. The integration of the acquisitions had not gone as planned and the direction of the company was under dispute inside Alfa. The acquired products and Alfa's own products under development — partly the result of the innovativeness of the CEO — were in conflict. The process ended with the appointment of a new CEO in March 2001, and the old CEO leaving the

company. This did not, however, drastically change the operational relationship between the organizations. Alfa continued as an independent subsidiary, even though the parent organization tightened financial control over it. During 2001, Alfa downsized its organization heavily and the overall business focus was narrowed to correspond to a new more pessimistic market situation and tighter financial frames.

5.2.3 External inter-organizational relationships

As stated in the longitudinal description, Alfa was the most active in establishing relationships with other companies. During the investigation period, Alfa announced more than 30 different relationships loosely labeled as partnerships, even though many of them did not actually involve any operational exchange of resources of any kind. Most relationships involved very few and infrequent interactions.

In Alfa's case, the following categories of external relationships may be distinguished:

- Technology partnerships
- Sales partnerships/joint customer projects
- Strategic customers
- Marketing partnerships
- Mergers and acquisitions

Evidence related to them is presented in the following. There is evidence of relationships that can be considered to have been successful and to have failed. Both types of relationships are discussed below.

During 2000 and 2001, Alfa, in particular, favored establishing technology-related partnerships and announcing "compliance" between Alfa's and the other party's technological solutions. Technology partnerships refer to relationships where the primary purpose is to share knowledge or resources related to certain types of technology. Development co-operation, interoperability partnership, joint membership in a standardization body, or an alliance to standardize technology could be examples of this type of relationship. Alfa was keen to publish such relationships since Alfa's products were based on standardized interfaces to other third party products and wide interoperability was seen as important purchase criteria. Some of these relationships

may also be categorized as marketing partnerships, as the main purpose was to send a message to the potential customers of the wide support for different technologies and compliance between the parties' products. After the chaotic first years, Alfa established more analytic partner programs to handle the partnerships more effectively than negotiating and governing on a case-by-case basis.

In technology partnerships, Alfa created trust and encouraged knowledge-sharing between the organizations by offering a full virtual demo environment for its partners and offering a knowledge base for the partner to use. This environment also enabled a joint marketing tool to show the results of the partnership to the customers. It was a concrete result that could be used from the beginning of the relationship. One of the managers in Alfa elaborated the idea with the following words:

At the same time, we have this kind of virtual setup here inside [name removed], that we can offer to test and evaluate to our partners, so they can test their applications in that development environment, and then we can move them to our demo environment. Then we can show demonstrations globally to our customers about our partners' application products.

There were numerous similar technology co-operation arrangements; some of them were labeled as "application" partners. A director noted that these partners must be treated equally for the operation to be successful and on obtaining commitment from them:

Then this equal treatment of partners is always an issue, when there is this subjective point of view also.

One of the managers in Alfa emphasized the importance of the local salespersons and their contact networks in the creation of the partnership in a market. The local salespersons had a lot of freedom to operate in the market and to create the necessary partnerships for the business and their role was emphasized in Alfa's business model. In this kind of activity, the history of personal relations is essential:

It is very much dependent on you having the right Account Manager there, who has the contact network and the drive to create versatile partnership agreements and negotiate the whole thing and then also get the legal support there.

In Alfa's history, there were several relationships that can be categorized as failed or not reaching the objectives set for them. An example of this kind of co-operation was described by interviewees in Alfa. In this relationship, the co-operation was created with a certain potential competitor, although no intentions to actually take use of this partnership existed. The partnership was seen as a strategic tool to confuse the markets and the competitors, but in the end, it seemed to confuse the venture organization more. One of the interviewees elaborated:

[Name removed] was seen by [Alfa's CEO] as a bad competitor, and right way to soften the competition was to make a partner agreement with them... Nobody from [Alfa] knew that we had co-operation with [company - name removed], but then somebody found from [company - name removed] website a release announcing, that they are [Alfa's] partner.

Another example of a relationship that did not produce the expected results was a sales partnership with a global corporation. The intention was to approach customers and deliver overall solutions together. In Alfa, this partnership was considered to be especially important for the purposes of internationalization, as the partner had presence in several markets. However, commitment from the partner's side was poor.

The situation was such that there were people on [partner's] side that were very eager to co-operate, but then we started a joint project in Hong Kong, there were no right people on their side for that project and they did not actually put any effort to it. They had an attitude like 'we can try this with you'.

Alfa also had several big customer cases it considered more as a partnership rather than as a pure normal supplier-customer relationship. Since the products that Alfa provided were complex and sometimes tailored solutions, it was important for the company to obtain feedback and new development ideas from its customers. The projects were sometimes long and Alfa employees were heavily involved in the customer's processes during the installation and production deployment projects. These relationships

provided Alfa important information about the customer needs and knowledge about the market environment. One of the interviewees elaborated:

This is project business, this is consulting, if you do not get new products out, you do not have revenues in a month. That's why you have to invest in the future all of the time and you have to finance it somehow.

All in all, most of the interviewees saw that in internationalization, Alfa did not take good advantage of the partnerships it had. Even though many partnerships were entered into during the investigation period, the interaction between the parties was not deep and the relationships were poorly governed in most of the cases. Even though Alfa had vast financial resources from its parent organization, in addition to the technological innovations and products it had developed or acquired, it was not able to use the external inter-organizational relationships as a vessel to achieve an international competitive advantage. The CEO of Alfa summarized their view on the result:

Most of the partnerships that were published, probably 98%, were of no use, except for the marketing company that made the press release. That goes for [Alfa's] partnerships as well as for everybody else's

5.3 Beta

Beta's international growth was the most modest of all of the cases. It started later than the others did and due to a change in the market environment and the harsh cutting off of costs from the parent organization, it could not establish a position in several markets. Beta did, however, have opportunities and during the investigation period, the management of the venture tried several different paths to achieve international growth, from local offices and acquisitions to partnering.

5.3.1 Longitudinal analysis

Case Beta was initially a number of internal units directly under the parent organization that provided different IT-based services internally for the other units in the corporation. There were also some external revenues, but on a very small scale. A business decision

was made during 1998 to start offering the services to external customers. The interviewees described the establishment of Beta, the pursued strategies and the justifications for choosing the internationalization strategy in the following manner:

So there was this strategic rationale, that new business is network independent and so we can start with small investments.

To begin with, there were three strategies and they all were utilized in parallel. One was organic growth strategy, own sales office established and through them selling those concepts, what was available there and producible. Another strategy, that took very long to implement, was to negotiate an international co-operation arrangement, that enables our products to internationalize or through that arrangement, our products are internationalized. And the third were acquisitions.

It started from Finland being so small of a market and in those markets only certain volumes can be reached and we started to find growth in the developed mobile internet markets that can be found from Western Europe and we did a roadmap in what order we go those markets...

The resources were regrouped into a unit. At the beginning of the investigation period, the organization changed its form quite frequently, as more businesses were started and added to it. During 2000, international operations were launched. Because the strategic relationship with the parent organization was close, Beta also had to choose its target markets according to the parent organization's strategy. This process is described by some of the interviewees in the following:

In fact, [parent organization's] strategic markets are one criterion.

In practice, there were few criteria in choosing the target markets. One criterion is that the markets must be reasonable from the point of view from [parent organization], i.e., such that [parent organization] has a wider presence there.

Some parts of the businesses had already done some small-scale operations in the international markets, mainly in Sweden. During 2000, operations in Sweden and

Germany were started and local subsidiaries were established. It was seen by the venture managers that the service concepts can easily be transferred to other European markets. The overall longitudinal development of Beta's internationalization and other milestones are described in Figure 8.

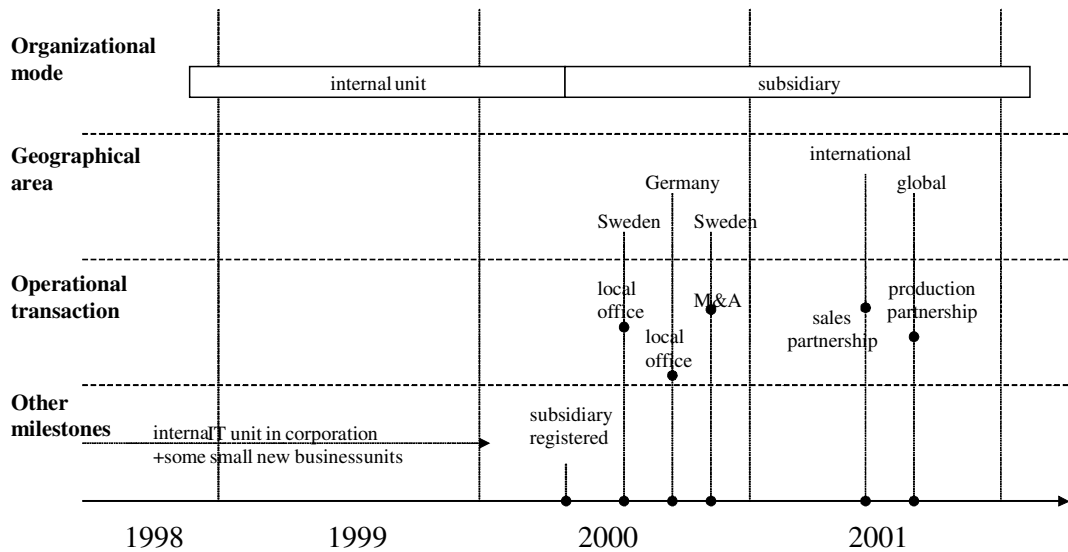


Figure 8. Longitudinal analysis of Beta 1998–2001

The volume of business was very small in the beginning, revenues in 1999 stood at a couple million euros, and it was basically 100% coming from the other internal units of the corporation. The annual growth rate of the business during 1998–2001 was 35–45% and the revenues in 2001 totalled EUR 72 million. Most of it was still coming from the home market, however. Beta did a small acquisition from Sweden at the end of 2001. The acquired organization was a production unit of a company and it was supposed to act as a vessel for growth in the Swedish market. The basic strategy was to push Beta's product through to Sweden by the support of the new organization:

Sweden emerged purely through an acquisition, meaning that we bought a subsidiary from [name removed] called [name removed] and integrated it to [parent organization's] and [Beta's] business.

With that, we got the basic organization to Sweden and it works as a platform for growth there.

[Acquired company] was started to change effectively to that form that it would serve as a support channel for the products and sales organization.

The acquired company was a production organization that already had several big customers. The integration went quite well according to the key people. The acquired organization was quite quickly transformed into a part of the Beta's governance model and the project organization responsible for integration succeeded well, considering the objectives set for it. As an example of one gauge of success, very few employees left the acquired organization after the acquisition. An internal case presentation of "successful acquisition" was prepared from the project and presented to other units in the parent organization.

Several other acquisitions were looked into, but none were actually realized. In addition to Sweden and Germany, other markets were also scanned. In the UK, Beta even had a few people working and plans were made to move the unit's headquarters to London. After the actual integration project from the Swedish acquisition, some problems in the market started to emerge. The rollout of Beta's products in Sweden did not succeed as planned, it took longer, and some of the interviewees suspected that the products were not suitable for the market. The revenues did not grow and some of the big customers that brought revenues to the established organization left after the acquisition. The people that were involved in the operations described the situation:

There are existing revenues. That acquisition, the sales at that time were something like 5–6 MEUR, if I remember correctly. We haven't been able to increase that... Partly it was due to that we were selling under the wrong concept there. Then we were late in product rollout there. The third issue... We lost one big customer and it dramatically affected to the revenues of the company.

...In Sweden that was bought ready, this part of [acquired company], for some reason it has started to go down after it was bought. Big customers are leaving there...

These difficulties caused pressure to create cutbacks. The parent organization had a significantly tighter budget framework than before. All new business operations were

halted and the German operations were closed in 2001. During that year, Beta also downsized its organization and started extensive cuts in expenses.

In the beginning, all of these implementation strategies were utilized. Now only one [partnering].

Table 9 shows in numbers how Beta's international growth and other performance indicators have developed during the investigation period. It can be seen that Beta was not able to make its operations profitable during the investigation period and its international operations were starting off slower than in the other cases. Beta's top management was completely Finnish.

Table 9. Quantitative analysis of Beta

	1998	1999	2000	2001
Sales (MEUR)	N/A	0	53	72
Profit/Loss (MEUR)	N/A	N/A	-42	-25
EVA*	N/A	N/A	-43	-25
Foreign sales as a percentage of total sales (%)*	N/A	N/A	1%	8%
Top management international experience (%)	0%	0%	0%	0%
The number of countries in which the company has foreign business operations (n)	2	2	4	3
The number of diverse social cultures of the countries in which the company operates (H/M/L)	L	L	L	L
The geographic diversity of a company's foreign markets (H/M/L)	L	L	L	L
Number of foreign subsidiaries (n)	0	0	1	2

*estimates

5.3.2 Relationship with the parent organization

Until 2000, Beta's operations were an integral part of the parent organization. It was an internal unit and parts of its business operations were scattered across the organization.

In the spring of 2000, the unit was registered as a subsidiary of the parent. However, the relationship was kept very close and, even though Beta was an independent subsidiary, with its own sub-brand and independent management, the relationship with the parent organization was in the governance sense the closest of the cases in this study. The following quotes from the key informants describe the early phases of the venture and the relationship with the corporation.

If we think about the decisions and choices we made 4–5 years ago, then we pursued to find new business that would be outside [parent organization] business and so moving up on the value chain.

In practice, there cannot be such strategy in [Beta], which would be [Beta's] own. Strategy has been framed from the corporate strategy...

Creating business like [Beta] would not have been possible without [parent organization] strategy acceptance. In other words, it was one decision that came from corporation then. I know it well, because I was making it myself, that strategy back then. Strategy made it possible to create a business like [Beta].

In Beta's case, the operational relatedness to the parent organization meant that there were very limited options to realize, due to the strict budgetary frameworks of the parent organization. Hence, the role of the parent organization was as a financial investor and the financial frameworks given were stricter and the strategic options were always accepted and followed by the parent organization's management:

After that, the management has been mainly budget management. They have given us the financial frameworks, under which we can move... But other control there has not been... I would say that strategic guidance, yes, that come from there, meaning that is it possible to do a certain move. And the financial control, meaning how much money is given.

Focus was in following numbers, not in developing business or developing business area.

In Beta's case, the level of involvement in the parent strategy process was not that high. There were no clear set objectives from the parent side to grow internationally. The sharing of knowledge between the management of Beta and the management of the parent organization was not as frequent as with the other cases. To show this, the following words are from key informants from Beta:

Head quarters' attitude towards this current ... business, when the frameworks were created, was not too supportive to be frank. Was it that then they didn't understand it.

We had good starting points, good possibilities. Partly they were terminated by Finland, the headquarters terminated some of them, and then these EBITDA requirements terminated the rest... We did nothing, just waited for the costs to be cut... And we know what that does to a new business – it ends it.

They gave us numbers [of cutbacks], we couldn't say anything else except thank you, and we'll handle this.

Beta was not able to obtain support from its parent organization and the necessary advantage to make its strategic moves. This was also due to the downturn in the markets and the restrictions on the parent organization's business. Other ventures that had started their operations earlier were also already consuming the parent organization's financial resources and they had the advantage of a longer history and, to some extent, a more mature business than Beta.

5.3.3 External inter-organizational relationships

Beta's inter-organizational relationships were at first not managed very formally, instead being handled by different organizations in the venture. There was no centralized partnering management and new relationships were formed opportunistically by individual managers when the need came up. The following types of external inter-organizational relationships can be distinguished from Beta's operations:

- Technology partnerships
- Marketing partnerships
- Production partnerships
- Sales partnerships
- Mergers and acquisitions

Most of the external relationships were some form of technology co-operation, where Beta would use technologies provided by their partners and use the relationship also for

marketing purposes, to promote Beta's solutions. Many of the technology partners were big international or global companies and the level of interaction was not deep.

The person responsible for organizing the partnering activities described the situation in the early phases of the venture as follows:

In the establishment phase, the partnerships were born quite chaotically in that sense, that this business manager or somebody other preferred it or by coincidence.

Two large international partnerships were announced during 2001: the first being an international sales partnership and the second a global production partnership. The purpose of the partnerships was to boost international sales and create savings. It was considered that the partnerships would open the way to international markets. The two companies had co-operated in several occasions earlier, there were ready contacts and this increased the trust between the parties:

We have had many kinds of co-operation earlier, which is of course normal.

This partnership led later to a very large-scale co-operation where Beta outsourced some of its core operations to the partner. One of the key people behind Beta's strategy elaborated the setup:

They [the partner] are interested in taking care of this production, which is their core business and we are interested in getting our ... products to market through them. We have seen that this is a win-win situation for both.

However, this partner did not provide Beta with a channel to foreign markets, as it had expected. One of the interviewees described the reasons for this:

One of the key challenges is with [company - name removed] is how do you get your product in that huge organization with thousands of products to be brought up. How do you get those people to sell your product?

We are just a sales company and if you want to get to other countries ... you must go through to the headquarters to USA, so that it becomes a corporate product. Then they sell, when it comes down as a corporate product.

The interviewee saw that the sales partnership with a small local player and a global corporation did not succeed because of the asymmetry between the parties and the setup for the co-operation. Beta expected that the salespersons in the global company would handle their sales and this did not happen. There were also no proper governance mechanisms for the relationship, since the deal was not made with the headquarters of the corporation but a smaller local unit.

An example of a more successful governance structure was the supplier relationship with Beta and a global IT provider. The IT provider supplied technology and software for Beta's services, which meant that new intellectual property rights were generated in the process. Here the expected value was in ownership for the developed technology. The governance structure ensured that the rights for the technology were owned by Beta. This kind of situation was optimal according to Beta's informants, who also considered it to be quite rare of an occasion since the partner was a global player and had quite a bit of negotiation power. The Beta representative emphasized the advantage of the setup:

There we got - which is very rare with [name removed] - that they cannot use the technology we have paid for as such in other cases. We own it.

One of the interviewees saw that the main reason for not getting everything out of the relationships was the incompetence of the people put in charge of the projects. According to the person responsible for the partnering program in the organization, inexperienced people were put in positions where they were responsible for managing international projects and the results were not good. In the quotes below, the key informants refer to people appointed to positions in international projects being not experienced enough, not having enough training for the task, only a "letter course":

It feels ridiculous that they give some kind of letter course to people that have not proven in any way to be well suited for that kind of environment.

Another thing that has a significant impact is people. In practice, you must have people that have nerves and experience with international business. You can't go and practice. You should have done this kind of thing once or twice earlier.

In summary, Beta's international relationships did not bring growth for the venture. Some of them provided cost efficiency or other advantages mainly in its home market and in certain local markets, but Beta's strategy to internationalize through partnerships was not seen by the informants as successful, and the collected secondary data supports this.

5.4 Gamma

Organizationally, Gamma was the largest of the cases. At the end of the investigation period (the beginning of 2002), it had about 1,000 employees. It was also the least "venture-like" business of the cases. Gamma was a big player, a market leader in its home market. Its businesses included both high-technology services and people-based services (that were basically the reason for the large organization) and it was a wholly owned subsidiary of the parent organization. During the investigation period, it was offering its services to service providers and operators in need of certain technology solutions and it had an extremely focused range of business-to-business services. There were basically two separate business units in the organization, old telecommunications - based services that have a very long history and a new electronic business that can be described as the "venture side" of the business. The expansion of these businesses to new markets was seen as the venturing activity.

5.4.1 Longitudinal analysis

Gamma's business was a part of parent organization's value added service portfolio before it was made a separate entity. It had had similar business activities for a long time, but only in the late 1990s, with new mobile and Internet content services, did the importance of this particular technology in the value-added services grow significantly. The parent organization also owned several minority stakes in similar ventures in the home market and some shares in foreign ventures operating abroad. Figure 9 provides information about the overall longitudinal development of the case.

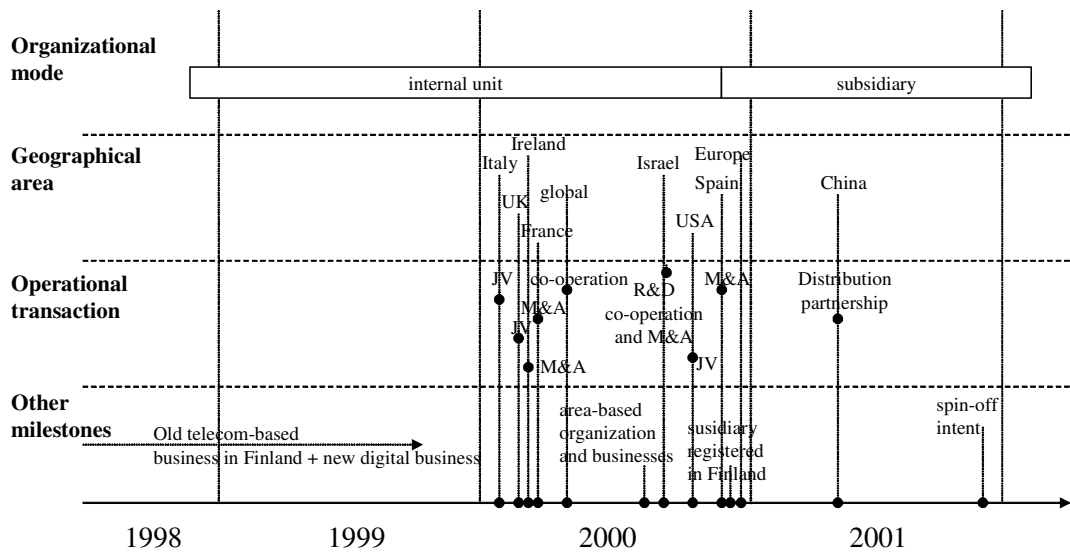


Figure 9. Longitudinal analysis of Gamma 1998–2001

To name the significant foreign operations at the time of the establishment of the venture, the stakes in foreign small companies included joint ventures in two companies in France (50% and 100%), one company in Italy (51%), one company in Great Britain (45%), and minor shares in a company in the United States (25.5%) and Ireland (10%). In addition to these, the venture had some small-scale operations in Spain, Switzerland, Austria, and Sweden, when the venture was established. The implementation of internationalization on a larger scale started from the beginning of 2000. Before that, it only had small operations and its base business in Finland. Some testing occurred in international operations during the early 1990s. Hence, some experience in the international environment existed in the organization. The employees described the formation of international goals and strategies in the following way:

We are globally a very, very small company, and we have little muscles. We have some balls, but little muscles, we cannot put the thing up by ourselves. We have to look for partners to go to markets.

It started from, if I remember correctly, from last year's November, December when we started to discuss how to approach these different geographical areas in a more structured way.

