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Norms and Interfirm Governance in Client-Architectural Firm Relationships

ABSTRACT

This article seeks to establish connections between governance structures, norms, and relationship types in architectural firm-client relationships. Due to the complex, intangible, knowledge intensive, and artistic nature of these professional services, both individual architectural project orders and relationships to clients are achieved by making credible promises (Löwendahl, 2000). This, in turn, requires profound understanding of existing norms and norms dynamics in architectural fields. An analytical framework of possible governance structures, possible relationship types, and norms is built on the basis of IMP Group and institutional theory. Thereafter Danish architectural firms' activities on the German market are analyzed using the framework. The analysis suggests that there are interconnections between norms and relationship types; furthermore firms' position in the field and economic conditions influence interfirm governance. Finally eight general hypothesis concerning the relationship between governance structures, norms, and relationship types in the professional services are presented on the basis of the analysis and related to existing theoretical contributions.

Key Words: *Governance structures, norms, relationship types, internationalization, field, power, social construction, architectural services, professional services*

INTRODUCTION

In the past two decades, the importance of relationships in marketing has been broadly recognized (Dwyer, Schurr, and Oh, 1987; Grönroos, 1999; Morgan and Hunt, 1994; Sheth and Parvitiyar, 1995). However, at the same time, there has been a relative lack of research on how actors' interpretive frameworks influence business-to-business marketing relationships (Andersen, 1995; Möller, 1994; Salmi, 1995). Therefore this article seeks to establish links between governance structures, norms of architectural service fields, and architectural firm-client relationship types by developing hypotheses.

The theoretical framework is presented first, starting with the characteristics of architectural services that make understanding norms especially crucial. These include discontinuity, unique offers, and complexity (Cova *et al.*, 1996; Mandják and Veres, 1998; Tikkanen, 1998), the potential presence of artistic elements of design (Albertsen, 1996), the intangible and knowledge intensive (Løwendahl, 2000) nature of architectural services, and possible differences in buyers' and sellers' knowledge (Backhaus, 1995). Thereafter the Industrial Marketing and Purchasing Group's (henceforth referred to as "IMP Group") conceptualizations of relationships and networks are briefly reviewed, and a research deficit concerning norms and actor representations is identified. Then the specific characteristics of architectural project business are related to Håkansson and Johanson's (1993) governance structures of business-to-business markets to establish a suitable conceptualization of possible governance structures of the architectural service industry. It is here argued that due to the previously mentioned characteristics of architectural services, the governance structure classification must be broad enough to encompass the complex interplay between norms and interests. Therefore the novel governance structure dichotomy of "socially constructed markets" versus "socially constructed networks" is introduced.

To enable the classification of individual architectural relationships, Dwyer, Schurr, and Oh's (1987) hypothesized realm of buyer-seller relationships, Campbell's (1985) six buyer-seller relationship types, and Andersen's (1999) "foot in the door" situation are introduced and combined. Finally, the theoretical section draws on institutional theory (e.g. DiMaggio and Powell, 1983; Melin, 1989; Scott, 1995) to establish links between individual relationships and governance structures on one hand and norms on the other.

Thereafter the focus turns to an empirical study of Danish architectural firms' activities on the German market (Skaates, 2001). First the scope, purpose, and methodology of the study are presented. Subsequently the studied relationships are analyzed in relation to the theoretical framework, to determine the content of the links between governance structures, concrete relationships, norms, and yet other factors. Finally, in the conclusion, hypotheses are present-

ed concerning the links between relationship types, governance structures, and norms, and suggestions are made concerning further studies of norms in business-to-business marketing situations.