There were basically two reasons for larger scale international operations during 1999–2000. One was deregulation and the other was the large-scale internationalization of Epsilon. First, Gamma's business required certain regulatory restraints to be removed from the markets. These regulations existed in several European countries and these markets started to be opened in 1999. Second, as Gamma's business was seen as being a supporting service for Epsilon, these two organizations could complement each other. It was expected that Gamma's business would support the internationalization strategy of Epsilon. These expectations came from the management of the parent organization and from the management of Epsilon (which had a strong influence in the parent management).

The new internationalization strategy of the venture meant starting operations in several markets. The main focus was on getting new operations up in as many markets as possible, and it was allowed to decrease its profitability. One of Gamma's management group members described the objective:

Really, internationalization was done so that it was given priority, that profitability can be lowered as long as there is international growth.

One of the interviewees saw the backgrounds of the management board members as a guiding factor on how the international growth strategy was built up:

Well, I could say that the personal backgrounds of the management board members are one very clear thing [why] we have used certain internationalization models.

Several different entry modes were pursued simultaneously in different markets: acquisitions, joint ventures, greenfield operations, and partnerships. International sales partnerships, R&D alliances, and joint ventures were established. The choice of target markets was done according to a market analysis and the parent organization also had an influence on the search for new markets to enter:

In practice, the countries were chosen according to with whom we could operate... And then this kind of countries like [country removed] came through [the parent organization's] international ownerships, there we had [company name removed]

and other shareholder companies, meaning that we had to show that there is synergy prospects in internationalization, so we had to go there.

We looked from the points of view of these business markets and the requirements of this business competition. We have done quite a bit, especially in European countries, market research and market screening, competitor analysis, etc.

Another major criterion has been number service and database distribution and usage emancipation, regulatory reasons that have been essential.

I got as my task to find out... To map the possibilities to business and to develop them in the Nordic countries and in the Baltics and of course it started from investigating the current state of affairs. Meaning that what is found where, what are the markets, who are operating there, what kind of services there are available and what is the price level and what are the volumes and what are the technologies used in mobile phones.

Geographical area of operation was also an issue for Gamma as the most significant business was carried out in Europe, in markets that were well known to Gamma, which used local consulting offices on the market:

We have wanted to stay quite close, meaning Europe, only small operations in Asia and USA.

Then in the end of the autumn, in November–October we started doing this project "Adam" there. We hired this consulting office called [name removed] there, and they started to do it. That was our local partner there and then we also had local people here.

One large change in the business was done in towards the end of 2000, when the business was organized from global responsibilities to area and country-based businesses and responsibilities. In Q4 of 2001, the parent organization signed a letter of intent to sell Gamma. The whole business is strongly consolidating and because of the market situation, Gamma was one of the most valuable businesses at that time. This was

a move anticipated by the markets; other telecommunications corporations in Europe had also been selling their similar businesses.

Table 10 depicts the quantitative data of the case. The venture was established as an independent subsidiary and the major and minor stakes in other companies were also transferred to that new company. This is why no exact figures were available for the first two years before the incorporation of the unit. The new subsidiary was established in December 2000 and its revenues during 2000 amounted to EUR 62 million. The operations were profitable since before the incorporation of the venture. This is due to the fact that the business itself was not new, even though it was conducted through a new venture — the markets and the players in different countries had already existed for a longer period of time.

Gamma acquired a major stake in a French company in May 2000 and by doing so, became a strong presence on that market. The revenues from France were EUR 4.7 million during 2000. In 2001, full ownership was acquired of the company and the revenues grown to EUR 8.3 million. The investment was significant from the point of view of Gamma. The acquired company remained very independent after the acquisition and it operated with its own established brand in the French market. The market was seen that different from the other Gamma's markets that there was no willingness to try to drastically change the operating mode.

Table 10. Quantitative analysis of Gamma

	1998	1999	2000	2001
Sales (MEUR)	48*	55*	66	71
Profit/Loss (MEUR)	N/A	N/A	12	5
EVA*	N/A	N/A	3	5
Foreign sales as a percentage of total sales (%)*	N/A	4%	12%	12%
Top management international experience (%)	0%	0%	0%	20%
The number of countries in which the company has foreign business operations (n)	N/A	3	9	10
The number of diverse social cultures of the countries in which the company operates (H/M/L)	L	L	L	M
The geographic diversity of a company's foreign markets (H/M/L)	L	L	L	M
Number of foreign subsidiaries (n)	N/A	1	2	1

*estimates

Gamma succeeded in getting a foothold in several markets, although it did not manage to get sustainable operations running during the investigation period in some. The relative share of international sales did not grow during 2001. Some reasons for this were identified by the interviewees. The requirements for internationally competitive products were not thoroughly known, some false assumptions were made. In the words of one of the managers:

Our product development could not respond to the challenges that were there in the markets.

There were similar ideas about the international delivery capability of their new products:

Let's say so that the one basic thing we've had, we've known the conceptual side of these electronic services and we've had a good vision, but we haven't had that delivery capability. What I mean is that if the customer says that I'll take this, then we would have had an awful panic: 'Now that one customer actually has ordered. What shall we do now?'

One interviewee also identified the lack of international experience as a reason for not getting operations up in certain markets. Gamma was not able to keep its internationally experienced employees in the company:

It has had so much impact that there has not been any genuine international experience and experience about going to international markets ... We recruited one very tough high-class guy, who had been in international business, and for about two months he looked at this and then politely said thanks and left.

Through its minor stakes and joint ventures, however, Gamma was able to get international operations up and running and, at the end of the investigation period, it had several operations starting in different markets, unlike the other case organization. There were no actual major setbacks in the process and the unit was able to maintain its profitability throughout the period, even though the speed of internationalization was not what was expected in the beginning. Based on the case analysis, it can be argued that Gamma was able to create value and achieve competitive advantage in certain markets, even though the actual financial profits were modest.

5.4.2 Relationship with the parent organization

Gamma already had large operations in its home market and the realized strategies came mainly from the inside the unit. When considering strategic relatedness, Gamma's operations were close to those of the parent organization, as it had had businesses that had been running as a part of the parent organization for a long time. The links between the management of Gamma and the management of the parent organization can be described as distant. The idea for the venturing organization had not come from the parent organization, but from the venture itself and the objective was to grow a new business from profitable old operations. The parent was not deeply involved in the planning process. However, the parent organization strongly trusted the plans made by Gamma, as the following quotations show:

Yes, they [resources] have come from there. But we have grown so that we've made profit, so that has not been a problem for us.

I never felt that there [in parent organization] was any kind of advising, governance or control on how you should do this internationalization. Not at all.

In Gamma's case, the trust was generated from a long history of conducting the traditional "non-venture" side of the business in the home market. To some extent, there was a "paradox of trust" situation. The interviewees saw that the parent organization was not able to make proper judgments or decisions concerning Gamma's business. The following quotation shows how one of the interviewees saw financial resources being given out by the parent organization:

The basis on how you got money in [parent organization], was more than amusing. There was no control on what kinds of plans were accepted — any kind of preliminary idea, all of them were accepted. Even our management said that they always gave away EUR 10 million per five minutes.

Another interviewee from Gamma thought that the operational support given by the parent organization did not amount to much. The capabilities of the parent organization to support new international business in areas where the parent itself did not operate were not good in the interviewee's opinion:

Otherwise the corporation had very poor support for internationalization — on the HR side etc... [Parent organization] is not any kind of international company.

Third interviewee criticized the way the decisions were made. As an example, there were two potential companies for acquisition in Sweden, but these plans were not accepted by the management board:

There were two cases [M&A] in Sweden, and they were taken to the Board. They said that we wouldn't do it.

On the other hand, there were also some positive effects for Gamma from the linkage to the parent organization. The responsible manager for the business development in certain market area described the help given by the parent in the following manner.

In practice, the good reputation of [parent organization] has helped a lot — opened doors. I mean this kind of general brand, for example, in the USA approaching [name removed], with [parent organization's] name, especially a year ago, was of value.

Having a big corporation as a parent organization helped open doors to certain negotiations and the networks that were already created by the parent could be utilized by Gamma. In summary, there was, to some extent, contradictory evidence about the mechanisms between Gamma and the parent organization.

5.4.3 External inter-organizational relationships

As Gamma had very different activities in different markets, it had several different types of external relationships. The following categorization could be applied to Gamma's different inter-organizational relationships:

- Distribution partnerships
- Sales partnerships
- Joint ventures
- Marketing partnerships

One manager saw that the lack of focus in internationalization led Gamma to try to many different entry modes and that too many relationships were also pursued:

Maybe in [Gamma] that kind of focusing, we went to too many places and did a lot. We should go somewhere and focus, buy a ready business from that market.

In Gamma's case, finding a local distribution partner was a necessity rather than an option and Gamma had to find a way to commit its partners to co-operation in each market:

This is the same situation as in every country; we need this distribution partner, when we talk about our electronic services.

This meant that Gamma had to work on each local market to find the proper partner and usually this was done first by getting the base operations for the market through acquisition or joint venture. In some markets, e.g., in China, Gamma had to use a local partnership to gain access to the markets. The Chinese markets were so regulated and different that Gamma could not use entry modes similar to those it had used in some European markets.

Gamma had several co-operation arrangements where the governance structures can be described as loose. One example is the internal co-operation between Gamma and Epsilon. It was a sales partnership, where Epsilon marketed Gamma's services as part of a portfolio and Gamma utilized Epsilon's capabilities and presence in the markets and Epsilon could offer more value in the product portfolio with Epsilon. By the words of a representative in Gamma:

Well, let's say that [Epsilon] has always been ahead us in internationalization. We have a deal with [Epsilon], a frame agreement and then in each country we have a case-specific deal. The basic idea is, that there where [Epsilon] is, we deliver [word removed] services. So, in that sense it is a good case.

This relationship cannot, however, be described as successful. Both representatives from Gamma and Epsilon verified this. No value was created through this arrangement for either of the parties. One of the key informants from Gamma described the co-

operation as good, because Epsilon had carried out all of the financial investments, which also implies a lack of mutual commitment and trust in the relationship:

[Epsilon] co-operation has been good, because [Epsilon] has put almost all of the money in it. Our financial investments have been minimal.

The biggest problem in the relationship was that the governance structure was too loose and there were no control mechanisms to follow the development of the co-operation. The representatives from Gamma did not receive information; there were no appropriate knowledge-sharing routines between the parties. A manager from Gamma described the outcome of the co-operation with the following words:

We gave [Epsilon] a tremendous amount of freedom to operate. Commercially, we didn't control them strictly to produce for us. In retrospect, it was not a good thing.

Both [Gamma] and us [Epsilon] saw it [co-operation] as strategic, that [Gamma] wanted to come to those countries where we went and the other way around; we saw their product as important, but the end result was that it did not fly that well, because it just wasn't that good.

Another problematic external relationship that came up in the interviews was a joint venture co-operation in the UK market, where there were serious problems with trust issues. It was a minor stake investment made by Gamma in the UK together with an Irish company. There were political struggles on the Board of the joint venture. The end result was not good:

It [co-operation] has been very poor at the point when the trust between partners vanishes.

One of the interviewees described this project with the following words:

We own 10% of [name removed], which is Irish. And with them, we have a joint venture called [name removed]; we own 45% and they own 55%. This joint company was established in January 2000 ...Already they receive... similar volumes as in Finland.

The joint venture grew fast; the volumes were at the same level as in Gamma's Finnish home market and they rose quickly after the establishment. Gamma, however, had difficulties with the joint governance:

So the Irish have all the time tried to push us out of the company and blamed us for not doing enough there, but we can't do anything else with a minor stake than to give them money there.

It is very bad when the trust between partners is lost, it is clearly visible there. Our people haven't done the best possible work in this matter.

Even though Gamma had a person sitting on the Board of the joint venture, this did not solve the problems. There were cultural clashes as well as some political issues between the parties. In addition, the change in ownership of Gamma that occurred in 2001 caused even more suspicion between the parties. In the case of Gamma's co-operation, both adequate individual and structural attachment were missing. Eventually, the stake in the venture was sold to the other party and the relationship was terminated.

In another partnership with Gamma, a pilot with the employees of the partner created the initial trust between the organizations and this led to commercial activity. Piloting gave the parties the necessary confidence to make the commercial commitments in the relationship. The person responsible for the project elaborated:

They've allowed us to conduct a pilot, with all of the employees of [name removed] in North America. The feedback is excellent and it looks like it is going to be a commercial relationship as well.

The manager saw that this was, most of all, a personal relationship issue and that the individual social relationship meant the most in the success or failure:

At that point, I would think that it comes down to my personal relationship with that individual, what is the quality of my follow-up, and what is the quality of the service. And really, that's it.

In one co-operational arrangement, Gamma started to use the other party's resources. This relationship was with a big global player, so Gamma was able to take use of the

marketing capabilities and brand of the partner. The product was marketed as a part of the partner's portfolio and this helped to establish Gamma's position on the international market. One of the interviewees described the relationship as follows:

It has been presented and sold in some fairs and it has helped [name removed] as well as us, because this product was one of the first that they could pilot and show to the customer.

In Gamma's case, access to certain resources, i.e., customers, was mentioned as a reason for starting co-operation. There is a non-physical asset specificity, namely access to a certain market segment. A concrete case of this kind of situation was Gamma's entry on the North American market. Such partnerships were sought and created where access to certain market resources was possible.

[Name removed] already has direct access to like [name removed] and [name removed] as well...So, we want to work hand-in-hand with [name removed] to reach these operators.

During the investigation period, however, this relationship did not provide Gamma with presence in that market.

In summary, there was evidence of 10 relationships during the investigation period, most of which can be described as deeper than just "arm's length". Gamma maintained communication with its partners quite frequently and was able to obtain operations that had been started in the markets. Even though a couple of the most strategic partnerships did not work out, Gamma was able to shift its operational focus elsewhere and concentrate on those mechanisms and relationships that created concrete results.

5.5 Epsilon

Epsilon was the most aggressive of the cases in its international marketing strategy. One of the reasons for this is that Epsilon's business model was to create services for consumers and it considers brand to be a very important factor in business. Its business model also required aggressive partnering.

5.5.1 Longitudinal analysis

Epsilon was initially established to obtain access to international markets, in particular. During 1998, the strategists in the parent organization tried to find potential new business areas, where fast international growth would be possible. It was believed that significant international market opportunities existed. The new business was supposed to be based on the competencies of the parent organization and to be built on top of the parent's current services and employ the current organizational knowledge, as the following quotes show:

We thought in [parent organization] '99 strategy process, in the spring of '99, that where [parent organization] could have a chance to internationalize...

And of course, one condition was that somehow those competencies should be such, that they stem from the [parent organization's core business].

Business plans were developed and a new unit was formed during the fall of 1999. The business was offering value-added services to consumers, combining the different competencies found in the corporation. The basic aim was to list the new company on the stock exchange and create a unit completely independent from its parent organization. During the fall of 1999, the first international partnerships were formed and market-scanning operations were started. The decision to incorporate the unit was made and the new subsidiary commenced operations in the beginning of 2000.

We made a plan for the management group and Board of Directors and, in fall '99, the first employees transferred, in September '99, about ten people.

When we obtain that business rolling, we aim at IPOing the company, so we can obtain the financing right. That would mean that [parent organization] doesn't have to finance at all...

During the spring of 2000, the country operations in several different markets commenced. At that time, the people involved in the planning felt that in order for the venture to succeed, they had to move fast and be first on the market. It was seen that the first-mover advantage was real in this business. It was believed that as there is more

knowledge on the operational level, it is easier to build up products and services that can be sold internationally. To put it simply, one of the interviewees in Epsilon stated the following about learning:

The faster you can go to market, the better, because only then you know... You are never ready, the faster you can get to market, the faster you learn what to change.

The target markets were scanned according to different criteria. The existing networks of the parent organization were also used. The aim was to maximize the growth and commence operations in several markets as quickly as possible. The key informants described the search for potential target markets as follows:

[Epsilon's] services are consumer services; that's why those countries have been chosen with different criteria. We could not have gone to the same places as [parent organization] with the same criteria, since the target is completely different. And the markets have been chosen so that there are enough users, the market is sufficiently developed, and the people know how to use those services. The differences are quite big in different countries, for example, American users are still not at that level. In Europe, those services are used.

In practice, the countries were chosen according to with whom we could operate... And then these kinds of countries like [country removed] came through [parent organization's] international ownerships, there we had [company name removed] and other shareholder companies, meaning that we had to show that synergy prospects in internationalization exist, so we had to go there.

Because of the aggressive growth strategy that was selected for Epsilon, it had to carry out several tasks in parallel, building several parts of the organization and business simultaneously. These hectic early phases of the venture were described by the interviewees in the following manner:

Anything concrete to internationalize these services and launch internationally, that didn't exist back then in 2000. Actually, [Epsilon] didn't have a development organization either.

At the same time in 2000, we had not just made the deals with operators, but also setting up the local organizations in these countries, local organizations in place, technology up and running integrated technology parts to operators...

In Epsilon, internationally experienced people were recruited to key positions from outside, since the management felt they needed experienced people to handle the venture's business development. One of the main strategists of Epsilon stated the following:

Yes, we recruited those [internationally experienced people] from many directions. It was a key issue in [our] success.

Not all recruitments, however, were successful. Epsilon recruited a CFO from a larger international company, only to notice that the person was not suitable for the dynamic growing venture, as one of the directors described:

This kind of start-up CFO's work is a bit different, when skills and contacts are in place, but generally in a start-up, or in a smaller company, things happen in a different way.

The first international operations were announced in the beginning of 2000, with Holland as the first market. One of the reasons for this was the presence of another subsidiary of the parent in the same market. It was possible that there could be some synergies between these two operations:

In August 2000, we launched the first market, which was Holland. Holland, because we already had personnel and operations there from [subsidiary of the parent], and we could utilize that to some extent.

As shown by Figure 10, several market operations were started and partnerships announced in the first half of 2000. At first, the targeted markets included the Netherlands, the Philippines, Germany, and the USA. Later, Singapore, Italy, and Malaysia also followed. Figure 10 describes the other milestones of the venture in different markets. In addition, the most important announced partnerships are included.

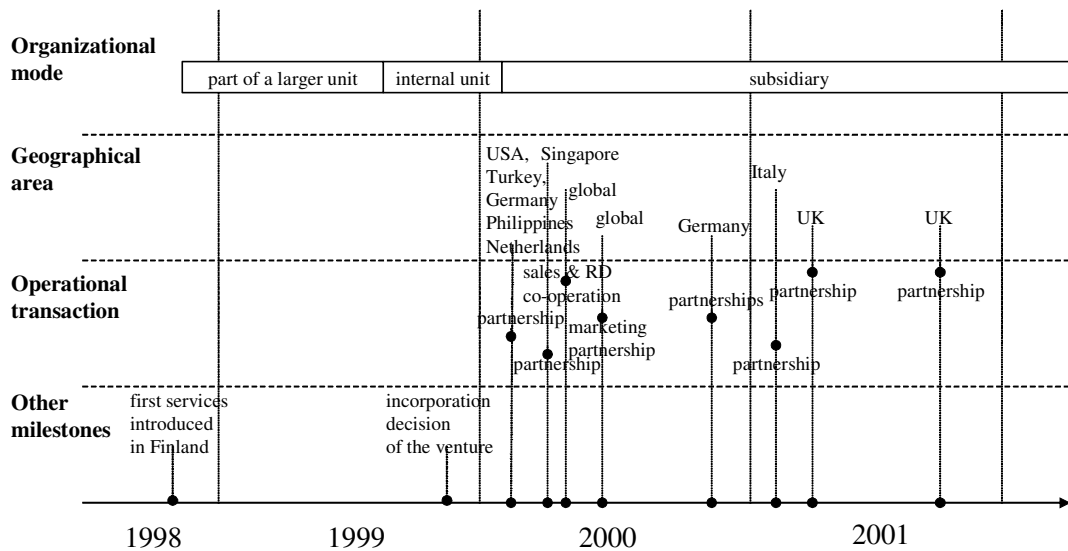


Figure 10. Longitudinal analysis of Epsilon 1998–2001

The business model of the venture required that certain types of partnerships, distribution agreements, be made with the local telecommunications operators on the market. Negotiations in the chosen markets were very aggressively pursued and good contracts were achieved in several markets. Potential acquisition targets were also scanned, although at Epsilon, the market situation was not considered to allow such moves:

There were possibilities [for acquisitions] every now and then, or a case came up, but the valuations were at that point so very high that we didn't see it making any sense.

On the product side, Epsilon aimed at multiplying the same concepts in as many markets as possible. The following quote shows the approach that Epsilon had for localization:

We aim that every country runs the same services... There are different cultures and different services are needed, but that's not actually true. The user group is so homogeneous and technology poses so many restrictions...

During 2001, the market had not grown as expected. Epsilon was forced to cut its costs, pull out of several markets, and downsize its organization by almost half from about 300 to 150 worldwide. In the beginning of 2001, however, launches were carried out in

Germany, Italy, and the UK. Market operations in Turkey, USA, and Holland were closed down or sold. In the case of Epsilon, growth management meant shutting down, downsizing, or selling certain operations due to the change in market situation or the failure to meet objectives. The following quotes show how the criteria for downsizing were viewed by the managers of Epsilon:

We moved our head office from England back to Finland, closed certain countries: USA, Holland, Turkey; all for the same reason, we saw that they will not be profitable fast enough, but every country had some specific reason why.

We threw the rest of the companies away, or the remaining country organizations were sold, after which we were left purely in that phase, only looking at the bottom line, which ones made money.

The technologies the venture relied on had not taken off as was planned and the development of the market environment in general forced Epsilon to focus a lot on the most potential markets. By the end of 2001, Epsilon operated in six markets around the world. The summary of the data is shown in Table 11.

Table 11. Quantitative analysis of Epsilon

	1998	1999	2000	2001
Sales (MEUR)	N/A	N/A	7	21
Profit/Loss (MEUR)	N/A	N/A	-107	-182
EVA*	N/A	N/A	-114	-182
Foreign sales as a percentage of total sales (%)*	N/A	N/A	5%	55%
Top management international experience (%)	0%	0%	20%	20%
The number of countries in which the company has foreign business operations (n)	1	3	9	7
The number of diverse social cultures of the countries in which the company operates (H/M/L)	L	L	H	H
The geographic diversity of a company's foreign markets (H/M/L)	L	M	M	M
Number of foreign subsidiaries (n)	0	0	9	8

*estimates

The revenues grew quickly, even though this required aggressive investments in marketing and thus a lot of financial resources from the parent organization. Revenues in 1999 were practically zero and grew to EUR 7 million in 2000 and to EUR 21 million in 2001. Most of it was still coming from Finland in 2000, although by 2001, the other markets were also bringing in a steady stream of revenue.