KEY CHARACTERISTICS OF ARCHITECTURAL SERVICES

Architectural services are carried out in connection with construction projects; thus they can be characterized as "partial projects" (Luostarinen and Welch, 1990). Projects, including partial projects, are in turn characterized by three features which distinguish them from other types of business-to-business offerings (Cova *et al.*, 1996; Mandják and Veres, 1998; Tikkanen, 1998):

- Most customers have a *discontinuous* demand for projects
- Each project offer is *unique* in technical, financial, and other terms
- Project offers are *complex* in terms of the solutions offered as well as the number of actors involved in creating and delivering the solutions

Moreover, architectural services are *professional services* that contain a substantial *intangible* element and are furthermore *knowledge-intensive* (Løwendahl, 2000). In many situations, there is also a large *knowledge gap* between the buyers and sellers (*ibid.*; Backhaus, 1995). Finally, the assessment of architectural services, in contrast to most other professional services, often encompasses (varying degrees of) *critique of artistic quality* (Albertsen, 1996; Stevens, 1998). The criteria of this paragraph taken together with the aforementioned *uniqueness* and *complexity* make communication between buyer and seller both difficult and relatively complex (Løwendahl, 2000). In such a situation, norms often act as facilitators of actor coordination (Kadefors, 1995; Scott, 1995), as the wealth of legislation and conventions found in the construction sector (Cova *et al.*, 1996; Ekstedt *et al.*, 1992; Kadefors, 1995; Seymour and Low, 1990; Skaates, 2001) also demonstrates. These norms furthermore set boundaries for the construction industry actors' perception of attainable interests, thus also moderating actors' understanding of their interests (Scott, 1995). However, this does not mean that the relationship between sellers and buyers is directly or solely determined by norms. Instead these parties' understandings of their interests are embedded in concrete, yet changing and changeable systems of social relations with individualized variations (Granovetter 1985). Thus the selling of the services is best described as the selling of a "credible promise" (Løwendahl, 2000), and it is especially important in the case of architectural services to understand the interplay between norms and interests.

THE IMP VIEW OF RELATIONSHIPS

Researchers affiliated with the IMP Group have studied networks of relationships and structural factors that influence the stability of these relationships (see e.g. Håkansson, 1982; Turnbull and Valla, 1986; Möller, 1994). These factors include other relationships that a given buyer or seller firm might have, as the sum of a firm's relationships form part of the context in which specific buyer-seller transactions occur (Easton, 1992). In IMP Group research, relationships are commonly viewed as being comprised of four elements (*ibid.*: 106–110):

1. Mutual orientation
2. Mutual dependence
3. Bonds, e.g. "economic, social, technical, logistical, administrative, informational, legal" (*ibid.*:108)
4. Relationship investments, i.e. "processes in which resources are committed in order to create, build or acquire assets which can be used in the future" (Johanson and Mattsson, 1986)

Relationships are thus regarded as having structural (i.e. resource ties, activity links), economic (i.e. investments and economic bonds), and social (i.e. commitment, trust, attraction, social bonds) dimensions (Holmlund and Törnroos, 1997).

However, a given relationship does not necessarily include all of the above characteristics. In the case of discontinuous demand for architectural projects, the structural elements (resource ties or activity links) will not be present beyond the individual projects due to the discontinuity, although informational or social bonds may be (Hadjikhani, 1996). In this situation, an understanding of the social or actor-enacted characteristics is paramount, once again necessitating an understanding of the interplay between norms and interests. Yet IMP studies have typically not focused on these aspects of relationships (exceptions are Andersen, 1995; Kavanagh and Kelly, 1999; Salmi, 1995), as they have mainly dealt with relationships that include long-term resource and activity links (see e.g. Ahmed, 1993 or Cova and Ghauri, 1996).

Additionally, it is relevant to note *en passant* that social network theory (applied to marketing-related themes in e.g. Cook and Emerson, 1978; Iacobucci and Hopkins, 1992) is also not helpful, as it does not deal with actors' interpretations at all (Araujo and Easton, 1996). This "research gap" will, however, be disregarded for a moment, to build a theoretical framework encompassing the possible governance structures and relationship types of architectural services markets as well as norms. This will enable us to return to return to the gap later – and to take some initial steps to overcome it.