In a way, it's that even though countries have more power in certain issues, they also have more responsibility. In a way, increasing the sales goals has increased, they have quite high objectives. Through that, the control is also tighter.

By the end of the investigation period, Epsilon had operations and a solid foothold in several markets. Some markets were becoming profitable, even though the overall losses were still high. The operations had grown from nothing to a serious business, even though the required financial investments had been significant.

5.5.2 Relationship with the parent organization

The significance of a close relationship with the parent organization was shown in the case of Epsilon, where parent organization commitment and resources were used to create growth for the business. The business was started by the parent organization and the parent strategists were heavily involved in the planning process. The basis for planning was the parent organization's core competences. The following quotes describe the establishment of the venture and its planning:

In '99, the spring strategy process focused on what capabilities and assets [parent organization] had, technology expertise and other mobile capabilities, as well as how we could utilize them in international markets.

And at the end of that strategy process — that's how I interpreted that — was born the idea, that here on the service side we have two arrow heads, that were taken forward, [Epsilon] and [Alfa].

In the beginning of August, the [parent organization's] Management Group — or was it the Board of Directors — accepted that this kind of project has been launched and it was given the authority to collect resources and certain financing that was agreed to be checked on during fall, when the plans start to be ready.

Epsilon's CEO had a strong influence within the parent organization. There was a two-way direct link to the highest management in the parent organization. In 1999, Epsilon's CEO directly reported to the CEO of the parent organization and, in 2000 and 2001,

Epsilon's CEO was a member of the Management Group of the parent organization. I found evidence of frequent formal and informal communication between the organizations. The investments made for the creation and launch of Epsilon internationally were significant for the parent organization. The continued trust and empowerment towards the management of Epsilon also showed that, when the markets started to decline in 2001, heavy losses were shouldered by the parent:

[Parent organization] has financed this operation the whole time. Many start-ups have stopped their operations during this time.

Some of the interviewees even suggested that it was the parent organization that encouraged the venture to continue on its chosen path, even though the venture managers themselves had doubts about the business growth. This implies that the commitment was indeed a crucial factor for the survival of Epsilon. The following quotes are from two managers:

This project had the support of highest management; it helped to take these decisions forward. I've seen many such projects that have been killed much earlier because of different internal passions; this was pushed through and we accomplished things. I don't believe that without [parent organization's] stake and support we had put this together so fast. Or no way would we have put this together so fast.

And then, despite all, [parent organization] as an owner has been quite good and patient. All that support that we have got from there, at the same time when many other company has fallen and the faith of the owners has ended. Now that one looks at our financial figures, well [parent organization] has been quite right in that we should not stop this.

Because Epsilon's business was quite close to what the parent organization defined as their core business and there was a clear strategic relationship between the organizations, there was also much more interaction regarding the actual business and product development. In the early phases of the venture, much of the product development resources came from the parent organization. One of the Vice Presidents of Epsilon elaborated:

We received quite a lot of specialist help from [parent organization], and that was more than necessary.

There was also direct support for business operations as pertains to the financial systems, sourcing and logistics, as the following quotes show:

We have all the time been supported by [parent organization's] financial systems.

Sourcing and logistics service have supported us, when we built the services up...

To sum it up, the evidence implies that the parent-venture relationship of Epsilon has been very close on both the management and operational level. The relationship has also remained quite close throughout the whole investigation period and no major setbacks were identified in the data.

5.5.3 External inter-organizational relationships

The following categories of external inter-organizational relationships were identified from the case data of Epsilon:

- Distribution partnerships
- Sales partnerships
- Marketing partnerships
- Technology partnerships
- Production partnerships

Distribution partnerships were the basic condition for market operations for Epsilon. To be able to offer its services, Epsilon needed a mobile telecommunications operator as a channel in each market. Some of these operators were also co-operation partners for Epsilon and the relationships resembled more an alliance than a supplier-buyer relationship. The importance of these relationships was mentioned in several interviews. Overall, 12 distribution partnerships were included in the data during the investigation period.

In addition to the contracts with the local telecommunications operators, Epsilon formed several technology partnerships, sales and marketing partnerships and partnerships with different kinds of local and global content providers. Two very big product development partnerships were also announced in 2000, although neither one of them actually realized revenues for Epsilon. Other indirect values created by the relationships can also be questioned.

We thought that we could build a centralized product strategy; build these product families that are then localized in countries.

On the technology side, the idea was choosing that kind of main suppliers, with whom we try to have very close co-operation, but let's say, that in that setting up technology and in that market situation in a way there was no time to negotiate such tight partnerships, especially, when the market changed all the time.

The other technology co-operation was Epsilon's product development partnership with a big international company. The purpose was to integrate the competencies of both parties and create a new offering for the international marketplace. The press release also described the co-operation as marketing and sales co-operation. Because the other party had a global presence, it would have enabled a global channel for Epsilon. An agreement and a joint plan were created and the governance structure was in place:

We chose [name removed] and did a product development agreement with them, a plan.

According to the representatives of Epsilon, the co-operation lasted for a year, but no concrete results were reached. One of the reasons mentioned was that the knowledge only flowed in one direction:

With [name removed], we announced this product development co-operation, but it was not fun, because we taught them, told them that they are doing the same platform in 11 places.

It seems that both parties did have a strong motivation to co-operate, but not much resulted from it. The governance structure that had been selected did not support the objectives of the partnership and there were also other problems, such as the partner's

changing organization. The interviewees saw, however, that there was trust and commitment. One of the management team members from Epsilon summarized the co-operation as follows:

We planned and carried out continuous co-operation for about a year, even though, in the end, there were not many results.

Epsilon started partnership negotiations with a big company in the USA, as there were contacts in the company from earlier negotiations. This “path dependence” was described by one of the Vice Presidents in Epsilon in the following manner:

We went to [company removed], because [parent organization] was on the Board of [company removed] due to ownership so the contacts were ready and the demand for these services was also there on the operator’s side.

The partner was chosen because of already established contacts in the organization. The previous history of both personal and formal ties made it easier to choose this partner. Co-operation did not, however, produce results quickly enough and the US operations were shut down once downsizing began.

A very deep co-operation was developed with one distribution partner in markets in the Far East. The trust between the organizations brought success, success brought more trust, and hence more knowledge was obtained from the relationship:

This [name removed] was very willing to carry out deep co-operation with us starting with marketing and stuff.

This partnership in the market generated business and, because there it rather quickly succeeded, this, in turn, created more commitment from each party:

We have carried out very close co-operation with the operator when their volumes were such that we would have never believed [them to be so].

This meant the utilization of a partner’s capabilities in local marketing and new product development and commercialization and using Epsilon’s technology expertise and ready production capabilities:

One operator that we have succeeded in [getting into closer co-operation] with is [company - name removed] in [country removed], the results have been quite good. We have succeeded in taken use of it; it's an optimal setup, where we can utilize the advantages of both parties.

Another director from Epsilon described the same relationship with the following words:

We also saw that the management of that operator was very powerful, very capable, very networked in that area and so forth. We saw that if we get a good partner in that area, where we can utilize it in that area, so we can use that market as a starting point and roll other markets by using that.

This partnership gave both parties more competitive power in the markets they were operating and through success a deeper relationship was forged. Success brought more trust and commitment and it also enabled the utilization of other party's capabilities.

The opposite effect was experienced in an international marketing and technology relationship, where initial trust was not accumulated. Eventually, neither party was ready to commit. The partner aimed at closing deals and this aroused suspicion and lack of commitment from Epsilon's side. Trying to obtain commitment from the other party without the actual generated trust did not lead to the desired results. The partnership did not lead to deeper co-operation:

[Name removed] was looking so much to making deals on their side; they wanted that we would have done everything with them.

An example of the effects on technological development was a partnership between Epsilon and a global company, where Wireless Application Protocol (WAP) was used. The co-operation was terminated, when the parties noticed that the technology was not mature enough and that there were several problems in the implementation of the joint concept.

At some point when the problems with WAP got into publicity, [name removed] decided to postpone this thing, which meant in practice to stop it.

In summary, Epsilon's business model required a high level of interaction with different market players, and the internationalization would not have been possible without the successful management of complex organizational networks. Epsilon was able to dynamically adjust itself to different institutional environments and the changes in the global development of the markets.

5.6 *Ex post analysis of cases*

As the investigation period was only four years long and it may be questioned whether or not the true value creation potential of organizations can be realized during that time, I present here a short analysis of the cases after the investigation period. This analysis supports the actual case studies by showing how the case organizations developed during the period spanning 2002–2004. Even though the analysis is carried out on a high level and superficially, it shows whether or not significant changes in the businesses occurred and it helps to draw conclusions on the cross-case analysis portion of this dissertation. The analysis is based on my observations of the organizations and on public sources (web pages, industry reports etc.).

After the investigation period, the intention of the parent organization was to spin out Alfa. During 2002, the majority of the business was sold to private investor companies. The price of the transaction was only a fraction of the value that was anticipated for the business during the investigation period. Alfa was, however, able to maintain its business and grow as a more independent organization during 2002–2004. The main business of the company was transformed into something very different from the original idea; mostly, it was based on the product line of the other companies acquired during the investigation period. There was no accurate financial information available on Alfa for that period and thus exact conclusions about the rate and level of growth cannot be drawn. In any case, it can be concluded that the parent organization was not able to extract value from the business when considering the investments made in establishing the business. At the end of 2004, the company had approximately 200 employees and was operating worldwide and had offices on several continents. The parent organization still owned a minor share of the company at the end of 2004.

In 2002, Beta was merged back into its parent organization. After the merger, some parts of the business were continued as internal units of the parent organization and some parts were closed down, outsourced, or sold. The parent organization struggled to create sustainable business from the operations, although it was not able to create real success, when considering the growth of the revenues or profitability. Most of the international operations were eventually closed down. As the business strategy of the parent organization changed, Beta was no longer considered a key area of new growth.

Gamma was spun off during 2002 according to the plan mentioned in the case analysis. A private company bought Gamma's businesses and the company continued its operations as a separate independent venture. During 2002–2003, the business grew to some extent, although the growth was moderate and mainly occurred in Finland and France, the main markets of Gamma. In 2003, the company had approximately 1,000 employees, mainly located in Finland or France. The new operations in the United States or in China did not grow to become significant business after the investigation period. As a whole, Gamma was still able to generate profits and grow.

Epsilon was able to grow during 2002–2003. In 2003, it had revenues of approximately EUR 83 million and was still operating in several markets around the world. Epsilon established its position in at least six markets and grew quite significantly. The operations were not, however, very profitable and in 2004, the parent organization sold the business. The case for Epsilon was very similar to the one for Alfa: the selling price did not recompense the investments made.

In conclusion, none of the case organizations were able to generate return on investment for the parent venture. Even though three of the venture organizations can be defined as a sustainable business after the investigation period, the parent organization did not obtain the anticipated value out of them. The spin-offs created for three of the four case ventures were mainly carried out because the parent organization did not want to continue fostering the businesses.

6 Cross-case analysis and theory development

In this chapter, I continue to analyze the empirical data that has been collected by combining the data across different cases and introducing the themes and their relations that were found in the data. During the cross-case analysis process, I categorized the results with different techniques and these categories and their justifications are presented first here. I continue this chapter by putting forth the results of the cross-case analysis and developing models drawing on the discussion. Finally, I create a synthesis of the results by introducing an integrative model.

6.1 Initial categorization and search for themes and interrelations

The main objective in the cross-case analysis was to analyze the inter-organizational internal and external relationships of internal corporate ventures, and to understand how they affect the value creation and the ability to attain an international competitive advantage. During the analysis process, I investigated the data with four different analysis approaches:

1. By using the relational view as a framework
2. By organizing the evidence into a process
3. By searching for new themes emerging from the data
4. Linking these themes to the existing frameworks and shaping them

I categorized themes and concepts on several different dimensions and levels; the high-level categorizations and their themes are briefly discussed below.

After organizing the data, I ended up with three categories into which the themes can be divided. These three categories are:

- Parent-venture relationship
- Venture organization
- Inter-organizational relationships

This categorization seemed natural to me based on the initial scanning of the data and on the literature analysis. All of the themes found could be categorized as belonging under one of these concepts.

I started the analysis from the most important relationship: the parent-venture relationship. The first focus was on the initial conditions under which the venture creation and other major decisions related to the life cycle of the venture. I started working on the biggest milestones in the parent-venture relationship during the investigation period. By using the relational view framework as a starting point for the analysis, I listed the different mechanisms and factors that determine the nature of the relationship. Table 12 summarizes the results.

Table 12. Analysis of parent-venture relationships in the cases

Category	Facilitating sub-process	How the process manifested in the parent-venture relationship of the cases
Relation-specific assets	Duration of safeguards	Alfa: Frequent interaction at the beginning of the investigation period. Beta: — Gamma: Long history as a business unit of the parent organization Epsilon: Frequent interaction and informal safeguards (trust) throughout the investigation period
	Volume of inter-organizational transactions	Alfa: Significant financial investments in acquisitions, marketing and R&D Beta: Financial support for acquisition Gamma: Joint ventures and minor stake acquisitions Epsilon: Personnel transferred from the parent to the organization, significant financial investments in marketing
Knowledge-sharing routines	Absorptive capacity	Alfa: — Beta: Recognition and utilization of parent organization's partnering knowledge Gamma: — Epsilon: Recognition and utilization of parent organization's R&D and business knowledge
	Incentives to encourage transparency and discourage free riding	Alfa: Shared vision of the management Beta: Shared goal setting in the strategy process of the parent organization Gamma: — Epsilon: Shared vision of the management, dense social interactions between the strategists
Complementary resources/capabilities	Ability to identify and evaluate potential complementaries	Alfa: Utilization of the parent organization brand and credibility in marketing and partnering Beta: Utilization of the parent organization brand and credibility in marketing and partnering Gamma: Utilization of the parent organization brand and credibility in marketing and partnering, utilization of the parent organization international joint ventures Epsilon: Utilization of the parent organization brand in marketing, utilization of the R&D resources from the parent organization, utilization of the parent organization's business support systems
	Role of organizational complementaries	Alfa: — Beta: Similar processes and organizational structure Gamma: — Epsilon: Utilization of the organizational resources of the parent organization, similar competences needed for operations
Effective governance	Ability to employ self-enforcement	Alfa: Financial control Beta: Financial control Gamma: Financial control, internationalization by utilizing own capabilities and resources Epsilon: Financial control from the parent organization
	Ability to employ informal self-enforcement	Alfa: Trust, informal communication Beta: — Gamma: Trust Epsilon: Trust, informal communication

Relation-specific assets may be considered to be the financial and other assets invested by the parent organization in specific venture operations. The duration of safeguards was most clearly seen in the cases of Gamma and Epsilon. In Gamma, the long history of successful business activities is considered to be a safeguard for continuing to support the organization. In Epsilon, the durable safeguards were built on frequent, informal communication during the investigation period. When considering the scale and scope of the invested assets, the most striking data can be found from Alfa and Epsilon. Significant financial resources were invested in Alfa's acquisitions and in Epsilon's international marketing campaigns. Financial support continued throughout the investigation period, while in Beta, there was some support in the early phases of the venture life cycle, although the financial investments decreased towards the end of the investigation period. In the evidence pertaining to Gamma, no similar level of significant financial transactions carried out by the parent organization was found, although joint venture operations and some minor stake investments were carried out using the parent organization's resources.

Under knowledge-sharing routines, absorptive capacity in the parent-venture context is considered to be the venture organization's ability to identify and apply the knowledge residing in the parent organization for commercial means. Beta utilized the parent organization's partnering models and knowledge and Epsilon got product development and business operations support from the parent organization. In Alfa and Gamma, no knowledge sharing from the parent organization to the venture was evident. The key informants of these organizations saw that the business of the venture was so different from the parent organization's business that there was no strategic relatedness and no possibilities to utilize the knowledge as such.

Incentives to encourage transparency and discourage free-riding were found in the cross-case analysis. Based on the analysis, informal incentives for knowledge-sharing routines seemed to play an important role in the early stages of the venture life cycle. Knowledge-sharing in turn facilitated the creation of shared vision. In the cases of Alfa and Epsilon, there was clear evidence of intense informal interaction between the management of the parent organization and the venture strategists. The actual plans were laid out during the strategy process of the parent. In the cases of Beta and Gamma,

the level of interaction was not as high. Beta's initial plans were, to some extent, laid down together with the management of the parent organization, but the interaction did not continue as strongly later on. Especially in Gamma's case, the relationship seemed to have very few informal characteristics.

Complementary capabilities and resources were more or less utilized by the case organizations. All case ventures took use of the reputation, the brand, and the credibility of their parent organization; it gave them one intangible asset that independent new ventures usually lack. The name was used in partner negotiations, customer and sales negotiations, or in marketing campaigns. In the early phases of their life cycle, all of the ventures profiled themselves as a unit of the parent organization in their marketing. Alfa and Epsilon, however, were quite quick to start parting from the image of the parent organization — both of them had a business model that was very different from the parent organization's business and it required an independent image not connected to the parent organization's corporate image and business model. The case organizations started to use the parent organization's intangible brand asset in a different way, although each of them found some benefit in the big corporation and its image backing the business. This issue came up in interviews for all of the cases. In addition to reputation, Epsilon was able to quite extensively find synergies and complementary resources in product development and business support. Other cases also took use of the business support systems of the parent organization, although the issue did not come up as significantly as with Epsilon.

Substantial evidence of organizational complementarities between the cases and their parent organization was not found. Some of the interviewees stated that the venture deliberately aimed at creating different processes, operating modes and organizational cultures from that of the parent organization since the operating environment was considered to be different. It came up clearly in the interviews that venturing activity must be separate in terms of culture and from the parent organization to make the most of the entrepreneurial vision. Most organizational synergies were identified between Epsilon and the parent organization, mainly because the highest strategic relatedness and Epsilon's business were built on top of the parent organization's "core

competences”. Beta also continued to operate in quite similar mode to what the parent organization was operating in.

Finally, governance played an important role in the parent-venture relationship. Governance in this context refers to how the parent organization asymmetrically governs the operations of the venture. Self-enforcement versus third-party enforcement in the parent-venture relationship is not a relevant comparison for internal corporate ventures, since, by definition, wholly owned internal corporate ventures are governed by self-enforcement rather than legal contracts. In all cases, this meant financial control and, in the case of Gamma, enforcement also came from the venture’s own resources; growth was expected to occur though using the profits of the venture itself. When considering formal versus informal self-enforcement, the most evidence of dense informal communication and governance through trust was found in Alfa and Epsilon. A strong evidence of trust was also found in data related to Gamma.

In the cases of Alfa and Epsilon, the support throughout the four-year investigation period was very good; the parent organization seemed to be highly committed to the plans, even though both of them encountered substantial difficulties in the implementation phase. The expected objectives were not reached as planned and more support was needed than anticipated. The planned IPO was not performed in either of the cases. In the case of Beta, support from the parent side varied more and led in the end to significant cut-offs and the closing down of markets and the rejection of new plans. Gamma had support, although it operated more on its own resources and there was empowerment generated from the trust between the organizations. Gamma differed from the other cases as it did not use the parent organization’s resources in a similar manner to what the other cases did. Even though the internationalization operations of Gamma required financial investments and resources, it was done by decreasing the profitability of the unit itself. Gamma needed, however, the approval of its plans from the parent organization side; the data analysis shows clear evidence of trust between the organizations. It is evident, that the parent-venture relationship enables access to tangible and intangible resources and knowledge.

Based on the analysis of the parent-venture relationship, I conclude that some of the case organizations were clearly more dependent on the parent's resources and support than the others were. I shall call this quality parent-venture dependence and it is defined as the level of reliance between the parent organization and the venture under it. My analysis suggests that parent-venture dependence relates to the performance and growth of the corporate venture. The concept of parent-venture dependence, its meaning and determinants, shall be discussed in more detail in the following chapters.

In the category of factors related to the venture organization, I found evidence of several different types of characteristics or mechanisms related to the organization that had an effect on either the generation of value in the organization or on supporting the growth of the organization. Even though my original framework only concentrated on factors in inter-organizational relationships, the organizational characteristics and mechanisms came up so strongly in the data that they were included in the cross-case analysis and theory development. The following types of organizational variables and mechanisms were identified in the data:

- Resource-related: assets, reputation, products and services, IPR, IT systems
- Knowledge-related: learning, experience, managerial skills
- Capability-related: organizational capabilities, processes, focus, managerial practices

These themes were further analyzed and relations to inter-organizational as well as parent-venture-specific factors were investigated. I will deal with these organizational mechanisms in more detail later in this chapter.

The categorization of external inter-organizational relationships proved to be a challenging task since the terminology around them is far from being precise. For instance, different interviewees in the same organization might have seen the role of the other party in the relationship differently, due to the difference of their own task in the process and due to the other party having several different roles in the organization. The same company may have work together with the marketing department on marketing issues and it may also supply technology to the product development department. The terminology used around the different arrangements is also sometimes confusing. Sometimes the role of the co-operation partner was not defined in any way; it was just

loose “co-operation”. For the sake of clarity, I shall use the word “partnership” to refer to all types of co-operative arrangements, alliances and partnerships, no matter what word was used by the interviewees. In addition to partnerships, joint ventures, customers, and merger and acquisition projects were also considered in the external inter-organizational relationship category. The different types of external inter-organizational relationships identified in the data were:

- Sales partnerships
- Joint ventures
- Marketing partnerships
- Distribution partnerships
- Production partnerships
- Technology partnerships
- Strategic customers
- Mergers and acquisitions

In addition to these, the parent-venture relationship was treated separately due to its special nature in internal corporate venturing, as described before.

During the investigation period, the external inter-organizational relationships were divided between cases as shown in Table 13. The table includes all of the external inter-organizational relationships that were found in the data that was collected. The year is defined according to when the relationship was publicly announced or during what year the arrangement was mentioned by the interviewees to be commenced and mainly conducted.

Table 13. Number of external inter-organizational relationships in the cases

	1998	1999	2000	2001	Total
Alfa	0	4	14	18	36
Beta	0	1	1	4	6
Gamma	0	0	6	5	11
Epsilon	0	1	14	3	18
				Total	71

As it can be seen from the table, Alfa had, by far, the largest number of different inter-organizational relationships. Epsilon and Gamma came in second and third and, according to evidence, Beta had the least external partnering or other inter-organizational activity. In all of the cases, data for 1998 involved only information

about the parent-venture relationship and the establishment of venture activities internally.

I further investigated each partnership in the light of the evidence acquired about it. The first analysis was done based on the geographical area that the partnership had an effect on. It was counted on how many markets, i.e., how many country operations were directly affected by the partnership. The direct effect was defined as how the inter-organizational relationship was published (did the press release or announcement mention the geographical area where the co-operation took place) and cross-checked it against the interview data (how the interviewees described the relationship and the areas that were affected by it). For instance, if a marketing partnership was published, the number of markets these marketing activities were implemented in was checked. In a product development partnership, it was counted on how many markets the produced results (technologies) were applied. Indirect effects, for example, using a customer acquired in one country as a reference in another country was not considered in the analysis as affecting several markets. Table 14 shows the results.

Table 14. Geographical effect of IORs

One or several markets	Number of IORs per case			
	Alfa	Beta	Gamma	Epsilon
One	16	3	6	15
More than one	20	3	5	3

I assumed that the more data available about a certain relationship (documentation, interview data, press releases), the “deeper” the relationship was. In a deeper relationship, there is more frequent communication between the parties, data over several years and a clearer track record that something had been done in the relationship. Hence, a rough distinction was made between an inter-organizational relationship (IOR) that may be considered to be at arm’s length and an inter-organizational relationship that involved the development of deeper mechanisms. By “deeper” mechanisms, the processes described in the theoretical part of this dissertation refer to the sources for relational rents in the framework of the relational view. If the only document found about the relationship was the press release or a paragraph in the

annual report, the relationship was considered to be arm's length. Figure 11 shows how the different cases were positioned in this analysis.

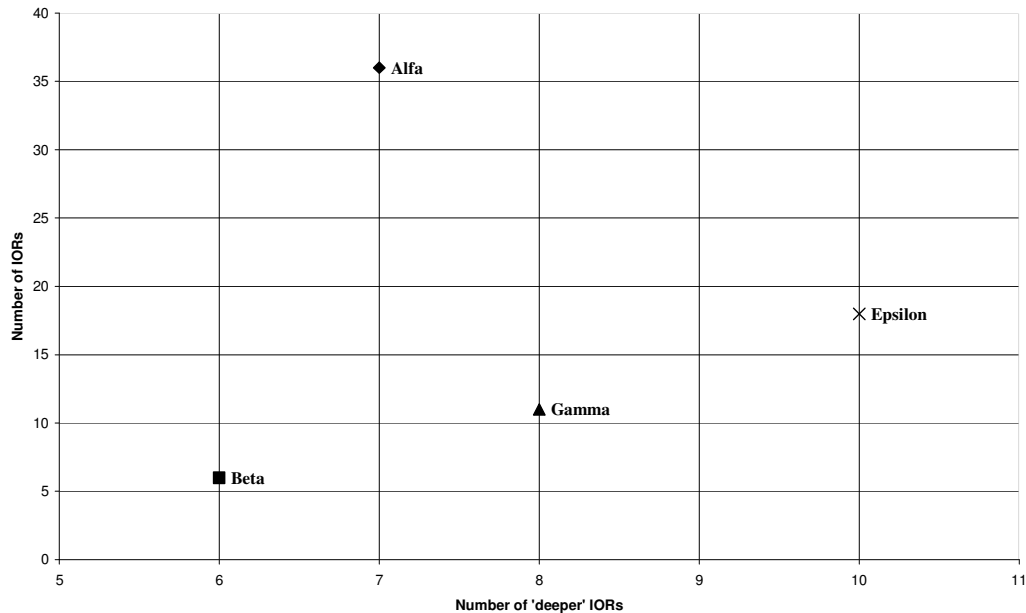


Figure 11. Total number of IORs and number of IORs involving “deeper” mechanisms in cases

As the figure shows, Beta and Gamma had fewer relationships, although these relationships also seemed to involve more interaction, whereas Alfa published a lot of relationships and had extensive inter-organizational networks, but only a few of these relationships actually involved the mechanisms described in the relational view. Of Epsilon's 18 inter-organizational relationships, evidence of deeper mechanisms was found in 10; therefore, it had the most data on “deeper” relationships by far. This was a rough distinction, but provided information on the general partnering strategy of the cases.

I analyzed the interview data on deeper external inter-organizational relationships against the framework of the relational view and searched for evidence of different mechanisms related to the generation of international competitive advantage. I also collected other factors that did not fit under the framework of the relational view. By combining the categorization of the factors found from the data, the process analysis

and the relational view framework, I intend to build an integrated theoretical framework in the following chapters. The analysis is started by investigating the parent-venture-dependence.

6.2 Parent-venture dependence

From the case data, I concluded that the early stages of the venture planning and the parent-venture relationship at that time seem to play an important part. Much of the support and many of the decisions made in the later stages are affected by the initial conditions in which the first plans are created and the first commitment acquired from the parent organization. The initial conditions under which the venture is established and how the relationship between the parent organization and the venture organization is defined seem to have a substantial effect on the mechanisms in the relationship once the venture has started its operations.

As discussed in the previous chapter, the venture organizations have a different level of dependences on their parent organizations. The parent-venture dependence describes how much the venture relies on the resources given by the parent organization and what the level of commitment and empowerment between the organizations is. Empowerment is defined here as giving authority or power and to promote the self-actualization⁷, i.e., providing the freedom to show the strategy realization without interfering with the actual strategic moves made. Based on the case data, the empowerment can be created for several reasons: because the parent organization does not have the required skills to actually understand the business of the venture, shared vision, proven track record, etc. In the venture establishment phase, the venture is being set up with the parent company's resources. In the early phase of the venture, the parent venture dependence is high. This was the case with Alfa, Beta, and Epsilon, because they were built up from scratch during the investigation period. Gamma already had running operations and it had its own revenues and profits that it could use to build new business.

⁷ definition modified from the Merriam-Webster Online Dictionary

Based on the data analysis, the parent-venture dependence is affected by at least the following three factors:

- Personal relationships between the managers (frequency and depth)
- Strategic importance of the venture
- Invested assets by the parent organization in the venture operations.

The data shows that personal relationships play an important role in the corporate environment and corporate entrepreneurship requires “political” skills to make it possible to realize the plans. Epsilon’s CEO had a strong influence in the parent organization side. In 1999, both CEOs (Alfa and Epsilon) reported directly to parent organization CEO and in 2000 and 2001, Epsilon’s CEO was a member of the management group of the parent organization. The chairperson of Alfa’s Board of Directors was also appointed to the Management Group of the parent organization in 2001. The commitment that has been created in the very early stages of the venture operations has a positive effect on resource availability in the later phases of the process. Both the frequency and depth of personal relationships have a meaning. Based on the data, the high-level managers of Alfa and Epsilon were frequently interacted in the early stages of the operations, while the managers of Beta and Gamma remained more distant. The depth of these personal relationships can be evaluated, for example, based on the shared vision between the organizations. For instance, in Annual Report 2000, the CEO of the parent organization specifically describes Alfa and Epsilon in his review, while Beta and Gamma are not mentioned. Several of the interviewees in Alfa and Epsilon mentioned the good relations between the CEOs.

Strategic importance can be considered to be the second determinant of parent-venture dependence. I analyzed the strategic importance by evaluating how the venture operations were described in the parent organization strategic plans and how they manifested themselves in the public documentation of the parent organization (e.g., in the description of strategy in the annual report). In addition, the interviewees described the relation of the venture strategy to the parent strategy and how tightly these were integrated and how the interviewees saw the importance of the venture from the point of view of the parent organization.

In the cases where the strategy planning of the venture has arisen from the strategy process of the parent organization, more resources have been added by the parent organization to the venture creation and growth operations. For instance, the involvement of key people from Alfa and Epsilon in the strategy planning of the parent company increased support from the parent company for internationalization. Discussions about the plans also lead to greater appreciation of the strategic importance. The more people participate in these conversations, the more they feel energized. This was shown to occur with the strategy planning of the cases in the data.

In two of the case ventures (Alfa and Epsilon), the venture creation decision and objectives for internationalization were set in the strategy process of the parent organization and the strategists involved most heavily in the planning were also the ones transferred to the venture organizations to start the business. In Beta's case, the level of involvement in the parent strategy process was not that high; Beta was considered to be a part of the parent organization's strategy, even though its importance did not come up in the overall strategy plans of the parent company. In Gamma's case, the actual involvement in the strategy process was quite minimal. Gamma was already an established player in its home market and the decision to grow beyond the national borders came more from inside the venture, and the growth was achieved by decreasing profitability rather than by using the parent's resources. Epsilon's growth strategy was one of the factors affecting the decisions, although it was not the main reason according to informants. The interviewees implied that there were only superficial discussions between them and the parent organization and the discussions related to financial issues more than the strategy itself did.

The third descriptive characteristic of the parent-venture dependence is the cumulative stock of invested assets and resources. The more investments and financial commitments are made for setting up and running the venture operations, the more likely the venture will be dependent on these resources and the more difficult it is, from management point of view, to refuse further investments and consider alternative options, when possible. There are different types of investment commitments manifested in the data. The most clearly shown are the different financial transactions made by the parent organization. In Alfa's case, the two acquisitions totalled EUR

1,147 million. This transaction was paid with shares of the parent organization as measured by the stock exchange price on the dates of the transactions. Significant financial investments were also made in setting up the organizations of Alfa and Epsilon. Beta's acquisition was valued at EUR 6 million and was paid by the parent organization in cash. Epsilon's international marketing campaigns required significant financial resources and Gamma's joint venture operations were also financed by the parent. Besides financial investments, there was evidence of different types of human asset investments made by the parent company to their venture organizations. When setting up the organizations, most employees were transferred to the new units from the parent organization. During the investigation period, Epsilon took use of the product development resources from the parent. All of the case organizations utilized the HR, legal and IT support resources from the parent organization. In addition to financial and human resources, other types of assets were also invested and utilized by the ventures. These types included IT systems, facilities, marketing material, etc.

The analysis carried out above is summarized in Figure 12. At any given time, the dependence between the parent organization and the venture under it can be determined by the frequency of personal contacts between the management of the organizations, the depth of these personal relationships, the strategic importance of the venture, and the cumulative stock of invested human, financial, and other assets by the parent organization. Personal relationships and invested assets are path-dependent variables, i.e., one must consider the history of the relationship in order to be able to define their value.

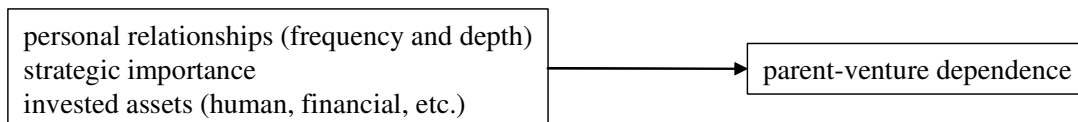


Figure 12. Determinants of parent-venture dependence

Based on the data analysis, I argue that there is a relationship between the parent-venture dependence and the performance of the venture. Three of the case organizations were suffering losses throughout the investigation period. These three — Alfa, Beta, and Epsilon — also seemed to have more parent-venture dependence than Gamma did.

Gamma was clearly further ahead in its life cycle and therefore also less dependent on the parent company. In the early stages of the venture, however, it is clear that parent-venture dependence is needed to obtain the operations started and create the critical mass necessary for the venture to enter the markets. This also makes the corporate ventures more competitive than independent ventures and provides venture managers with more strategic freedom to make decisions regarding the business.

The analysis suggests that a certain level of dependence and commitment facilitate the competitiveness and performance of the venture organization, but as the dependence reaches certain level, the effect is actually negative. Personal trust may turn into politics, resources are given without adequate justifications, and strategic importance causes blindness in venture management decisions. The venture is not able to grow and perform independently and is actually feeding off the parent's support and its organizational development is not optimal from the point of view of performance. Hence, this initial analysis suggests that the relationship between the parent-venture dependence and the performance of the venture organization is curvilinear in nature. Performance refers to the venture organization's economic cost-efficiency, i.e., the organization's ability to create value for the investments made in it. More value generated with less investments and operating costs implies more performance. The notion of performance, the ability to create value and the determinants of this ability are discussed further in the following chapters.

6.3 Value creation mechanisms

The different mechanisms that have a positive effect on the growth and on the ability to create value came up in the data. Even though the original emphasis was on investigating inter-organizational mechanisms, during data gathering and analysis, it became obvious that certain venture characteristics cannot be excluded from the results. There were reoccurring themes that came up in the interviews and relations that have an effect on the value creation process and thus the rent-generating ability of the organization. Therefore, I argue that organizational value can be created inside the organization or between organizations, and both options must be considered, when investigating the overall value creation ability of an organizational entity. Thus, the

sources for economic rents can reside in the organization or in inter-organizational relationships; usually both must be considered. In what follows, the results of the analysis are presented by first discussing the different mechanisms related to the focal organization. After that, the value creation mechanisms residing outside the focal organization are put forward. Examples of the mechanisms from the case data are given in the analysis.

Organization-focused value creation mechanisms were initially categorized into three classes. I provide several examples of resource-, knowledge- and capability-related value creation mechanisms below. The analysis is started by presenting different resources that created value.

The resources brought up in the data can be divided into tangible and intangible. Of the tangible resources, technology and products were considered to be one of the value-creating resources. In addition, some IT systems or platforms were considered to be valued assets. Epsilon built operation centers around the world, where similar technological innovations were used and this type of platform was, at the time of its building, valuable, rare, and not fully imitable. Gamma had a technological platform that served as a basis for its new services. All of these were considered to be value-creating resources or assets. Related to products and technology, intellectual property rights were considered to be a value-creating intangible resource. This was the case especially with Alfa, where initially the whole business idea was built around certain patents.

In the interviews, some of the often-mentioned value-creating intangible resources were reputation and brand. It was seen that operating under the established and international brand of the parent organization might give corporate ventures some advantage over independent new ventures. The independent ventures must usually go through the process of creating credibility and a name for themselves. Alfa and Epsilon were also given the right to build a brand of their own, although they used the name of the parent organization when initiating contact with international entities. How important reputation is was seen in the early stages of the internationalization, when discussions with potential partners and customer were initialized. The first customers were acquired

mostly through the parent organization's credibility and name. The question of reputation and brand came up with all of the cases.

As a market name already exists, the venture can use it instead of building a name of its own. The availability of reputation as an intangible resource saves marketing efforts, and according to the interviewees, "opens doors" to discussions with different market players. Hence, it may have a positive effect on the success in the entry process to certain markets. It requires, however, that the parent organization really does have a known reputation or brand in the target market. For example, Epsilon targeted many markets where the parent organization did not have any presence and therefore could not use the parent organization's reputation. The parent organization was also internationally a small player and not well known globally, and therefore the name of the company was known only in certain geographical areas and by certain industry players. One might suggest that if the parent organization is truly a global company with a valuable consumer brand, the use of the brand might be even more justified, and the relation between these two variables is more obvious. Many of the interviewees emphasized that the brand of the parent organization has not directly helped them in actual customer marketing, although the ventures did have to market themselves in a manner similar to any independent venture competing in the same business area. The effect of reputation was more indirect; it helped in individual discussions with potential partners and suppliers.

When considering knowledge and learning of the organizations, internationally experienced key people help to speed up the process of finding the focus for the operations and using the resources for the right things in the right order to achieve a more controlled growth. Conducting international business requires certain management models. Previous experience helps recognize what kind of procedures work and what do not. Experience was seen as a valued quality for the managers in case organizations; for example, Alfa gained more experience through acquisitions and after the integration of the acquired companies, this experience helped to develop the global management practices. In Epsilon, several experienced managers were recruited from outside the company to improve the competitiveness of the organization. In addition, Gamma

increased the number of its internationally experienced personnel once operations became more international.

Experience with corporate politics also facilitates the creation of value from inside the corporation. In the cases of Alfa, Gamma and Epsilon, several of the key people in the organization had already been in the company for a longer period of time. They were not new to the practices of decision making, resource allocation, communication, and planning in the parent organization. This made it easier for them to link to the necessary planning processes inside the corporation.

Based on the data, I argue that one of the roles of management seems to be to facilitate the acquisition of collective knowledge for the organization, i.e., learning. The object of the knowledge depends on the nature of the operations, be it marketing knowledge, technology knowledge, product development knowledge, or knowledge about the customer environment. Management practices are a factor in creating an environment where the organization has the optimal setting for learning and thus for creating value. When organizational knowledge about the institutions, customers, technology, and the environment abroad accumulates through conducting international operations, it manifests itself in two things: products and processes/routines. As there is more knowledge on the operational level, it is easier to build up products and services that can be sold internationally and create processes that support international business.

Several dimensions can be identified for which the products and services of the venture must be competitive. In Alfa's case, the main product was complex software that needed local components (e.g., language versions) and service components (e.g., consulting, installation support, and maintenance support) locally. Without this, the product would not have been sellable internationally. Being able to create value for its customers meant combining different elements into a comprehensive solution. At Epsilon, the international orientation of products and services meant local distribution and content deals. Since Epsilon's business concept was targeted at consumers, they also needed language support for their local language. Some technology modules also had to be tailored to the local partner's systems, although the technology was mainly produced in a few centralized service centers for all markets. This concept was also

developed through learning about the markets. In the case of Beta, the problem was essentially with the international orientation of the products. In the home market of Beta, sales were good and the markets targeted did not differ substantially from the home markets. However, it was a general view by the interviewees, that the products were not internationally oriented. The same problem existed with some of Gamma's product development. The requirements for internationally competitive products were not thoroughly known and some false assumptions were made.

To sum up, based on the analysis above, the value-creating mechanism related to the product portfolio required both tangible and intangible resources as well as knowledge and capabilities to create value. I suggest that when the organizational knowledge accumulates, the compatibility becomes more embedded in the products and services from the beginning of the product development process and the costs related to the trial-and-error process are reduced. As the knowledge of the organization is accumulating, the business processes related to the operations are adjusted and optimized to the specific markets. Even though the products themselves might be competitive in the market, processes such as marketing, sales, and delivery might also still be incompatible with the requirements of the market. The organization's ability to adjust its capabilities to the needs of the market-specific inter-organizational relationship is a factor in how the competitive advantage can be achieved. Processes are assembling assets in "integrated cluster spanning individuals and groups so that they enable distinctive activities to be performed" (Teece et al., 1997).

In the growth phase of the venture, where several things are happening at the same time and business is growing fast, quick decisions have to be made on the prioritization of activities and projects. In the case of internal corporate ventures, where lots of resources are available, the role of focus is highlighted. Focus is defined as the directed attention or center of activity and attention. In focused operations, the available resources are used in the most effective manner in order to achieve the set objectives. With all of the cases, it came up at some point in time that there was hesitation about the focus of the business and the management of the available resources. Representatives from all the cases stated that at some point in time there were too many activities going on and that by focusing in a more controlled fashion, faster growth would have been achieved. In

the case of Alfa, for instance, no experience with handling acquisitions existed. Still, two big acquisitions were made and lots of new resources were acquired. Focused and optimal utilization of these resources were lacking. The operations were not organized so that their organization has the optimal setting for learning and thus meeting its objectives. In the case data, this was particularly visible in the failed projects, where the management could not organize the operations so that the capabilities could be fully used; for example, this was visible in Beta as a loss of control over the local country organizations and as overall confusion about the direction of the business and the responsibilities of the different parts of the organization. The managerial ability to reconfigure the processes and facilitate learning can be considered to be a value-creating capability.

By conducting a deeper analysis on the geographical area of operations related to the inter-organizational relationships in the data, I concluded that over half (40 out of 71) of the operations and the effects of a certain inter-organizational relationship took place in the context of one national market. National borders represented discontinuities even in inter-organizational relationships loosely labeled as “global”. This was particularly the case with the following types of inter-organizational relationships:

- Sales partnerships
- Marketing partnerships
- Distribution partnerships
- Production partnerships
- Strategic customers

Even when the other party in the relationship was an international or global corporation, the implementation and the mechanisms in the inter-organizational relationship took place on the national level. Local sales partnerships, customer projects, or joint marketing activities produced a competitive advantage or growth in the market where they were conducted. Furthermore, the value creation can take place either in the home market of the venture or in a specific foreign market.

Home-market-specific relationships enable value creation for the venture by generating the resources or capabilities needed for market operations. In the case data, this was particularly visible with Gamma and Epsilon. They were market leaders in Finland in

their own business area. Gamma could use the profits generated in the home market and for Epsilon, the home-market business provided technological capabilities and marketing experience. In the case of Alfa, the home market was not really significant as it did not offer substantial growth opportunities for Alfa's business. Beta was not able to gain a significant market share in its home market before it commenced internationalization, which was also one of the reasons seen by the interviewees as to why the case organization partly failed in its internationalization plans. Some of the business concepts and governance mechanisms used in the home market could also have been replicated in foreign markets. The mechanisms learned by the organization in the home market could have been used in international market operations.

Self-evidently, the creation of the competitive advantage through inter-organizational relationships in a foreign market has an immediate impact on international growth. A secondary effect, through resource acquisition and learning, also exists. Conducting inter-organizational relationships in other markets and acquiring local partners may be of benefit for the organization when repeating the process in another market. For instance, Epsilon had to negotiate a similar deal with mobile operators in each market it entered. There were clear synergies and learning effects in making the deals, even though they were never the same. Each contract had to be negotiated separately and the terms and details were always different. Epsilon was able, however, to use the experiences learned from previous negotiations. A similar situation existed with the distribution and content partnerships of Gamma. By creating a good concept in one market, it was able to replicate the structure in other markets.

The history of personal contacts is emphasized in the implementation phase of the foreign market entry, when the potential partners and suppliers are scanned in the local area. Creating trust in an international environment is more challenging, because cultural factors may play a larger role. Corporate and business cultures may vary in different geographical areas and overcoming this cultural barrier may be easier, if previous personal contacts exist in the co-operating organizations. Local knowledge about the cultural factors also helps to establish trust in the beginning of the relationship. Alfa, for instance, relied very much on a local sales force, since the sales processes were long and complex and required good contacts in the market. Epsilon

also gave the country organizations responsibility over sales. Gamma changed its organization during the investigation period so that it had area-based responsibilities. Beta had a centralized organization that was responsible for its international operations. Many of the interviewees named this structure as one of the reasons for several shortcomings in the internationalization process of Beta.

Case data suggests that the capabilities usually needed by the new market entrant are somehow related to the local business and the entrant must offer the local player some form of complementary that it lacks in order to be able work together. In Gamma's case, finding a local distribution partner was a necessity rather than an option and Gamma had to find a way to commit its partners to co-operation in each market. In addition to these characteristics, many of the interviewees mentioned the concrete resources or assets that must be present for the relationships to act as a vessel for international growth. Typically, making a particular type of relation-specific investment requires a fixed, up-front cost. Making a commitment to this kind of investment might require some other asset to be present. In many cases, this means a paying customer that acts as a showcase or as a justification for starting the co-operation. In Gamma's case, access to certain resources, i.e., customers, was mentioned as a reason for starting to work together. There was non-physical asset specificity: access to a certain market segment. A concrete case of this kind was Gamma's entry to the North American market. Such partnerships were searched for and created when access to certain market resources was possible.