POSSIBLE ARCHITECTURAL SERVICE MARKET GOVERNANCE STRUCTURES

As previously hinted, project-related interaction between buyers and sellers is usually relatively intermittent in project industries, due to the discontinuity of demand for projects (Ahmed, 1993; Tikkanen, 1998). However, in some instances, i.e. when architectural firms are dealing with large, repeat-order customers such as multinational enterprises, long-term relationships with activity and resource links may be advantageous (Skaates, 2001). Additionally, other actors involved in the construction process, i.e. contractors and civil engineers, prefer to work with firms that they are already familiar with, if possible (Albertsen, 1997; Skaates, 2001). Due to these complexities, it is relevant to develop conceptualizations of the governance structures of architectural service markets. This enables the assessment of governance structure links to the norms of these markets as well as to the architectural firm-client relationship types found.

Håkansson and Johanson (1993) state that industrial markets are governed by (a) two types of actor-internal forces (own interests versus general norms) and (b) two types of exchange relations. General exchange relations are characterized by arms-length situational interplay between industry actors, which implies that market mechanisms, i.e. supply and demand, govern resource allocation. Specific relations means the dominance of specific, long-term relationship-related interactions between individual actors, which enable the involved actors to send complex message to each other and thus to undertake joint research-and-development and production improvement activities over time. These two types of internal and external forces are depicted in Figure 1, which also shows four theoretical types of governance forms:

| | | Internal Force is based on | |
|----------------------------|--------------------|----------------------------|----------------------------|
| | | Interests | Norms |
| External Force is Based on | Specific relations | <i>Network</i> | <i>Hierarchy</i> |
| | General relations | <i>Market</i> | <i>Culture, profession</i> |

FIGURE 1. Håkansson and Johanson's (1993) Classification of Governance Structures.

In the upper left-hand corner of Figure 1, in the *Network* cell, activities are governed by actors' different individual interests, which are channeled to each other via relationships between specific actors. In the upper right-hand corner we find the *Hierarchy*. Here interests have been replaced by norms that individuals follow, which are enforced through specific relations to other actors.

The *Market* is placed in the lower left-hand corner; here, actors also follow their own individual interests, but, in contrast to the *Network*, do not predominantly interact with specific other actors. This means that the actors are, on one hand, freer in relation to one another, yet on the other hand, they cannot take advantage of specific productivity gains that occur through specific joint production and development activities with other actors in the *Network* governance structure. The last cell, in the lower right-hand corner, is termed *Culture or Profession*. Here actions are once again governed by norms yet the external forces that ensure that the norms are followed are based on general, impersonal sanctions.

However, in reality one finds different mixes of these ideal types (*ibid.*; Powell, 1990). It is thus permissible to adapt the framework of Håkansson and Johanson (1993) to the specific situation at hand. This will be done for the purpose of analyzing architectural firm relationships. The idea of the internal force being primarily based on either norms or interests will be eliminated. This is due to the previous argumentation that the process of selling architectural services is characterized by a complex interplay between norms and interests, due to complexity, uniqueness, intangibility, knowledge-intensity, as well as possible buyer-seller knowledge gaps and artistic critique.

On the other hand, the distinction between the predominance of specific and general relations remains intact in the possible governance structure model for the architectural projects industry because there is nothing that *a priori* hinders the prevalence of either type of relations. Thus the governance structures framework of Håkansson and Johanson (1993) is modified for use in the architectural services industry to include only the "specific versus general relations" dimension:

| | | |
|----------------------------|--------------------|---|
| External force is based on | Specific relations | <i>The Socially Constructed Network</i> |
| | General relations | <i>The Socially Constructed Market</i> |

FIGURE 2. Classification of Governance Structures in Architectural Services.

The *Socially Constructed Network* is the governance structure that one finds in situations where specific relationships, based on e.g. trust or dependence (Hadjikhani, 1996) or attraction and social ties, prevail. On the other hand, the *Socially Constructed Market* functions when relationships between cooperation partners are generally limited to individual projects due to the e.g. discontinuous nature of the projects. In both cases, however, the governance structures are socially constructed in the sense that a complex interplay between norms and interests determines the nature of actor interactions.

The implication of the two possible governance structures for individual architectural firms is that they will either find themselves in markets where general relations predominate or in networks where specific relations predominate. This is, however, not to say that the governance structure determines the nature of all relations. An architectural firm or a buyer may find itself in a governance structure that is not in accordance with its preferences; in this situation it can suggest an alternative cooperation form to its counterpart or force an alternative on a counterpart, if it has the power to do so. Thus it is relevant to also examine relationship typologies that focus especially on power dimensions and interests. This will be done in the next section; thereafter the focus will shift to norms and institutional theory, which are the final elements of the theoretical framework.