Based on the interview data, the utilization of complementary capabilities is affected by the commitment of the parties to co-operate. Even though there are complementary capabilities, they are not necessary utilized in an optimal way if trust does not exist. Together with the proper knowledge-sharing routines, trust and commitment, the advantage created by these capabilities is more easily realized. In summary, the evidence presented in the case analyses illustrates that the processes and safeguards described by the relational view are indeed valid value creation mechanisms for the case ventures.

In the international context, the inter-organizational mechanisms have an effect on several markets simultaneously. The relationships of this type were usually, by nature, high-control transactions or co-operative arrangements that affected some of the core. In particular, the following types of inter-organizational relationships had such qualities:

- Production partnerships
- Technology partnerships
- Mergers and acquisitions
- Joint ventures

In production and technology partnerships, the results of the co-operation can be applied in several markets, for example, a new product or a new centralized production facility. Alfa, for instance, had several technology co-operations where new technologies were developed and applied together with a partner. These inter-organizational relationships produced technological innovations that provided the business with even more of an international competitive edge. There were also many attempts to create international sales or marketing partnerships, where the parties would have entered several markets. Beta and Gamma, particularly, relied on global companies to act as a channel for their products and services. Most of these relationships were considered to have failed, usually because of the asymmetry between the small venture and the big corporation. The expectations related to the relationships were also seen by many of the interviewees as unrealistic. Evidence of the sources for relational rents was not found in these relationships.

The case data included some high-control inter-organizational transactions that more drastically changed the nature of the business in several markets. There were four acquisitions, two of them made by Alfa, one by Beta, and one for Epsilon in the early phases of business. In addition to these, some of the joint ventures and minor stake (less than 50%) investments made by Gamma may be considered to be high-control transactions.

The evidence implies that high-control transactions, like acquisitions, may dramatically help to speed up the internationalization process, although managing these transactions may turn out to be a costly and time-consuming task and the actual value is thus not

created. Risk management and the integration experience inside the organization are emphasized in these kinds of projects. In particular, this is so if the changes in the acquired organization are carried out over a short period of time and the mode under which the organization operates is changed. It was found that the more differences and changes during the integration project in the following areas of the organization's operations, the greater the risk of failure and delay are:

- Product portfolio of the organization
- Market segment
- Brand and marketing strategy
- Management practices

By changing the nature of the organization's operations, more instability, and thus employee resistance, was created for the integration process. The concept of trust came up as one of the factors facilitating value creation in high-control transactions. The other parties in the relationship, the acquired organization, and the buyer or the partners in joint venture must have trust in each other in order to reach the goals of the relationship.

The larger and more complex the partnership is, the more important the governance structure seems to be. Governance structure and the knowledge-sharing routines in the relationship are related. This relation is often self-evident since the formal agreement sets many of the limitations for how knowledge can be shared, e.g., intellectual property rights. Knowledge-sharing routines, however, can also mean sharing information about the development of the relationship, meeting the objectives or generally about any issue that needs to be shared between the parties in order for the relationship to be successful. The governance structure can either promote or hinder this kind of behaviour and it must be adjusted according to the nature of the relationship. By induction, it is suggested that the most important quality of the governance model is the fit between the governance structure and the objectives of the relationship. In other words, fit means that the chosen governance structure must support the goals of the relationship by enabling the right knowledge-sharing mechanisms.

To sum up the evidence and analysis carried out in this chapter, Figure 13 describes the results of the analysis on a general level. Value creation mechanisms existed in the case

data in organizational and inter-organizational context. The resulting factors can be related to the resource-based view of the company (Barney, 1991), knowledge-based models (Nonaka & Takeuchi, 1994) as well as the capability view (Teece et al., 1997). The presented inter-organizational mechanisms can be linked to the categories of the relational view (Dyer & Singh, 1998).

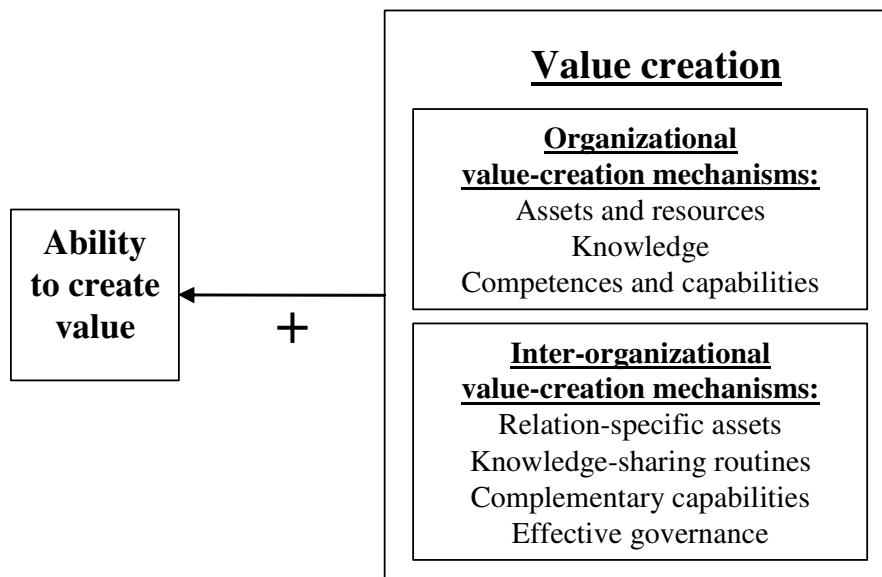


Figure 13. Organizational and inter-organizational value creation mechanisms

6.4 Value destruction mechanisms

What was striking in the case data was the lack of added economic value generated by the cases in spite of the value creation mechanisms described in the previous Chapter. Even though all of the case companies grew aggressively, had vast stocks of both financial and other tangible and intangible resources in use, in addition to being extremely well networked, three of the case ventures were not able to generate economic profits during the investigation period (Fig. 14). Even though no exact data is available for the first two years, at least Beta, Alfa, and Epsilon did not produce any external profits during that period, since activities had just commenced and revenues were small, while the initial investments in establishing the venture organization and market launch were high. Based on my observations of the organizations during that

time, it can be said for certain that most of them were consuming a lot of resources. The development of economic value added was not linear during 1998–1999, although it has been depicted as a dotted line in the figure for presentation reasons. Gamma already had business up and running in 1998 and was profitable and did not require any significant investments.

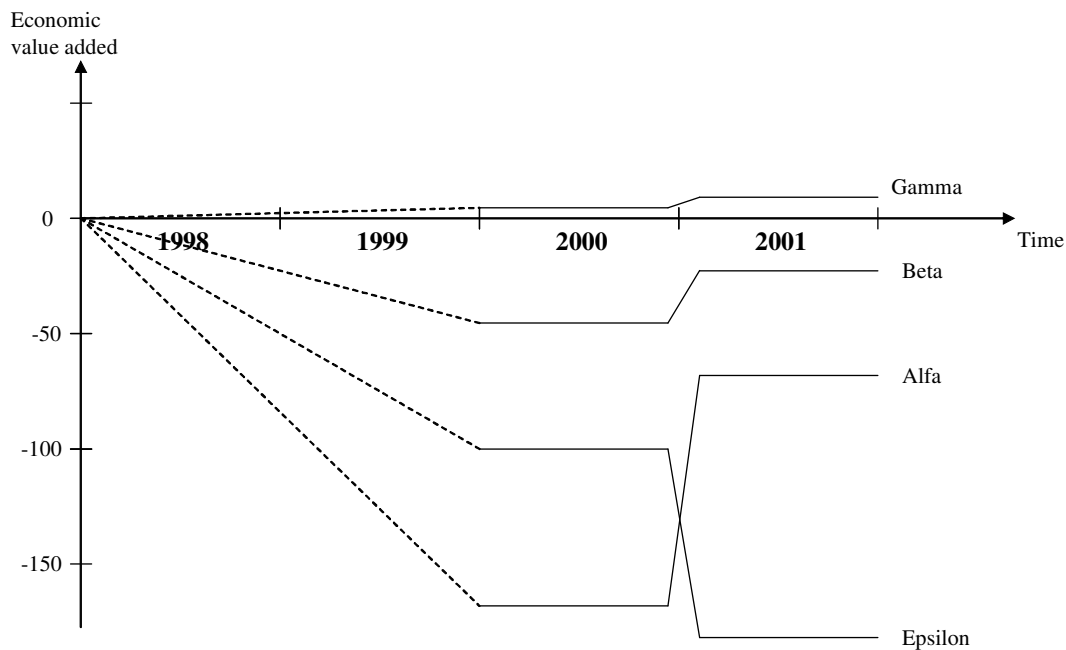


Figure 14. Economic value added of the cases during the investigation period

One could argue that economic profits cannot necessarily be expected to be achieved in four years and this was how some of the interviewees argued the financial situation of their organization. Clearly, however, the parent company expected return on investment during the four years of business and the business plans made for the ventures also included these kinds of expectations.

It can be concluded based on this simple analysis, that none of the case organizations were able to international competitive advantage, as it is defined in the scope of this dissertation. The international criterion is fulfilled. All the case organizations were competing in an international arena, establishing operations on several markets and facing competition from other international or global companies. As competitive advantage over other companies can be achieved only by generating economic profit,

only one case organization qualifies for that evaluation. Gamma was the only case that had economic value added over zero during the investigation period, but even in Gamma's case, the value creation ability of Gamma cannot be considered as exceptional or superior. Gamma was able to run its operations without making loss, but creating true return to investment was not achieved. Complementing qualitative analysis of the interviews, observations and industry reports gives similar results – none of the case organizations did not achieve international competitive advantage during the investigation period. Most of the interviewees considered that advantages at any levels were not generated during the investigation period. There was evidence of some learning and capability development mechanisms that were expected to create value for the case organizations in the future, but even this was speculation and based on ex-post analysis, did not lead to significant changes after the investigation period.

This analysis led me to investigate the factors that prevented the expected value from being created. Even though it has been recognized that venturing business is a high-risk activity, the parent organization still invested its best resources and extensive financial assets in the operations. The analysis of the mechanisms in and between the case organizations showed that strong evidence can be found on the elements required for conducting successful market transactions. All of the ventures were able to acquire an extensive customer base and develop a strong position in their own market segment. I conducted a similar analysis on the data as with the value creation mechanisms and came up with factors that had a negative effect on the value creation ability of the organization. I shall call these factors value destruction mechanisms. These factors shall be presented in the following.

My analysis suggests that the value destruction mechanisms can similarly be divided into organizational and inter-organizational categories and some of the mechanisms existed on both levels. I also propose that value destruction mechanisms cannot necessarily be identified by only analyzing value creation mechanisms, i.e., value destruction mechanisms *are not always a lack of some value creation mechanism*. Both value creation and destruction mechanisms can co-exist in the organization and only by considering both, can the organization's overall ability to create value be determined.

The first types of organizational value destruction mechanisms are various management failures. By failure, I refer to a state of inability of the managers to perform a normal function. Decisions are either not made or they are made based on criteria that cannot be considered rational. This kind of giving away during the decision-making process creates commitments that do not add value and cannot be undone by other decisions. Two types of basic management failures were found from the data: hesitation and hubris. Both types lead to decisions that are not justified or based on rational analysis. Hesitation occurs when strategic decisions are passed on by the managers, which can happen due to several reasons. There might be a lack of adequate information when making the decision, it might be related to power struggles inside the organization, or the managers simply do not have the experience to make the decision in the right time. In the interviews, hesitation was mentioned in connection with several strategic decisions; for example, decisions related to several competing product lines in Alfa and the appointments of international project managers in Beta can be pointed out. Hubris, on the other hand, has the opposite effect on decisions: they are put forth issues that do not add value. Based on the data, hubris seems to be an even more destructive force than hesitation is. Decisions involving hubris were, for example, Alfa's decision to make acquisitions at a price that the experts did not recommend and Epsilon's major marketing campaigns in markets where it did not have any significant business operations. My observations in the organizations and discussions with other informants seem to support this analysis. More detailed examples of management failure and their related evidence in the data are provided in Table 15. It is worth noting that some of the examples given in the table are more systems of decisions rather than a single decision made by the manager or Board of the organization.

Table 15. Examples and evidence of management failure in the data

Decision	Management failure	Case	Evidence
Decision on acquiring a company	Hubris	Alfa	<p>“...We had a due diligence group that went to investigate the company and they said that it’s not worth buying, but [the CEO] wanted to buy it and it was still bought, even though the experts said not to.”</p> <p>“I did the basic... analysis, the investment paper, but if I had known what kind of prices we are talking about in the end, I would probably never have put the paper forward.”</p>
Decisions related to competing international product lines	Hesitation	Alfa	<p>”The management of the company didn't know which of these the real business was and where to concentrate.”</p> <p>“...Too big leap was made from technology development phase to next, meaning that we took too ambitious objectives after the first year-year and a half... In Sweden there were own products and there was even overlap and then the company management wondered whether to sell these or those. There was also — I would say — unintended hesitation in decision-making.”</p>
Appointment of international project managers	Hesitation/hubris	Beta	<p>“If you have international business, you must have international people... A single product manager can terminate the whole business by just saying so from Finland.”</p> <p>“At one point we did not know at all who was responsible for what... When some task was allocated to me, some other guy went to the trip with the partner without informing ... and agreed there whatever.”</p>
Target setting and investment decisions for new services	Hubris	Gamma	<p>“...Internationalization and growth were the main issue, profitability did not matter. It led to establishing and starting all kinds of projects. And the investments were not in proportion to the expected returns.”</p> <p>“We pushed blindly money and people to these electronic services...”</p> <p>“There was no holding back. It was like you must use more money ... Movement was more important than the goal.”</p>
Prioritization of activities	Hubris	Epsilon	<p>“In practice everything we heard, we thought let's do that and this. There was less and less prioritization and to be able to do prioritization, we should have done our homework.”</p> <p>“[Epsilon would have needed] focus, tight focus all the time. Focus on a few important things and achieve them and then you can go to the market faster and start expanding. You cannot do so that you do all of the things you read from the paper that your competitor is doing... You have to decide what the three most important things are and do them first.”</p>

The second type of organizational value destruction mechanism identified in the data is opportunism. Opportunism can exist on a personal level or on a group level, e.g., a certain team in the organization takes use of an opportunity to increase the group's power and, in some way, prevents value from being created. Evidence related to opportunism is difficult to identify in the data, as the interviewees do not openly discuss such issues. Evidence of such behaviour could, however, be observed in the organizations, and some interviewees did speak about the issue. Opportunism is a concept widely discussed in the transaction cost economics literature (Williamson, 1999) and I will not further discuss it here. Based on the data and on my observations, it can be stated that allowing managers and employees to freely act as they see fit promotes self-interest seeking and can thus destroy the value created by the organization. Some evidence from the interviewees is presented in Table 16.

Table 16. Evidence of opportunism

Evidence
"At one point there was so much money that awful lot of people was recruited, who should be competent... Discipline is that kind of word that is not used in here, but we couldn't get these people to deliver..."
"...The capabilities to manage this kind of business are still quite 'thin'. Here we have such high speed of personnel rotation, people change jobs, so that knowledge hasn't accumulated, maybe there has been something, but we couldn't take advantage of that in these new cases, because the responsible people have been new, and they have learned these things again."
"Intelligent people understand that if nobody manages them, they start to act very opportunistically."
"We got one very tough class guy, who had been in international business, and about two months he looked at this and then politely said thanks and left."
"The key positions were taken by the Swedes... There were claims that they had played some games..."
"It was very typical that we hire one and then he or she starts to hire more people and in the end he or she has seven employees in the team and then we do not even know what the first one was supposed to do... If we recruit young people, they like to get employees under them."

Politics and bureaucracy comprise the third category of value destruction mechanisms. Political relations are related to opportunism. If it is possible to act very opportunistically in an organization, politics and power struggles will spread. As such, politics is part of every corporate culture, but when it increases to a level, where activities characterized by artful and often dishonest practices, decisions and tasks are carried out not for creating value, but for means of self-interest. This kind of mechanism leads to value destruction. Bureaucracy, on the other hand, is a system of administration marked by officialism and proliferation that freezes the decision-making processes and decreases the capability to reconfigure resources and competences. Both politics and

bureaucracy were detected in the investigated organizations, even though substantial interview data was not collected on these processes. For example, the internal co-operation between Gamma and Epsilon was very bureaucratic; the following quote from Gamma describes the internal co-operation negotiations:

There are one's own challenges from the point of view of the organization. When some deal is made, there's [Epsilon's] lawyers, our lawyers and the corporation's lawyers — many times, you think that somebody should blow the whistle...

It may be assumed that these phenomena come up more often especially in the corporate environment than in independent ventures, as they are more common in large organizations.

I call the fourth organizational value destruction mechanism collective blindness, which refers to a state in an organization shared or assumed by all members of the group, where they are having no regard to rational discrimination, guidance, restriction, or are unable or unwilling to discern or judge information related to the organizational activities or market environment. The signals received from the external market are either false or are interpreted falsely. This kind of state can exist inside the organization or in a relationship between the organizations and it may lead to management failure or other value destruction mechanisms — or, it may simply direct the organization towards routines that are not actually creating value. Forecasting the market was the most clearly shown form of collective blindness in the case data. Practically all interviewees stated that false assumptions about market development were one of the major reasons for not performing as expected. My discussions and observations in the organization support this analysis. The assumptions were based on overall atmosphere in the market, in stock exchanges, the public opinion, market analysts, etc. In other words, the collective blindness extended far beyond the focal organization. The origins of such collective blindness are often in the macro-economic and cultural environments. From the management point of view, it is very difficult to observe collective blindness ex ante. Collective blindness can also be the expectations related to a certain technology or to the capability of the organization. Relationships between organizations can be based on collective blindness and therefore be value destructing relationships rather than value

creating. Table 17 summarizes some of the evidence from interviews related to collective blindness from the cases.

Table 17. Evidence of collective blindness

Case	Context	Evidence
Alfa	Adoption of technology	<p>“The technology never broke through. There are lots of people who still believe in it, that it will come, but it has not still emerged.”</p> <p>“Our own expectations were that the markets will grow on such a pace, that we do not have time to waste all the money we get.”</p> <p>“There were many issues on unrealistic basis... the plans were wild.”</p>
Beta	Market development	<p>“Well, our problem was the market. Markets, even though they developed fast, they did not develop as fast as we thought in the plans.”</p> <p>“...There was some incomprehensible illusion ... about the customer need for the products.”</p> <p>“It was that time when there was market growth hype ... and speed blindness could be seen on many fronts.”</p>
Gamma	Co-operation with a partner based on the usability of certain technology and the customer need	<p>“They had probably 100 people working on it and resources were put to develop it...It was a good starting point and it had real potential for success...”</p> <p>“At some point when the problems with [technology] got into publicity, [name removed] decided to postpone this thing, in practice stop it.”</p> <p>“The main reason for ending the partnership... They didn't believe that there would be use for the service.”</p>
Epsilon	Market development, time-to-market	<p>“We thought that we are late in the market... The end result was quite much different, we were early.”</p> <p>“Everybody believed in it — including the market actors — that now we are in a hurry and we must be the first on the market... Technology development and market development did not go at that pace we thought.”</p> <p>“We had a strong belief and the markets in general had a strong belief that the service business will be significant.”</p> <p>“The problem was that we were in a new market, nobody had information. We tried to trust the analytics' reports, what of course should have been known that they do not know so much, because they never have done that job themselves.”</p>

On the inter-organizational level, in addition to collective blindness, several other mechanisms were identified that may destroy value. These mechanisms were conflicting interests, power asymmetries and cultural complexity. I shall present these mechanisms and the analysis related to them in the following.

Conflicting interests are considered to be a contradiction in the motivations of the partners to enter and operate in partnerships. There were numerous such examples of inter-organizational relationships in the data where the commercial or other interests of the co-operating parties did not meet and thus it led to value destruction or zero value. Most of the agreed partnerships that did not lead to any real deeper activities were terminated due to some form of conflicting interests. Even though all of the necessary governance mechanisms were in place, complementarity and required resources existed, some form of organizational or strategic change led to a situation where the interests conflicted and prevented value from being created in the relationship. Based on the data, conflicting interests can, for example, cause an abuse of trust or a lack of commitment.

Power asymmetries are created when the parties co-operating in the relationship do not have equal opportunities to use the results created in a partnership. In common terms, this is not a win-win situation in the partnership, as either of the parties is actually draining value from the other organization rather than both creating it for a joint purpose. In power asymmetry situation, the other party is “drifting” and the other party actively steers the relationship. I suggest, based on the data analysis and observations in the organizations, that power asymmetries are not necessarily linked to the size of the organizations, although in the case data, these types of mechanisms exist especially in the relationships of large international companies, where the case organization was clearly a smaller player and had less power and credibility to negotiate in the relationship. In this kind of partnership, the meaning of the relationship is more crucial to the smaller and less credible partner. Usually the more powerful partner then starts dictating the rules of the relationship or changes the initial agreements during the co-operation. Power asymmetries can for example lead to contracts that cause more harm than benefit to the other party and end up destroying value. Some evidence from the case data on different power asymmetries is presented in Table 18.

Table 18. Evidence of power asymmetries

Case	Co-operation	Evidence
Beta	Production, sales and marketing partnership with a global actor	<p>“The question with these big organizations is how you get your own product through in that huge organization, where they have thousands of products... How do you get them to sell your product? ... The only possibility to success is that you have some internal incentive to sell it.”</p> <p>“It seems that bigger the company is more shamelessly they vacuum you.”</p> <p>“In 2000, we tried this co-operation, and it did not work.”</p>
Gamma	Sales and marketing partnership with a global actor	<p>“We get to utilize their international sales.”</p> <p>“That deal was not for them a question for life and death. It was more like one additional component in their offering, like cross the box, if you want... It was just one option among others.”</p> <p>“They did similar co-operation with others.”</p> <p>“That [co-operation] hasn’t been any use to us, we haven’t got a penny from it, never. And they [partner] didn’t sell that platform so much either. “</p> <p>“The common business concept just did not fly.”</p>
Gamma	Sales partnership with Epsilon	<p>“We haven’t put much financial investments in the relationship... On the other hand, you can ask them what happened, all we could do was to follow from aside. It did not fly.”</p> <p>“That [co-operation] was a catastrophe... Our sales people were too lazy and just followed [name removed] and waited that they will make the deals.”</p> <p>“If [name removed] had succeeded, we would have succeeded. Our strategy was following them.”</p> <p>“The basic assumption has been that where they are, we will go there also.”</p>
Epsilon	Technology co-operation with a global actor	<p>“Their organization is messier than ours – they do not know at all what they are doing. We concluded that it’s better to go forward alone, they are just slowing us down.”</p> <p>“They have changed it [co-operation], they have gone forward, but they have continuously changed it, the unit has changed... It just ended slowly.”</p>

Evidence on cultural complexity is presented in Table 19. There were several cases where an international partnership ran into problems mainly because of cultural differences between the participants and the peoples’ inability to identify and understand the cultural nuances between the co-operating partners. Cultural complexity adds the probability of failure in the social exchange of knowledge and can have a negative effect on knowledge-sharing routines as well as on the utilization of complementary capabilities. It may also hinder the partners’ capabilities to effectively govern the relationship.

Table 19. Evidence of inter-organizational cultural complexity

Evidence
“We stumble into them [cultural differences] in a bad way, even though we are as close as in Sweden, even there we simply fail. We are just so different us Finns and the Swedes. Both are probably good and professional, that’s clear, but if somebody would even understand that we are different, that would help a lot.”
“There are different cultures and that also means understanding different nuances, what means, when somebody says something. If everybody interprets as Finns, it doesn't go like that.”
“It's easy to say that transferring learning from country to another should have worked better, but all the countries were in the same phase and it does not help, when the common language has not formed yet.”
“In every country we do not have that credibility [as in Finland]... For example in Germany, the culture was such... They couldn't buy anything from us... A French dealer told me on a dinner, that we French are proud that we have different wines, food and other stuff, but he couldn't imagine that he would buy a French computer...”
“Culturally, Finland and Sweden are not as close as one would expect.”
“In some cases I have felt that the partner has had a view that if we co-operate, we are trying to overrun them.”
“The reason why we can fail as an international company is that the cultural differences are problematic.”
“We recruited lots of Brits there. We run into them [cultural problems], as they did not concentrate on the essential issues but instead the concentrated on ensuring their own place in the company.”
“There was that cultural difference. The Swedes wanted to have massive manuals and the Finnish did not.”

To summarize the analysis regarding the value destruction mechanisms, Figure 15 depicts the concepts that came up in the process. Fundamentally, I argue that the organization’s ability to create value is negatively affected by the different organizational and inter-organizational value destruction mechanisms described in the figure. These mechanisms stem from different sources in the organization, routines and in the macro- and micro-environment.

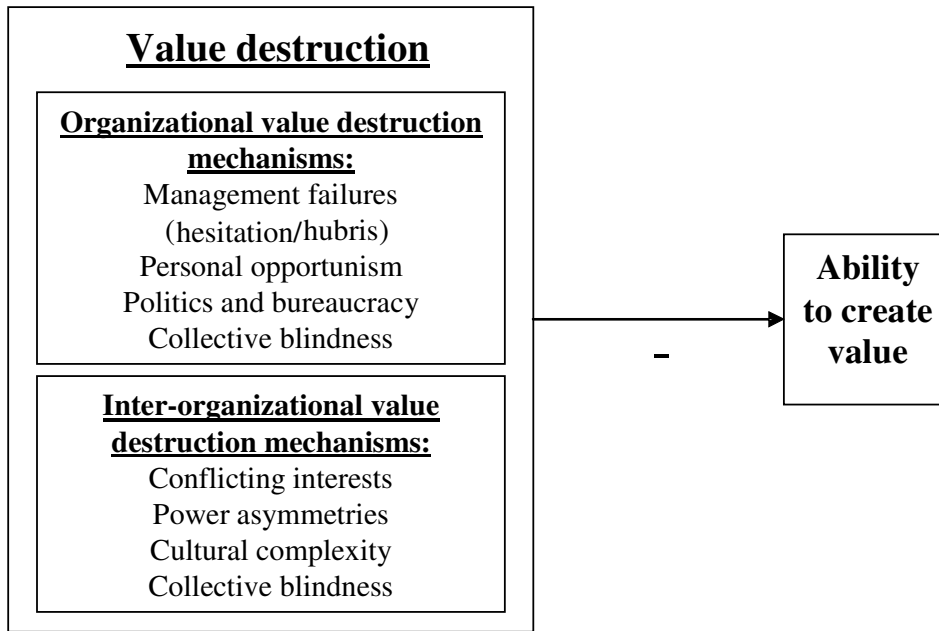


Figure 15. Organizational and inter-organizational value destruction mechanisms

Organizations and partnerships are handicapped due to the value destruction mechanisms in them, while the value creation mechanisms add economic value.

6.5 Interrelations between the mechanisms

During the data analysis process, it became evident that isolating the mechanisms and treating them as single determinants of value creation or destruction does not lead to a model that would describe the reality on an adequate level. The phenomena under investigation were more complex and there were interrelations between variables that could not be described with one-to-one cause-effect relationships. Value creation and value destruction mechanisms are related to each other and, over time, some value destruction mechanisms can lead to value creation and vice versa. The mechanisms may also be dependent on each other; for example, certain management failures might not take place without cultural complexity and politics and personal opportunism are interdependent, etc. Below, I address the different aspects of interrelations between the variables that came up in the data. Table 20 describes the relations that were observed. Each of the mechanisms is treated separately.

Table 20. *Interrelations between mechanisms*

Mechanism	Relates to
Assets and resources	Personal opportunism Management failures Power asymmetries
Knowledge	Collective blindness Knowledge-sharing routines Personal opportunism Politics and bureaucracy
Competences and capabilities	Personal opportunism Politics and bureaucracy Collective blindness Knowledge Assets and resources Complementary capabilities
Relation-specific assets	Personal opportunism Collective blindness
Knowledge-sharing routines	Personal opportunism Collective blindness Knowledge
Complementary capabilities	Assets and resources Knowledge Competences and capabilities
Effective governance	Politics and bureaucracy Conflicting interests
Management failures (hesitation/hubris)	Personal opportunism Politics and bureaucracy Conflicting interests Power asymmetries Competences and capabilities Assets and resources
Personal opportunism	Management failures Politics and bureaucracy Knowledge Competences and capabilities
Politics and bureaucracy	Management failures Personal opportunism Conflicting interests Cultural complexity Effective governance
Collective blindness	Management failures Personal opportunism Assets and resources Knowledge Competences and capabilities
Conflicting interests	—
Power asymmetries	—
Cultural complexity	Personal opportunism Politics and bureaucracy Collective blindness

Value creation mechanisms can relate to value destruction or to other value creation mechanisms. The first observed example is the organization's asset and resource base. The more assets and resources there are, the more power the organization has and the

more likely it is that power struggles, politics, bureaucracy, and personal opportunism will emerge. All of the case ventures were given a vast amount of resources to establish operations; this also caused an arena for potential power struggles. As another example, management failures, such as hubris, might require some initial success and financial power to be achieved.

The relationship is similar for organizational knowledge and value destruction. In Alfa, there was a vast knowledge base of certain technologies and this led to a situation where the organization blindly believed in the growth of the business based on this technology. The growth never realized as expected, though. The knowledge that seemed very valuable at the time caused an environment of collective blindness in the organization. Knowledge may also be a source of politics and personal opportunism. When some of the individuals in the organization possess valuable knowledge, they have power, which was visible in the case of Alfa, where many of the early innovations of the venture were made by a few individuals. This knowledge led to power struggles with the acquired organizations. In addition, the inter-organizational knowledge-sharing routines are dependent on the existence of applicable knowledge.

A routine that has been a source of value can turn into bureaucracy if the environment changes; therefore, capabilities and competences are also related to such value destruction mechanisms as personal opportunism, politics, and bureaucracy. Certain capabilities are a pre-requisite for complementarity with other organizations. Through routines and reconfiguration, new knowledge or some physical assets can be generated as well.

Relation-specific assets and knowledge-sharing routines may lead to personal opportunism, as the benefit gained from an inter-organizational relationship is used for personal gain instead of the organizational value creation. Complementary capabilities might similarly lead to new organizational knowledge or capabilities, for example, through insourcing, i.e., when the organizational resources are actually transferred from one partner to another.

Effective governance prevents opportunism and protects organizations from destructive transactions between them, although it might lead to politics and bureaucracy and, in some cases, conflicting interests, as the parties in the relationship might not be able to conduct the transactions or gain trust due to governance structures. Several inter-organizational relationships existed in the data, where contract negotiations and setting up the governance structures caused friction between the parties. These contract structures were, however, necessary for being able to have the relationship in the first place.

Management failures create an environment where personal opportunism, politics and bureaucracy might prevail. These three themes are very much interconnected and that also came up in the data analysis. For instance, there was evidence of situations where management hesitation created an environment where politics and personal opportunism were more probable. An example of this kind of situation was Alfa's acquisitions, where integration and focus decisions were not made and this left too much room for speculation on the focus of the organization. In inter-organizational relationships, management failures can affect the creation of conflicting interests or power asymmetries. In Beta's case, hubris (the belief that the one's own organization is more capable than it actually is) led to a co-operation with partners that had conflicting interests with Beta. On the other hand, management failures may also create new assets or resources. As such, a chaotic situation in the organization might lead to reconfiguration of the resource base and thus to capabilities that start creating value. It may also lead to new innovations, as some of the members in the organizations are unintentionally given freedom and "slack" time.

As stated before, personal opportunism relates to management failures, politics, and bureaucracy. Opportunism, however, is not necessarily purely a negative force; it may also be a motivating force in creating new innovations, knowledge and thus lead up to value creation. Opportunistic leaders might be more driven to lead the organization to success.

Politics and bureaucracy mostly destroy value and slow the organization down, although they might also lead to a situation where inter-organizational relationships that

would otherwise be destructive are being governed more effectively. A bureaucratic organization might also be protecting its key knowledge and sources of competitive advantage more carefully than a non-bureaucratic organization would; for example, in the case of Gamma, politics, and bureaucracy prevented the organization from investing in a relationship that might have destroyed more value than it would have created. This, however, is speculation as the relationship was terminated and there was no actual outcome.

Collective blindness usually leads to a situation where the competitiveness of the organization is decreased by decisions based on false beliefs about the market situation or development. This, however, might also turn into a new competitive advantage and economic profits over time if the environmental conditions should change. Strong collective blindness, a “visionary organization”, might turn into a value-creating organization, even though the initial assumptions about the market were wrong. As an example, the management of Epsilon had a strong belief in the high growth of the market. As a result, the parent organization invested significant assets in the development of the venture, which was a benefit to Epsilon, even though the investments were initially based on false assumptions. Collective blindness in a relationship might cause the other party to invest significantly in the co-operation and this might turn into a benefit for the other party in the relationship.

There were several examples of cases in the data, where the differences between organizational or national cultures led to abuse of the situation for personal interests or conflicts about power and decisions. Hence, cultural complexities are related to personal opportunism, politics, and bureaucracy. Cultural misunderstanding can also be a source of collective blindness; for example, signals given by the local organization of Beta about the growth in Sweden were quite clearly misinterpreted in the head office, and thus false assumptions were made about growth opportunities.

As a summary, the value creation and destruction mechanisms are interrelated and interdependent in complex ways. Simple cause-relationships do not describe the organizational and inter-organizational processes adequately. The case organizations were not able to gain or sustain competitive advantage during or after the investigation

period and pointing out single factors would not explain the phenomenon. However, all of the case organizations were growing (in revenues and organizationally) during the investigation period. This leads to the question of relationship between the growth and value creation/destruction and thus competitive advantage. Based on my analysis, the relation between these two variables is not simple. This question is further explored in the following section.

6.6 Relationship between growth and competitive advantage

Generally, growth is considered to be one of the main objectives for new businesses and high growth is seen as a positive thing. When measuring by revenues, all of the case organizations were growing strongly throughout the investigation period. Even though most of the organizations were downsized during 2001, their revenues grew; in particular, Alfa and Epsilon were still growing at a rapid pace in 2001 and afterwards, as well. There is clearly a relation between the competitive advantage and growth, but the nature of this relationship seems to be complex and requires further analysis. In the case of internal corporate ventures, the organizations were pumped full of resources and financial investments from their parent company and were able to grow, but not to create an international competitive advantage, as defined in the scope of this dissertation. Figure 16 describes the problematic relationships between the variables. Based on the results of the data analysis, the parent-venture dependence has a positive effect on the international growth of the ventures. It may also be suggested, as stated earlier, that there is a curvilinear relationship between the parent-venture dependence and the performance of the venture and thus with the creation of an international competitive advantage for the venture business. Because of the curvilinear relationship between the parent-venture dependence and performance, the parent-venture dependence leads to value destruction after a certain point in time.

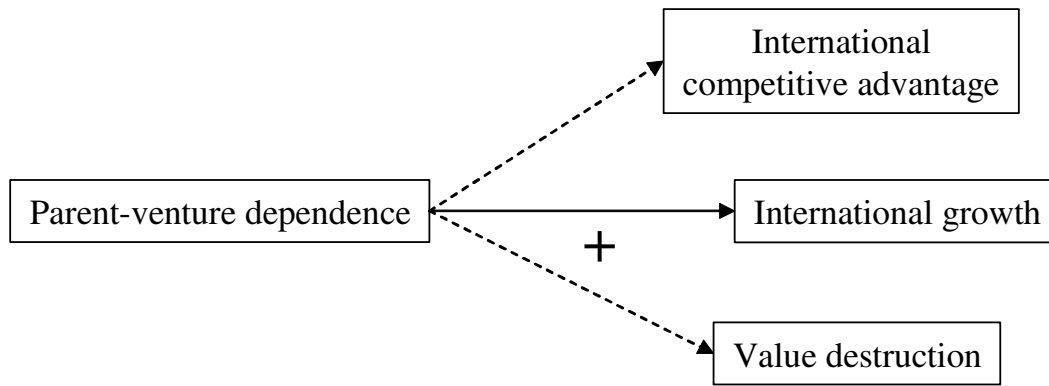


Figure 16. Parent-venture dependence and growth

I shall consider the curvilinear relationship between the parent-venture dependence and performance to be valid. In Figure 17, I give an illustrative example as to how value can be created through the mechanisms in parent-venture dependence and by increasing it with managerial actions and how value is created through the organizational and inter-organizational value creation mechanisms. Two paths are depicted in the figure. In the early phases of the venture, increasing parent-venture dependence facilitates value creating mechanisms since more resources and knowledge can be attained from the parent organization and the ability to grow provides an advantage over competitors. This is the early phases of path 2 in the figure. The organization benefits from a bigger sponsor and is able to learn and build up operations more efficiently. If the parent-venture relationship would not be used, the venture would need to start building value from zero; therefore, internal corporate ventures have a clear advantage over independent new ventures, particularly early on in the venture life cycle. Path 1 depicts the path of a typical, successful independent new venture.

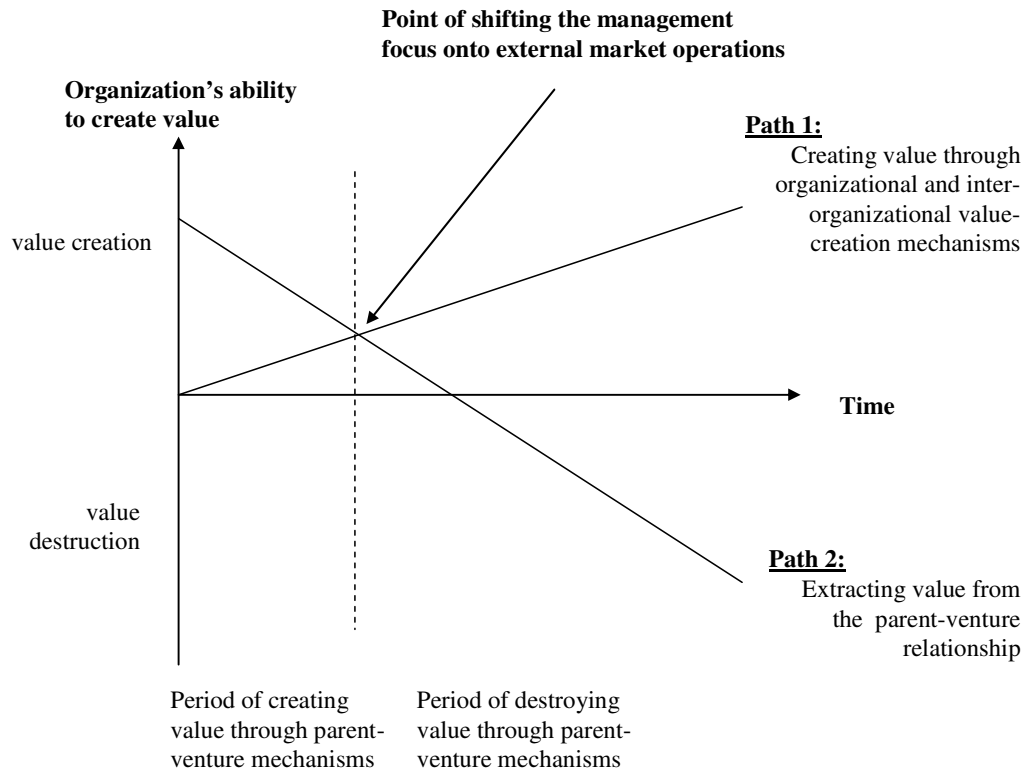


Figure 17. Parent-venture dependence and value creation

As the venture matures, the external market transactions should replace the internal parent-venture interaction (moving from path 2 to path 1 before they cross). Keeping increased management attention on the parent-venture relationship has a negative impact on the optimal value creation strategy. Value destruction mechanisms replace the value that would be attained if external market transactions would have been carried out. At this point, shifting the management focus onto the external market operations would bring more value than putting emphasis on increasing the parent-venture dependence, even though relying on the parent-relationship can bring more growth to the venture. After this point, the growth of the venture could be called “unhealthy”, destructive growth, where the cost-effectiveness of the organization and value are not increased.

Based on this analysis, I propose that managing an internal corporate venture in a high-technology environment requires the ability to maintain the delicate balance between the internal parent-venture relationship and the external market operations. In addition, being able to understand and control the optimal growth rate for the organization is

necessary, even though recognizing the point when growth no longer creates value is, by any standards, very challenging. The value creation and destruction mechanisms are embedded in organizational activities and analyzing and seeing the whole requires objectivity and tools that are not available for managers involved in the decision-making processes. To summarize the framework of these factors, the synthesis of the overall results of the cross-case analysis and theory development is presented in the following section.

6.7 Towards a competitive advantage systems model

Based on the data analysis carried out in this dissertation, I propose that, at any given time, an organization's ability to create value, and thus attain and sustain an international competitive advantage is determined as the overall effect that the organizational and inter-organizational value destruction and value creation mechanisms related to the organization have. Thus, economic rents are generated when the total net value created by the organizations and its inter-organizational relationships exceeds the negative effect of the value destruction mechanisms. This proposition and its elements are described in Figure 18. The suggested theoretical model integrates different mechanisms that either lead to or prevent rents from being created. In the scope of this dissertation, international competitive advantage and the determinants of economic rents were defined as economic profits (the difference between revenues and costs, including opportunity costs).

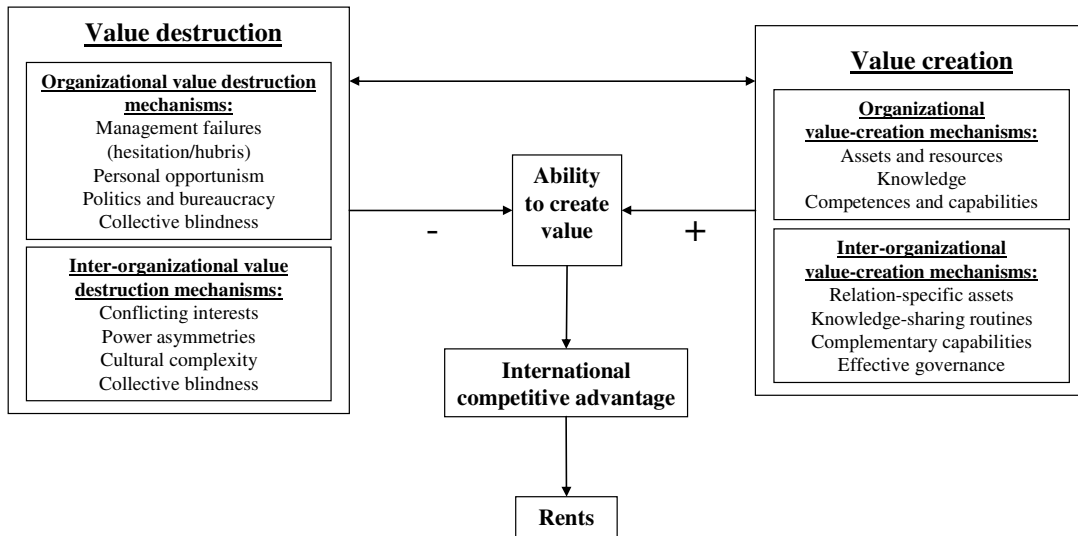


Figure 18. Determinants of an organization's ability to create value

In the system depicted in Fig. 18, the value creation and destruction mechanisms are also interdependent and interrelated in complex ways. This means that the sustainability of the organization's ability to create value depends on the relationships between the different mechanisms and not only on the existence of the value creation and lack of value destruction. Over time, some value creation mechanisms may lead to value destruction and vice versa. The performance and sustainability of the whole system cannot be determined by analyzing single parts of the model, which is why it is considered as a single entity and changes to it must be investigated over time.

In the context of internal corporate ventures, one of the key forces driving the organization to value creation or value destruction is the parent-venture relationship. The parent-venture dependence is determined by the personal relationships between the organizations, the strategic importance of the venture to the parent, and the cumulative stock of invested assets to the venture operations. Even though parent-venture dependence creates growth, it only promotes value creation to a certain degree, after which value destruction mechanisms prevail.

7 Discussion and conclusions

In this, the final chapter of this dissertation, I discuss the results and their contribution to new scientific knowledge. First, the results are reflected in the research questions and objectives of this dissertation, after which they are compared with earlier theories and previous research. Second, I discuss the implications of the results for the academic community and for business management. Third, some limitations of the results are pointed out and critical light is also shed on the models developed in this research. Finally, recommendations for future research are made based on the experiences gained during the research process.

7.1 Discussion of results

In this dissertation, the integrated model of value destruction and value creation was developed based on a multiple-case study and cross-case analysis. The concepts and their relationships in the model were constructed by induction, mostly through the use of qualitative data and analysis methods. The focal unit was an internal corporate venture. The different organizational peer entities in the inter-organizational relationships were, for instance, the parent organization, different market-specific and international partners, joint ventures, customers, or acquired companies.

The main objective in this research was to explain how internal corporate ventures achieve and sustain international competitive advantage and the main pre-assumption was that inter-organizational relationships play the key role in this process. The objective was achieved by conducting an in-depth, multiple-case study on Finnish internal corporate ventures and developing novel models describing these phenomena. Based on the within-case and cross-case analysis, I constructed a list of variables, described the relationships between them, and how they are related to each other. Examples and evidence from empirical data were presented throughout the analysis process.