CLASSIFICATIONS OF RELATIONSHIP TYPES

Dwyer, Schurr, and Oh (1987) theorize that both buyers and sellers prefer relationships to spot transactions when they perceive that a relationship provides them with greater benefits. When this is the case, their motivational investments in relationships are high. However, the two parties can view the given situation differently, as is indicated in Figure 3.

| | | Seller's motivational investment in the relationship | |
|---|------|--|--|
| | | Low | High |
| Buyer's motivational investment in the relationship | Low | Discrete exchange alone (i.e. spot contracts) | Seller-maintained relationship or Buyer's spot market |
| | High | Buyer-maintained relationship or Seller's spot market | Bilateral Relationship Maintenance |

FIGURE 3. *Buyer's and Seller's Motivational Investment in Relationships (adaptation of Dwyer, Schurr, and Oh 1987).*

As can be seen in the above figure, if one party prefers relationships, yet the other does not, an unequal burden is always placed on the party favoring the relationship. For instance, if the seller prefers relationships, yet the buyer prefers spot transactions, the seller must either maintain the relationship unilaterally or accept a buyer's spot market. Conversely, if the seller

prefers spot transactions, whereas the buyer prefers relationships, the result is either the buyer maintaining the relationship alone or the "seller's spot market".

In both situations of differing perception of the benefits of a relationship, whether the spot market solution will prevail or the relationship will be one-sidedly maintained depends upon the relative strengths of the convictions of the parties, which are determined by norms and interests, as well as the parties' relative ability to dictate the type of interaction. Thus power distribution is also a determining factor in these situations.

Campbell (1985) mentions a related third behavioral category, namely *command*. He has conceptualized that both buying and selling firms can exhibit either competitive (i.e. spot transaction oriented), cooperative (i.e. relationship oriented), or commanding behavior in their purchasing and selling actions. Whereas cooperation and competition can be seen in both powerful and powerless firms, command means dictating the interaction type; thus it requires a position of strength. However, having a position of strength does not necessarily mean one uses the command strategy.

Furthermore, Campbell (*ibid.*) theorizes that in situations in which the seller, the buyer, or both prefer competitive behavior, the arms-length general relations common to a market governance structure prevail; in other situations, one finds relationship types common to the network governance structure. On the basis of Campbell's distinctions, six types of buyer-seller relationships are identified; these are depicted in Figure 4 below:

| | | Seller's Behavior | | |
|----------------------|-------------|--------------------------------------|--|---------------------------------------|
| | | Competitive | Cooperative | Command |
| Purchaser's Behavior | Competitive | <i>Independent</i> Perfect Market | Mismatch (No order possible) | <i>Independent</i> Seller's Market |
| | Cooperative | Mismatch (No order possible) | <i>Interdependent</i> Domes. Market | <i>Dependent</i> Captive Market |
| | Command | <i>Independent</i> Buyer's Market | <i>Dependent</i> Subcontract Market | Mismatch (No order possible) |

= Prevalence of specific relations
 = Prevalence of general relations

FIGURE 4. Campbell's (1985) Classification of Buyer-Seller Behavior.

On a *perfect market* buyers and sellers compete for orders, and no party uses unilateral power to dictate terms of the transaction to the other. In the *buyer's* or *seller's market*, competition is also found, yet here one party uses its option of dictating the terms of the individual transactions. In the *domesticated market*, on the other hand, long-term relationships prevail; these are marked by mutual cooperation without coercion. The *captive* and *subcontract market* are the corresponding long-term relationship situations with power imbalances, where the party with more power utilizes this advantage to dictate the terms of the relationship. Finally, in contrast to Dwyer, Schurr, and Oh (1987), Campbell suggests that in situations in which one party prefers competition and the other cooperation, the situation is a mismatch, and no order can occur.