I defined the concept of international competitive advantage according to Peteraf (1993) as positive differential profits in excess of opportunity costs (including the cost of capital) that are sustained in equilibrium. This made the operationalization of the concept feasible and linked the concept to value creation, which means that an organization is able to generate economic profit and return on investment. I assumed that if the venture is having operations in different countries and in overall, the economic value added is positive, it is having a competitive advantage over other organizations and hence generating rent. My data collection then aimed at finding mechanism that lead to these rents. In addition, I collected secondary, more qualitative data to support the analysis of international competitive advantage.

The concepts that came up in the data, and that were included in the model, have been addressed by previous works. Some recent research that was not discussed in the literature review part of this dissertation, but is relevant to discussions on the results of the empirical study exists. I shall carry out this analysis in light of the previous research and give pointers to the earlier results in the following sections.

The overall results of this dissertation both complement and contradict the previous discussion on the creation of a sustainable competitive advantage. The value creation mechanisms and determinants for competitive advantage are in line with the factors suggested by Barney (1991), Peteraf (1993), Teece et al. (1997), and Dyer and Singh (1998). The contradiction of my results with these studies is that according to the findings, the single concepts put forward by the previous research may not be enough to fully explain the creation and sustainability of international competitive advantage. Based on the results of this study, I propose that both the organizational resources and capabilities and inter-organizational value creation mechanisms must be considered when determining the ability of the organizations to generate rent. In addition, the organization may destroy value at the same time and this phenomenon has not been as widely recognized by resource- and capability-based theories. There are some pointers to value destruction in the previous literature, for example Moran and Ghoshal (1999) referred to bureaucracy as a counter-force to value creation and appropriation. Ghoshal et al. (2000) continued this further by suggesting that “when people act only in their own interest, the company loses its very essence – what distinguishes from a market and

endows it with the ability to create value.” However, these mechanisms were not explored in depth nor analyzed in an empirical context.

I observed that the involvement of the venture’s key people in the strategy planning of the parent organization seems to increase the support from the parent side early on in the venture life cycle. The initial conditions and the processes between the organizations create parent-venture dependence, which may facilitate the international growth of the internal corporate venture through resource availability. Some previous research on the topic of resource availability has been carried out. Dougherty and Hardy (1996) stated, in relation to product innovation and getting management committed to new product development, that senior managers can initiate the recursive process of changing the deep structure of power configuration and everyday action by actively and deliberately engaging in open strategic conversations about product innovation; this is supported by the findings of this study. The concept of internal fit (Miller, 1992) is also related to the relationship between the parent organization and the corporate venture organization. According to Miller (1992), in uncertain environments, informal linkages between organizations are emphasized. This held true for the cases of this research: those cases that had most informal management communication with the parent organization were able to get most support. Frequency of contacts between the executives was an important factor.

It may be questioned whether the support from the top management of the corporation is a good thing. It has been suggested by Augsdorfer (2005) and Abetti (1997), for example, that certain types of ventures should be kept secret from the corporate management in order to achieve success. This type of “bootlegging” makes it possible to create radical new innovations and operations that would otherwise be terminated by the top management. In the light of my results, I cannot give definite answers whether this is the case or not. It was clear that top management support made it easier for corporate entrepreneurs in the cases to get resources for realizing their plans, but whether they had to change their initial plans and adapt to corporate policies, it cannot be stated. In most of the cases, it didn’t seem so. However, the results are contradictory: for example, the CEO of Alfa resigned after disagreements with the corporate management. His initial plans were never realized and Alfa changed its scope after

acquisitions. Whether these plans would have realized if they were implemented secretly and whether the plans were realistic in the first place, it is impossible to tell based on my analysis. Based on my results, it can be proposed that it is beneficial to get support from the corporate management in the beginning of the venture life-cycle – in fact, this is one of the major advantages compared to the independent ventures. The venture must then be able to cut this support and “break free” as soon as it’s able to survive independently. Otherwise it will become too dependent on the support and this process may lead to value destruction.

This concept of parent-venture dependence was found to be essential in the process of internal corporate venturing. The logic behind the idea is similar to the concept of confidence in partner co-operation as discussed by Das and Teng (1998). They presented the construct to be used in measuring the expectations of partners about their relationship. The problem of partner co-operation is somewhat different from parent-venture relationship, although the underlying mechanisms are similar. Based on the case data, parent-venture dependence can be created for several reasons, e.g., when the parent organization does not have the required skills to actually understand the business activities of the venture. It may be considered more efficient if the venture can operate independently. The venture may not require actual resources from the parent or it can implement its own plans using its own resources by decreasing its profitability. Previous research has shown that trust is created from a shared vision and interaction ties and that trust and trustworthiness may result in different levels of resource exchange and combination (Tsai & Ghoshal, 1998). Tsai (2000) also stated that the benefits of intra-organizational strategic linkages can only be achieved if trustworthiness exists amongst organizational units; the same applies to this type of relationship. Furthermore, the parent-venture relationship complements and integrates the concepts of strategic importance and operational relatedness developed by Burgelman (1984a). Operational relatedness has been addressed used by Sorrentino and Williams (1997). The result of this study complement the conclusions of Sorrentino and Williams: operational relatedness does not fully explain the success or failure of internal corporate ventures. In addition, relational and economic fit as concepts are related to parent-venture dependence (Thornhill & Amit, 2001). While Thornhill and Amit described how similar

the organizations are on different dimensions, parent-venture dependence concentrates on the state of the organizations being influenced by the subject of another.

Das and Teng (1998) also stated that trust is one of the pre-requisites of confidence in partner co-operation. In the mechanism of trust development, personal relationships play an important role. As Locke (1999) pointed out, however, placing too strong an emphasis on personal relationships and the trust generated through them might lead to politicizing (i.e., whom you know rather than what the facts are) the organization's dominant operating philosophy, which is not the desired situation. This was also found to be the case with the data analyzed in this dissertation. For instance, politics and opportunism were mechanisms that may be created by too much trust. I will explore these issues in more depth later on in this section in connection with the literature of power and politics.

The role personal ties and the history between the key people in the organization have been identified as important factors in the development of any inter-organizational relationship (Ring & Van de Ven, 1994). Gulati (1998) noted that a social network of prior ties can promote trust. The interaction between trust and co-operation is also two-way: trust lubricates co-operation and co-operation itself breeds trust (Nahapiet & Ghoshal, 1998). Where there are high levels of trust, people are more willing to take risks in the exchange of knowledge (Nahapiet & Ghoshal, 1998). Actors in the relationship must be motivated to participate and openly share valuable knowledge (Dyer & Nobeoka, 2000). Trust is not the only source of confidence in co-operation; control mechanisms are also needed (Das & Teng, 1998). Trust, as well as the strong norms and mutual identification that may exert a powerful positive influence on group performance, can simultaneously limit the group's openness to information and to alternative ways of doing things, producing forms of collective blindness that sometimes have negative or even disastrous consequences (Nahapiet & Ghoshal, 1998). In trust literature, however, the explicit links between trust and value destruction have not been addressed.

Value destruction mechanisms have been addressed in previous literature, but the discussion is scattered in different avenues of research. Value destruction as a concept

has been addressed especially in the case of acquisitions (Seth et al., 2002; Gopinath, 2003). Similar ideas were suggested by Goold et al. (1994). They stated that parent companies without a strong strategy destroy the value of their businesses. Their analysis is mainly based on the stock market price of the investigated companies. In my research, the role of strategy did not come up as strongly. In parent-venture relationship, my results indicated that more important are the relatedness of the strategies of the parent and the venture and the shared vision between the managers of the organizations rather than just the strategy of the parent organization.

Management failures have been, to some extent, considered in previous research. Roll (1986) was one of the earliest to present hubris as a factor in making decisions related to acquisitions. Furthermore, Hayward and Hambrick (1997) studied CEO hubris and its effects on the premium paid for large acquisitions. Seth et al. (2002) also investigated acquisitions and one of the related factors was hubris. My results are similar and complement these studies, although the context of my study also extends to other transactions besides acquisitions. Recently, for example Hiller and Hambrick (2005) have extended the conceptualization of hubris and the role of self-assessment in the decision-making.

In this research, the starting point was that the competitive advantage of corporate ventures can be determined without addressing the issue of internal politics of the corporation. During the research process, it became evident that these phenomena must be considered as well. Politics and its pre-requisite, power, have been addressed widely in previous literature and this result is briefly dealt with here, as it was not touched upon in the literature review portion of this dissertation. Starting from some of the early authors in the field, e.g., Emerson (1962), Pettigrew (1972; 1973; 1985), and Pfeffer and Salancic (1978), it has been suggested that power, its sources, pre-requisites, and use are important factors in management research. Both the structure and behaviour related to this concept have been addressed. It has been recognized that power is context-specific and its precise meaning is tied to the situation where power is used (Astley & Sachdeva, 1984). One of the important views is to see power as an inverse to resource dependence (Emerson, 1962; Brass & Bruckhardt, 1993), i.e., “people in central network positions have greater access to, and potential control over, relevant resources such as

information” (Brass & Bruckhardt, 1993). The resource-based view has been also applied in this theory framework (Medcof, 2001). As stated, information or knowledge has been seen as one of the sources of power (Pettigrew, 1972) and the results of my study directly support this view. Knowledge and politics are related, as are strategic resources and politics. When individuals have control over resources or possess non-substitutable or valuable knowledge, they have power. Where there is the opportunity of using power, politics exists. Astley and Sachdeva (1984) identified several variables including resource control, hierarchical authority, non-substitutability, uncertainty coping, and centrality as sources of power and connecting links to organizational politics (Wilson, 1999). In this study, only a few of these were addressed indirectly, and the results were similar.

The dynamics of politics has been an area of interest for several authors. Politics has been studied in connection with different organizational contexts, with the context of change being the most common one. Power shift situations, in particular, have been highlighted. “Political theories of organizations highlight the role of executive turnovers as an opportunity for realigning the company with its environment” (Ocasio, 1994). Links between politics and performance have been explicitly studied by Eisenhardt and Bourgeois (1988), for example: “The companies with politically active teams exhibited slow growth and low profitability” (Eisenhardt & Bourgeois, 1988). They also suggested that “politics are time-consuming and information-restricting, creating communication barriers and inflexibility within a team” (Eisenhardt & Bourgeois, 1988). These results support the notion of politics as a value destruction mechanism. The results of my study are similar and support the findings of Eisenhardt and Bourgeois. Previous studies have not, however, linked politics and power very well to competitive advantage or other determinants of economic profits. In addition, I suggest that political power struggles can sometimes lead to new innovation, even if it is unintentional.

Opportunism is a concept put forward, especially in transaction cost literature (Williamson, 1999). As such, the results of this study support what has been stated about the governance of opportunism. On the other hand, bureaucracy is the other extreme of governance, where processes are frozen by too much governance. The issues

of governance and their costs have been addressed previously and will not be discussed in detail here. The results of this study support the idea that governance must be balanced with promoting individualism in the organization and that resources bring value only if they are governed in the right way. This theory must also be extended beyond organizational boundaries. Similar fundamental ideas have been put forward by Madhok (2002; emphasis in original): “Strategic management is about coordination and resource allocation both *within and across* company boundaries.” There is clearly a need for “shifting the focus from a bilateral alignment to a triangular alignment between the triumvirate of transaction, governance structure, and resource characteristics” (Madhok, 2002).

Cultural complexity has been addressed by previous works. Stanley (1981) studied and presented different sources of dissent in organization and managerial errors. Cross-cultural issues were seen as one factor in the process. “It is tempting in turbulent times to artificially simplify the environment, by restricting opinions to those favorable to the leadership and by automatically omitting alternatives that are unacceptable or ‘unthinkable’, considering the prevailing doctrine. But such preconditions imposed by paradigmatic blindness increase the likelihood of second-rate decisions” (Stanley, 1981). Morris et al. (1994) considered the special case of individualism versus collectivism as one of the dimensions in cultural differences in corporate entrepreneurship. Cultural complexity as a concept has been widely discussed in other managerial literature streams⁸, although its explicit links to value destruction have not been considered in connection with strategy literature. In entrepreneurship literature, Dougherty (1992) had very similar results as I did regarding cultural complexity. She called it different thought worlds of organizations and it was seen as one of the barriers for successful product innovation.

During its life cycle, the venture is changing of business focus according to the changes in the local environment or because of realizing new business opportunities. This is of course required from the entrepreneurial strategies that the ventures lead (Mintzberg & Walters, 1985). There has to be room for adaptation, since the planning phase has been carried out with inadequate information about the environment and the future

development of the business. In the previous literature on venturing, there have been several different suggestions on why corporate ventures fail. My results support these studies. Campbell et al. (2003) stated that “the greatest cause of corporate venturing failure is companies’ inability to define which model their venture is supposed to be following.” I am suggesting that there should be room for adaptation and changing the organizational and operational forms and focus, as long as the overall value creation system is considered. In the early phases of the venture, the right balance and focus cannot be immediately found. It might even be beneficial to search different directions in order to avoid the mistakes in a later phase. Ahuja & Lambert (2001) suggested that learning traps are one of the main reasons why organizations are not able to create new business through innovation. Learning as a concept was also addressed by McGrath (1995). That is one of the few studies where both successful and failed corporate ventures have been studied in particular. As a conclusion, learning from disappointment was suggested as one of the processes separating success from failure (McGrath, 1995). The focus on failure was continued in McGrath (1999), where real options theory was used to explain corporate venturing failure. However, McGrath (1999) did not investigate the processes inside the focal venture organization to explain failure, as was done in this dissertation. Chesbrough (2000) put forward the comparison between private capital and corporate ventures and proposed that mimicking private ventures is one of the reasons why corporate ventures fail. The results of this dissertation are partly similar – the case ventures which resembled independent ventures the most, were the cases where least success in economic terms was achieved. The management of these ventures was considering parent organization more as a financial investor than a possible source of advantage.

In summary, the sources of value destruction were not as explicitly and widely investigated in previous studies as they were here. In addition, the investigation of how these mechanisms relate to the competitive advantage and growth of organizations has not been done as widely as here. The measures and qualitative analysis methods that I used were not used in the previous studies. In an internal corporate venturing context, this kind of thorough analysis of different mechanisms has not been carried out.

⁸ Cf. Sackman (1997) or Browaeyns & Baets (2003), for the analysis of the concept

I am proposing that the model put forward here describes a novel phenomenon and a paradigm shift in management research. I believe that the underlying reasons for the phenomena described in this dissertation are due to an increase in complexity and abstraction level in modern business transactions. During the last few decades, the organizational forms, arrangements, and the nature of work have changed dramatically and this has also shown us what approach should be taken with the organizations and the different phenomena surrounding them. Even though the basic economic systems are still the same, the development of Western economy as well as the advances in computing and global networks have created ecosystems that are void of simple problems. Understanding organizations requires understanding large systems of systems and the analytic isolation of simple problems from these systems does not add value; integrative approaches must be taken.

The abstraction level of management theories has increased as the abstraction level of work itself has increased. From such concrete concepts as products and production, we have moved on to services and resources and then on to knowledge and learning. Finally, we have put forth such high-level “meta-constructs” as dynamic capabilities or social capital. These concepts offer more explanatory power, although, at the same time, their definitions, operationalization and measuring create the challenge. This development has also added the elements of strict categorization and cliques to management science. We must be able to choose the theoretical school we represent and not cross over to the other side. I believe that management science is at a crossroads, where either we will find insight in the new approaches or we will be lost in endless debates about the applicability and nature of our science and the orthodox way of the scientific method.

This dissertation has, for its part, attempted to create an integrative understanding of a phenomenon and make contributions to the competitive advantage theory. The contributions of the work are discussed in the next section.

7.2 Contributions

As Parkhe (1993) stated, “if the most basic goal of scientific research is deeper understanding through theory development, then social scientists must be more flexible with respect to their choice of technologies (methods) in the service of that goal”. Furthermore, as noted by Numagami (1998), “the processes of explanation building through hermeneutics and syntheses will encourage reflective dialogue among professionals and researchers, both of whom are engaged in the making of a society”. One objective of this dissertation is to take part in this dialogue using a multiple-case study method.

According to Whetten (1989), “the theorists need to learn something new about the theory itself as a result of working with it under different conditions” in advancing theory development. The question lies in whether or not the models developed in the scope of this dissertation constitute a “theoretical contribution”. By considering the different criteria listed by Whetten (1989), I intend to address this issue. The first building block of theory is the “what”, to have the factors logically being part of the explanation of the phenomena in question (Whetten, 1989). Parsimony and comprehensiveness can be considered the two main criteria of a good answer to the question of “what”. By just adding or deleting factors from an existing model, a good contribution is not achieved (Whetten, 1989). It has been suggested that “theory development starts with guesses and speculations and ends with explanations and models” (Weick, 1995). In this dissertation, I started by reviewing the existing models and using them as my “first guesses” on how the investigated phenomenon should be explained, and based on empirical data, ended up with a model that did not resemble the initial “guess” so much. The variables and the mechanisms developed in this dissertation were constructed by induction from the data, which is one of the main ideas of theory-building case studies (Eisenhardt, 1989). I believe that by reviewing a wide body of previous literature and objectively presenting the cases and the analysis, I was able to show that the variables offered by the current theories do not fully explain the phenomena in question.

The second building block for theory is the “how”, i.e., the relationships between the variables in the model. Lists of variables are not a theory; a theory must explain how

and why variables come about and how they are connected (Sutton & Staw, 1995). With “how”, causality is typically added to the model (Whetten, 1989). In the scope of this dissertation, the main “how” connections were the relationships between the value creation and destruction mechanisms and the organization’s ability to create value and thus attain and sustain an international competitive advantage. In addition to this, the “how” mechanisms between the parent-venture relationship, growth, and value creation were explored. Compared with previous literature, the relationships between parent-venture relationships, the determinants of competitive advantage, and growth have not been addressed and it is proposed here that these relationships constitute a contribution.

The third building block of a good theory is answering the question of “why”. Why are the phenomena in question happening and why are the variables of the model related each other as they are? “This rationale constitutes the theory’s assumptions — the theoretical glue that welds the model together” (Whetten, 1989). Describing the “why” of a theory is, however, also the most challenging question, as it requires looking beyond the surface of the concepts and the causalities. Answering “why” requires that the phenomena’s context and the changes in the larger systems around the research questions be understood. In this dissertation, the “why” was addressed by describing the context and the environment of the case organizations. In addition, considering the different motivations as to why managers act the way they have in the cases and why some of the mechanisms found have emerged in the phenomena comprise the “why” discussion.

The “why” question is also addressed by proposing that the ability to create value must be a system where interrelated mechanisms act. This system cannot be broken down and analyzed in pieces. The tentative theoretical model developed in this dissertation is partly answering to the “why” question by explaining why some organizations are not able to create or sustain economic rents. By extending the existing theory on competitive advantage, it can be stated that this dissertation addresses the question why the current theory does not explain the phenomena in some specific cases. This dissertation partly answers the question “why do some organizations fail to achieve or sustain international competitive advantage?” However, this was not an original research question for this thesis. This same issue is addressed by the discussion on the

interrelation between the variables – even though it is not explicitly stated in that part of the thesis. “Why” question is then left for the reader to assess, as theory is usually built on research problems that are “how” or “what kind of” questions. This holds true for this dissertation as well. Some further critical light is shed into the treatment of “why” question in section 7.4 analyzing limitations of this research

The last of the building blocks for theory are the “when”, “who” and “where” questions. These are the temporal and contextual factors that “set the boundaries of generalizability, and as such constitute the range of the theory” (Whetten, 1989). I address these issues in more detail in the discussion on limitations in section 7.4.

As a concluding remark on the theoretical contributions of this study, constructing a theory is a social process. The contributions of theory-building studies can ultimately be judged only after they have been published and time has passed. I can only self-assess the concept I have created in this study, and this kind of analysis is not comprehensive from the point of view of determining the true contributions of this dissertation. “Theory is created by its readers and writers – it is then recreated by the authors who employ it” (DiMaggio, 1995).

The scientific contributions of this dissertation can be divided into four categories:

- Contribution to the discussion on the determinants of a sustainable competitive advantage in resource- and capability-based research streams
- Synthesis of the units of analysis in strategy research
- Analysis of the relationship between the creation of international competitive advantage and international growth
- Investigation of these phenomena in an internal corporate venturing context

Each of these categories is discussed below.

First, my starting point for developing this theory on the determinants of an international competitive advantage was the relational view developed by Dyer and Singh (1998). Thus, this study continues the line of research that argues that mechanisms in inter-organizational relationships may offer alternative explanations of competitive advantage and growth for resource-based views or industry structure views

(Dyer & Singh, 1998; Doh, 2000; Donada, 2002; Douglas & Ryman, 2003). These explanations and their links to the other alternative or complementary views were explicitly investigated in this dissertation. During empirical research, evidence of value destruction mechanisms was found. According to the findings of this dissertation, the creation of superior economic value and thus, competitive advantage, cannot be fully explained by organizational or inter-organizational resources and capabilities. The results of this study complement and continue discussion on “creative destruction” addressed by Moran and Ghoshal (1999). They suggested that “an organization that is not adequately enabling and motivating new possibilities is more likely to witness its own decline – a destruction of its own economic structure that will have been induced from within” (Moran & Ghoshal, 1999). In the empirical part of this dissertation, such decline processes were explicitly described and analyzed in the scope of internal corporate ventures and high-technology environment. In spite of any valuable, rare, non-imitable, and non-substitutable resources (Barney, 1991) that an organization or network may possess, the organizations might fail to create value and to sustain a competitive advantage. In spite of the managers’ ability to “integrate, build and reconfigure internal and external competences to address rapidly changing environments” (Teece et al., 1997) or the processes by which managers alter their resource base (Eisenhardt & Martin, 2000), the organizations may not locate a sustainable competitive advantage. Even though partnerships and other inter-organizational relationships include such mechanisms as complementary capabilities, relation-specific assets, effective governance, and knowledge sharing routines (Dyer & Singh, 1998), they may still fail and not create value. I argue that, in addition to the determinants of value creation and capture, the determinants of value destruction and the factors that hinder value from being created and captured must be considered. Both parts of the system are equally important and also interrelated in complex ways. Organizational and inter-organizational mechanisms may or may not lead to competitive advantage, and this process cannot be fully understood by investigating certain types of value creation and capture mechanisms since the value system must be considered as a whole. This dissertation has, on its part, pointed out those mechanisms that may define organization’s inclination towards value creation and appropriation or destruction (Moran & Ghoshal, 1999). I recognize that this is only a part of the overall market process and that from a larger perspective, the organization is forced to surrender the

created value to the market, as Moran and Ghoshal (1999) have described in their article. The results of this dissertation take a point of view of the venture manager's and the contributions lie in that are. Therefore, the wider context of society's value process is not discussed here.

The second contribution relates to the units of analysis in determining the competitive advantage of organizations. Based on the results of the empirical analysis in this dissertation, I propose that both organizational and inter-organizational mechanisms must be considered parts of the value system that creates a competitive advantage for an organization. Observation of the phenomena beyond the boundaries of the organization creates the overall understanding of the organization's ability to create value and the inability to prevent value from being destroyed. The results contribute to the discussion on the units of analysis in strategy research and complement the advancing theory development carried out by the likes of Williamson (1979; 1985; 1999), Barney (1986; 1991; 2001), Peteraf (1993), Teece et al. (1997), Dyer and Singh (1998), and Madhok (2002). These results are supported by earlier research on power and politics, although these mechanisms have mostly been treated as having a purely negative impact on the future company performance or growth in that literature, as well. My results suggest that there might also be some relationships to value creation mechanisms.

Third, the relationship between growth and value creation/competitive advantage is not obvious. As suggested by Ackoff (1999), growth is not always the right measure for organizational performance and success; it may be — or sometimes even should be — replaced by the concept of development instead. In addition, organizational decline should also be considered (Whetten, 1980). This view has been supported by the most recent research of Ray et al. (2004), where it was suggested that, in some circumstances, performance should be replaced by the effectiveness of business processes as the dependent variable, when using a resource-based view as the theoretical approach. I argue that using EVA as the main dependent variable also captures the effectiveness of the business processes.

Fourth, the contributions described above were based on an investigation in an internal corporate venturing context. The special relationship between the parent and the venture

was explored and the theoretical concept of parent-venture dependence was introduced to describe the reliance between these two organizations. The data collected for this research includes unique information about four corporate ventures operating under one parent organization. The cases represent different theoretical polarities and thus offer a laboratory for extensive multiple-case study. I carried out qualitative interviews with key informants in the case ventures and collected secondary data from archives and public sources. Obtaining access to this kind of data is always a challenging task for a researcher. There is very little academic literature on the internationalization and performance of corporate ventures in particular. Few deep-scanning studies have been carried out on the inter-organizational relationships of corporate ventures; perhaps due to the fact that it is fairly difficult to obtain data from them. I was able to utilize my position as an insider in the organization to observe the cases. Organizing the data into a database and applying it for scientific research can be considered to be a contribution in itself.

7.3 Managerial implications

Several important implications for business management can be found from the results of this research. Some directions can be set from the point of view of corporate venture strategists and corporate entrepreneurs as well as the management of corporations that plan the establishment of new international corporate ventures.

The relationship between the parent organization and the venture itself is of crucial importance. The venture will never be successful at any level without some support and commitment of the parent organization. On the other hand, too much support will destroy value and effectiveness. When considering the process of new business planning and corporate venture establishment, the importance of the strategy-planning phase cannot be overestimated. Corporate entrepreneurs must be deeply involved in the planning process and in setting the early goals of the venture business. It can also be recommended that the plans be made and presented at the highest level of the corporation strategy process, if the potential of the venture is deemed significant. The more sharing of the venture strategy and visions there is on the corporate side, the more the parent organization can commit to the goals set for the venture.

Corporate managers should try to understand the corporate entrepreneur's point of view and the plans made for the venture. Extensive knowledge of the operational business is not necessary, although no real trust can be generated between the organizations if the general plans are not understood well enough. A shared vision helps in discussions between managers. The new venture business is usually very different from the corporation's base business and daily operations. Making this fact clear for the corporate managers helps in the dialogue. Understanding the probability of success and risks involved in internationalization projects greatly helps in general strategy planning and forecasting.

Corporate ventures usually "start big", i.e., the organization does not grow organically during the early phases of the business. There are no opportunities of spending years learning, trying different things, and growing together with the market. The market potential must be big to begin with for corporate management to be interested in it. A lot of resources are gathered together and the business is expected to quickly grow to significant proportions. Because the time span for learning is shorter, experienced managers in key positions should be preferred over inexperienced ones. Experience also helps to find the focus in a shorter amount of time. The focus of operations is an important factor. By focusing operations, optimal learning and thus, the optimal growth rate can be achieved.

What was surprising in these findings, from the point of view of venture managers, is how few of the partnerships that were aimed at enabling new market entry actually succeeded in achieving the objectives set for them. Usually, the reality was quite far away from what had been planned. Resources and time were wasted on relationships that did not benefit the business of the venture organization at any level. Even though partnerships are usually seen as an "easy", "fast" and "low-risk" way of expanding beyond national borders, risk management should be emphasized when using this kind of strategy. There were very few actual success stories where an inter-organizational relationship had significantly helped with new market entry. Partnerships also require very versatile competences from the venture side in order to be successful. Legal, cultural, market-specific, and economic competencies are essential in the partnering

process. In addition, personal ties and social networks help in creating successful inter-organizational relationships. By facilitating the right climate in the relationship as well as ensuring that knowledge is shared and the capabilities generated in the relationship are utilized, the probability for success increases. With these factors, the nature of the relationship is not really essential as the same issues come up in every type of inter-organizational relationship. The reasons for failure are usually the same on the high level, regardless of the type of partnership. These reasons include lack of market understanding, trust, communication, complementarity, or governance.

The promotion of active follow-up for bottlenecks, blind spots, and weaknesses, both inside the organization and between organizations should be carried out. The managers should be encouraged to actively bring up problems and proactively follow the challenges faced by their organization. Self-assessment has been suggested to improve the quality of strategic decision-making and reduce management failures caused by hubris (Hiller & Hambrick, 2005). Identifying politics, opportunism, or cultural problems is, of course, very challenging due to the subjective point of view of how these issues are considered. Usually, the value destruction mechanisms are embedded deeply inside the organizational culture or routines. This does not mean that identification and removal of problems should not be attempted in any case. The usefulness of finding blind spots is obvious. Even external auditors for this kind of activity could be considered. Usually, objective outsiders can see the organization's problems more clearly, thus, helping to create more effective operations. Again, the problems of subjectivity arise. It is difficult, if not impossible, for management to turn a critical eye on themselves and consider their own actions as the problem, if this is the case. In addition, for the external auditors to bring up these types of problems to the people who have hired them would be a surprise.

Finally, new business planning in a high-technology environment is always a high-risk activity. Even the best plans may fail due to reasons that could not have been foreseen. When considering the nature of high-technology environments, the best possible predictions by experts are always well-educated guesses. The environment is always subject to changes and unexpected surprises. Markets are highly unpredictable and complex. The management should avoid making simplifications about the

organizational processes as well as about the operating environment. The operations should be planned so that, in the face of environmental changes, the venture can also change and adjust its objectives to match the new situation.

7.4 Limitations

In terms of external validity criteria, case studies are always limited in their statistical generalizability (Numagami, 1998). The assumption in this dissertation has been that the quality of research insight is not necessarily measured by any external criteria. The objective of this study has not been to generate an invariant law or theory, but to contribute to the reflective dialogue among researchers and professionals. The criteria of nomothetic research are used, but the theory generated does not constitute to an invariant law. It simply shows similar patterns over a variety of social groups, thus triggering the question as to why these patterns exist. The epistemological position of this dissertation is that the knowledge and understanding gained are inevitably seen as being relative and specific to the immediate context and situation from which they are generated (Morgan & Smircich, 1980). Nonetheless, the results provide insightful and significant knowledge about the investigated phenomena. For professionals, it offers an opportunity to compare the developed theoretical models with their own organizational practices and strategies. It is left to the reader to judge whether or not the results of this dissertation are applicable in other contexts. The process of generalizing is not a mechanic one; it is always dependent on the subjective judgment of the individual applying the results.

The data used in this dissertation included ventures operating under one parent organization and originating from one home market. This is a limitation that must be taken into account when considering the results. Even though the ventures were substantially different in the ways they operated, their business focus, and their customer base, they all originated from the same parent and same geographical area. The number of cases sets also some limitations to the results. Even though four cases have been previously used in multiple-case studies (cf. Bourgeois & Eisenhardt, 1988; Abetti, 1997; Andersson, 2000; Coviello & Martin, 1999; Chetty & Campbell-Hunt, 2003) and according to Eisenhardt (1989), the number of cases should be between 4 and

10, using only four organizations might give a limited picture of the phenomenon. The applicability of the results for other markets and environments might be limited. The industries where the case ventures operated are telecommunications and IT-related. The applicability of the results in less dynamic and traditional industries cannot be assured. In environments where the macro variables, e.g., the number of companies or the growth rate of demand, are completely different, the theoretical frameworks developed in this dissertation might not be usable.

When working with mostly qualitative data, the effects of possible bias and interpretation must be considered. The interpretation and analysis of data has been carried out by the researcher and is based on the subjective judgment of one individual. Replicability of this kind of analysis can always be questioned. On the other hand, replication has not traditionally been seen as appropriate when the goal is a new theory (Eisenhardt, 1989). The phases of the analysis and the data that it is based on have been presented in this dissertation in as detailed a manner as possible. The original data has been archived to make it possible for other researchers to investigate it. The data was collected mostly after the events had taken place, so there is also a chance of retrospective bias by the interviewees. The effect of wrong recollection by the interviewees has been minimized by using several and different types of interviewees in the cases and by backing up the interview data by secondary archival data. In addition, being able to observe the organizations as an insider has made it possible for me to check and observe the discussed events more closely. This way, I am able to be more assured of their authenticity.

Using international growth as one of the variables sets some limitations for the results of this research. It must be noted that not all corporate ventures or ventures pursue internationalization nor is it even suggested that they should. Expanding to new markets is only one of the many different motives for corporate entrepreneurship (Zahra, 1991). The results of this research are only applicable to organizations that have international growth as their objective and establish operations in foreign markets. Venture organizations may develop and be successful without this kind of growth and operate in areas where competition is not truly international. The purpose of this study, however,

was to investigate an explicitly high-technology environment, where the competition is always assumed to be international.

This dissertation aims at finding mechanisms that affect the success of the international strategies of internal corporate ventures. Thus, the point of view is fairly one-sided, that of the venture manager's. In general, studies where the objective is to answer one focused research question and where some factors are highlighted over others give a limited, simplified picture of the real world. As Ackoff (1999) wrote, "problems are abstracted from systems of problems, messes. Messes require holistic treatment. They cannot be treated effectively by decomposing them analytically into separate problems to which optimal solutions are sought." This is also true for the results of this dissertation. This dissertation aims at providing an answer to a simplified problem in an artificially simplified, isolated environment. Even though the treatment of the problem is the integration of the different aspects of previous research and it utilizes different theoretical views, the models created do not completely explain the complex social phenomena they are describing. This leads to a somewhat limited analysis of the "why" question of the theory as described by Whetten (1989). Parts of the underlying motives and history remain hidden by the even most thorough and careful collection and analysis of data, and hence this kind of treatment of problems leaves the "why" question only partly answered. That can be considered as a shortcoming for this research. The complexity and unpredictability of reality, social behaviour, and human mind always produce systems, where theories can offer explanations only to a certain point. This fact has to be accepted by management scientists as well as any social scientist.

7.5 Directions for future research

There are several interesting avenues of research that could be taken based on the results of this research. The context in this study was Finnish internal corporate ventures. The generalizability of the results could be expanded by doing similar case studies in somewhat different settings. Extending the suggested tentative model in different environments would be the next step for developing the result further. The target of future research would be finding different cases and testing whether the same processes and factors exist in these environments; for example, investigating internal corporate

ventures in business cultures that are completely different than the Finnish markets might produce interesting results. In Japanese or American corporations, some extensions or differences to the presented framework might come up. This kind of research might also shed more light to the “why” question of the theory.

I have also partly suggested in this dissertation that some of the models and the described concepts would extend beyond the context of internal corporate ventures. I have spoken about the organization’s ability to generate value on a general level, even though I have investigated the specific case of corporate ventures. Even though I believe that the results can be extended to other contexts, this should be verified by investigating other organizational forms. I would propose that doing similar studies on independent ventures and non-venture organizations would add value to the results of this study.

Because I worked mostly with qualitative data, none of the concepts that were observed in the data during the empirical research were explicitly measured, in the quantitative meaning of the word. Investigating how to operationalize, e.g., collective blindness, bureaucracy, or politics would be the next step. As these concepts are fairly abstract and embedded in human behaviour, finding suitable ways to measure them would complement the results of this research. I propose that this kind of research should be carried out to further develop the findings of this dissertation. I am, though, skeptical about even attempting to measure concepts that are abstract and context-specific. Some of the mechanisms studied in this research are, in my opinion, systems that cannot be fully explained by analysis and quantitative measurement.

All in all, more studies on cases where value was not created should be pursued. When the creation of competitive advantage is investigated, the sample should always include organizations that have not succeeded in creating value. Value destruction mechanisms and reasons for failure should be more thoroughly explored, since the results of this study suggest that they can co-exist in an organization. Measuring and concentrating only on “success” factors or value creation factors does not produce a comprehensive understanding of the underlying mechanisms.

The interrelations and dependencies between value creation and destruction should be studied further. It would be valuable to carry out research on organizations that have been able to turn their operations from making losses into profitable and vice versa. Uncovering the elements in this kind of process would develop the model put forward in this dissertation and further, clarify the “why” question. The findings in this dissertation touched these issues only superficially, and more research is needed to identify the mechanisms and relations between them more in detail and in different contexts.

Finally, more integrated in-depth studies in different environments should be pursued. Combining different theories and views to obtain a more comprehensive understanding of the mechanics and factors behind the phenomena is recommended. In my opinion, crossing the lines between different theory schools would be a healthy exercise; for example, using economic, sociological, strategic, and marketing approaches on new business development in addition there integration would produce interesting and important research results.

8 References

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Appendix 1: Interview framework

Starting the interview	<ul style="list-style-type: none"> • General information about the research, confidentiality, researcher's own background, interview principles • Name of the venture • Interviewee: (name, position, how long he or she has worked in the venture): based on this, deciding which themes the informant has knowledge about and what issues can be discussed in detail.
General about the venture	<ul style="list-style-type: none"> • Age (and how defined) • General history, longitudinal description of international growth • Strategy • Revenue (year 2000 — other years) • Geographical scope international sales (absolute/relative), international employees
Relationship with the parent organization	<ul style="list-style-type: none"> • General description of the relationship • Effects of the relationship on the venture growth • Links with the parent organization's strategy • Knowledge-sharing and collaboration • How is the venture governed? Contact people on the side of the parent company? • Resources and obtaining them, allocation, decision processes • Key individuals in the organization • The role of power and politics • Other important issues regarding the parent-venture relationship
Internal co-operation	<ul style="list-style-type: none"> • Are there links to other organizations inside the same corporation? • What kind of co-operation has there been and has this contributed to the internationalization projects? • Problems and advantages (e.g., internal competition)?
External relationships	<ul style="list-style-type: none"> • General partnering strategy of the venture, partner model and links to the business strategy of the venture • How the IORs are generally categorized: <ul style="list-style-type: none"> ○ Type: joint ventures, sales partnerships, strategic customers, technology/development co-operation arrangements, supplier-buyer relationships, marketing partnerships, production partnerships, distribution partnerships, etc. ○ Tailored versus standard, local versus global ○ Governance modes, contractual arrangements • For each IOR: <ul style="list-style-type: none"> ○ History, frequency of contacts ○ Relation-specific assets ○ Knowledge-sharing routines ○ Complementary resources ○ Effective governance ○ The effects the IOR has on the internationalization project ○ Problems ○ Other important factors of the partnership, e.g., trust, personal networks, etc. • Mergers & acquisitions: <ul style="list-style-type: none"> ○ Have any occurred?

	<ul style="list-style-type: none">○ Description of background, project, integration, problems
Other issues	<ul style="list-style-type: none">• Any other important factors in the internationalization projects?
Ending the interview	<ul style="list-style-type: none">• Has something relevant been forgotten?• Who else should be interviewed about these matters?• Thanking and possibility for second interview

Appendix 2: Inter-organizational relationships in the data

PRESS = Data from press releases, investor communication (for example annual report) or other public documentation

Doc = Data from internal documentation

INT = Data from interviews

Code	Case	Data	Type of IOR	Published	Geographical area
IOR1	Alfa	PRESS+Doc+INT	Parent-venture relationship	1998-2001	global
IOR2	Alfa	PRESS	Customer	Q2-Q3/2000	trialing in Finland, global
IOR3	Alfa	PRESS+INT+Doc	M & A	kesä.05	Sweden (effect global)
IOR4	Alfa	PRESS	Customer	Q2/2000	Asia (Malaysia)
IOR5	Alfa	PRESS	Customer	Q2/2000	Asia (China)
IOR6	Alfa	PRESS+INT+Doc	M & A	Q2/2000	Sweden (effect global)
IOR7	Alfa	PRESS	Customer	Q3/2000	Finland
IOR8	Alfa	PRESS	Customer	Q3/2000	Austria
IOR9	Alfa	PRESS	Customer delivery	Q3/2000	Austria
IOR10	Alfa	PRESS+INT	Sales partnership	Q3/2000	global
IOR11	Alfa	PRESS+INT	Technology partnership & Marketing partnership	Q4/1999	global
IOR12	Alfa	Doc	Technology partnership	1999	global
IOR13	Alfa	PRESS+INT	Technology partnership & Marketing partnership	1999-2000	global (especially Hong Kong)
IOR14	Alfa	PRESS+INT	Customer	Q4/2000	Italy
IOR15	Alfa	PRESS	Customer	Q4/2000	Europe
IOR16	Alfa	PRESS	Customer	Q4/2000	South Africa
IOR17	Alfa	PRESS	Technology partnership & Marketing partnership	Q4/2000	global
IOR18	Alfa	PRESS	Customer	Q4/2000	Australia
IOR19	Alfa	PRESS	Technology partnership & Marketing partnership	Q1/2001	Europe
IOR20	Alfa	PRESS	Technology partnership & Marketing partnership	Q1/2001	Europe
IOR21	Alfa	PRESS	Technology partnership & Marketing partnership	Q1/2001	Europe
IOR22	Alfa	PRESS	Customer (trial)	Q1/2001	UK
IOR23	Alfa	PRESS	Technology partnership & Marketing partnership	Q1/2001	global
IOR24	Alfa	PRESS	Technology partnership & Marketing partnership	Q1/2001	global
IOR25	Alfa	PRESS	Customer project	Q3/2001	US
IOR26	Alfa	PRESS	Customer	Q3/2001	US
IOR27	Alfa	PRESS	Technology partnership & Marketing partnership	Q3/2001	global
IOR28	Alfa	PRESS	Sales partnership	Q3/2001	Latin America
IOR29	Alfa	PRESS	Technology partnership & Marketing partnership	Q3/2001	global
IOR30	Alfa	PRESS	Technology partnership & Marketing partnership	Q3/2001	global

IOR31	Alfa	PRESS	Technology partnership & Marketing partnership	Q3/2001	Scandinavia
IOR32	Alfa	PRESS	Technology partnership & Marketing partnership	Q3/2001	Japan
IOR33	Alfa	PRESS	Technology partnership & Marketing partnership	Q4/2001	Iceland
IOR34	Alfa	PRESS+INT	Customer & Marketing partnership	Q4/2001	Philippines
IOR35	Alfa	PRESS	Customer & Marketing partnership	Q4/2001	Sweden
IOR36	Alfa	PRESS	Technology partnership & Marketing partnership	Q4/2001	Europe
IOR37	Alfa	PRESS	Sales partnership	1999	Global
IOR38	Beta	PRESS+Doc+INT	Parent-venture relationship	1998-2001	Global
IOR39	Beta	PRESS+Doc	M & A	Q4/2000	Sweden
IOR40	Beta	PRESS+Doc	Technology partnership & Marketing partnership	Q1/2001	Europe
IOR41	Beta	PRESS+Doc	Technology partnership & Marketing partnership	Q1/2001	Europe
IOR42	Beta	PRESS+Doc+INT	Sales partnership/production	1999	Finland
IOR43	Beta	Doc+INT	Technology partnership	2000/2001	global/Finland
IOR44	Beta	PRESS	Production partnership	Q3/2001	Global
IOR45	Gamma	PRESS+Doc+INT	Parent-venture relationship	1998-2001	Global
IOR46	Gamma	INT	Joint venture	2000	Sweden
IOR47	Gamma	PRESS+INT+Doc	Joint venture	Q2/2000	UK
IOR48	Gamma	PRESS	M & A	Q2/2000	France
IOR49	Gamma	PRESS+Doc+INT	M & A	Q4/2000	US
IOR50	Gamma	PRESS+INT	Sales partnership	Q4/2000	Europe, North America, South America
IOR51	Gamma	INT	Technology partnership	2001	Finland
IOR52	Gamma	PRESS+INT+Doc	Distribution partnership	Q3/2001	China
IOR53	Gamma	INT	Technology partnership	2001	International
IOR54	Gamma	INT	Sales partnership/internal co-operation	2001	Germany, Philippines, UK, Finland, Singapore, Holland, Italy, USA
IOR55	Gamma	PRESS+INT	Sales partnership	Q4/2001	China
IOR56	Gamma	INT	Technology/sales partnership	2000	global/First England and then Germany
IOR57	Epsilon	PRESS+Doc+INT	Parent-venture relationship	1998-2001	Global
IOR58	Epsilon	Doc	M&A	1999	US
IOR59	Epsilon	PRESS+INT	Distribution partnership	Q1/2000	US
IOR60	Epsilon	PRESS+INT	Distribution partnership	Q1/2000	Turkey
IOR61	Epsilon	PRESS	Distribution partnership	Q1/2000	Germany
IOR62	Epsilon	PRESS+INT	Distribution partnership	Q1/2000	Philippines
IOR63	Epsilon	PRESS	Distribution partnership	Q1/2000	Netherlands
IOR64	Epsilon	PRESS	Technology partnership & Marketing partnership	Q1/2000	Global
IOR65	Epsilon	PRESS+INT	Distribution partnership	Q2/2000	Singapore
IOR66	Epsilon	PRESS+INT	Technology partnership & Marketing partnership	Q2/2000	Global
IOR67	Epsilon	PRESS	Technology partnership & Marketing partnership	Q2/2000	Finland
IOR68	Epsilon	PRESS+INT	Technology partnership & Marketing partnership	Q2/2000	Finland
IOR69	Epsilon	PRESS+INT	Content partnership	Q4/2000	Germany

IOR70	Epsilon	PRESS	Distribution partnership	Q4/2000	Germany
IOR71	Epsilon	PRESS	Distribution partnership	Q4/2000	Germany
IOR72	Epsilon	PRESS	Distribution partnership	Q4/2000	Germany
IOR73	Epsilon	PRESS	Distribution partnership	Q1/2001	Italy
IOR74	Epsilon	PRESS+INT	Distribution partnership	Q1/2001	UK and Italy
IOR75	Epsilon	PRESS	Distribution partnership	Q3/2001	UK