However, in implicit support of Dwyer, Schurr and Oh's (*ibid.*) viewpoint in contrast to Campbell's, Andersen (1999) has suggested that it is possible and even may be advantageous for a selling firm that prefers cooperative relationships to do business with a buying firm that follows a competitive strategy. In doing business, the selling firm keeps a "foot in the door" and thus is able to more directly make efforts to change the behavior of the buying firm. Building on Andersen, the "foot in the door" situation is depicted in Figure 5 (below) by a white arrow marked "FitD" in the four squares that depict the one party following a cooperative strategy while the other party is either following a competitive or command strategy. This alters the framework of Campbell in that the two mismatch-situations may in fact be "foot in the door" situations; additionally the captive and subcontract market are also potential "foot in the door" situations. Furthermore, in Figure 5, following Dwyer, Schurr, and Oh (1987), the possibilities of the existence of unilaterally maintained relationships or unilaterally dictated spot markets are also depicted in the two mismatch-squares of the matrix.

In the changed mismatch-squares, which now contain multiple possibilities, what will determine what actually happens? Similar to the argument presented in connection with the Dwyer, Schurr, and Oh Matrix of Figure 3, this will depend upon the relative strengths of the convictions of the parties as well as their relative ability to dictate the type of interaction. Thus it is relevant to first note that the issue of power is also present in these squares, although neither of the parties is generally following a command strategy. Second, it is relevant to examine institutional theory to find out how the complex interplay of norms and interests may influence the strength of the parties' convictions.

THE CONTRIBUTION OF INSTITUTIONAL THEORY

The IMP network and relationship theories rest on the assumption that actors' behavior is based on and reflected by their personal interpretation of relationship and network possibilities

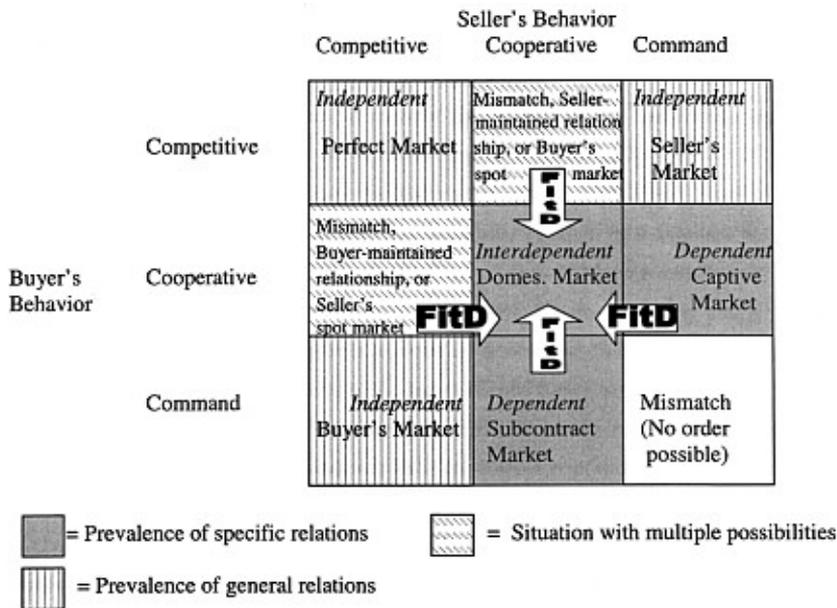


FIGURE 5. Revision of Campbell's (1985) Classification of Buyer-Seller Behavior, including the Insights of Andersen (1999) and Dwyer, Schurr, and Oh (1987).

(Håkansson and Johansson, 1993). These theories, however, does not directly deal with how formal and informal rules, norms, and collectively held beliefs and interpretive structures influence actors' interpretations. For this one must look to institutional (e.g. DiMaggio and Powell, 1983; Melin, 1989; Scott, 1995) and/or cultural (e.g. Kleppestø, 1993; Trompenaars and Hampden-Turner, 1997) theory.

The overlap between institutional and cultural theory is substantial, and distinctions between the two bodies of theory are very difficult to define (Salmi, 1995); however many view culture as the broadest term, encompassing all aspects of human life (*ibid.*). Therefore institutional theory will be chosen, as the focus of this article is specific, namely the links between governance structures, norms of architectural service markets, and architectural firm-client relationship types.

In an article on embeddedness in business networks, Finnish IMP scholars Halinen and Törnroos (1998) briefly mention the field of institutional theory (e.g. DiMaggio and Powell, 1983; Melin, 1989; Scott, 1995) in relation to actor representations. The field is the context in which firms or individuals interact (Melin, 1989). It encompasses a group of actors who "interact more frequently and fatefully with one another than actors outside of the field" (Scott, 1994), and its structure "can be described by the existing pattern of relations between all the different

actors in a specific industrial field" (Melin, 1989). Thus the field is a term broad enough to encompass both the "socially constructed markets" and the "socially constructed networks" governance structures of Figure 2.

Furthermore the field is characterized by a common meaning system, supported by a set of social institutions, individuals, and discourses of interpretation, as in the case of the field of the production of literature (see Bourdieu, 1979). These institutions and discourses of interpretation provide for the concurrently regulative (i.e. legally sanctioned), normative (i.e. assessed as appropriate), and cognitive (i.e. taken for granted) mediation of interests through norms (Scott, 1995). Thus the field combines structural features, which have been the focus of much IMP research (see e.g. Möller, 1994; Andersen, 1995; Holmlund and Törnroos, 1997), and mental representations of actors, which, as previously argued, have been under-researched from the industrial marketing perspective.

Concerning dynamics, the field changes across time due to interaction with other fields and power struggles within the field (Melin, 1995). In these power struggles, actors aim to possess as large a portion of the qualities that other actors in the field view as desirable as possible. Additionally, on a more long-term perspective, actors struggle to change the norms about what is viewed as desirable to their own advantage (Bourdieu, 1979; Fligstein, 1990; Melin, 1989). The interplay between norms and interests in the interaction of architectural service sellers and buyers may be fruitfully examined in the light of these dynamics.

To fill out the theoretical framework presented above and in the previous sections, the content of relationships on architectural service markets will now be examined, using empirical data concerning Danish and German architectural firms from a doctoral dissertation study (Skaates, 2001).

STUDY METHODOLOGY AND DESIGN

The primary aim of the study was the *description* of the German marketing activities of three Danish architectural firms that were successful in their foreign endeavors during the nineties. Due to the lack of pre-existing theories in the area of study, a combined project marketing, sociological, and institutional theory framework and an explorative-integrative study design (see Maaløe, 1996) were chosen. With regard to the power dynamics described in the section about institutionalism, the focus was on architectural firms' efforts to possess as large a portion of the qualities that other actors in the field view as desirable as possible. In contrast, the study did not cover actors' long-term struggle to change the normative consensus about what is viewed as desirable to their own advantage, as it was perceived that the time frame of ten recent years was insufficient for this purpose (see Skaates, 2001). Furthermore two of the three

firms were new to the field of German architectural projects; it was therefore assumed that these firms would initially be undergoing a process of familiarizing themselves and incorporating the rules and norms of the German field (see *ibid.*).

Methodological choices were made on the basis of the aims of the study and the chosen design; thus mainly qualitative data was collected. A pilot study consisted of interviews with actors related to Danish architectural firms that had experiences with success and, more often, failure on the German field from their respective positions. These informants included two representatives of Danish architectural organizations, three Professors of Architecture at the two Danish Schools of Architecture, a representative from the International Affairs Office of the Danish Ministry of Housing, and eight Danish architects who represented five Danish firms. On the basis of the pilot study, three of the most successful Danish architectural firms with regard to project marketing in Germany were chosen for in-depth case studies. Each firm came from a different group of the three groups of Danish architectural firms that had achieved success in the German field during the 1990s:

- 1. Internationally renowned and established architectural firms**, whose names are also familiar to architectural connoisseurs and experts abroad. There are only a handful of these firms in Denmark. The firm from this group will subsequently be referred to as "Firm A"; it has worked in Germany and other foreign fields since the 1960s.
- 2. Nationally renowned and established architectural firms**. These types of firms are often responsible for the design of important national buildings and have strong contacts to large firms and key persons in the Danish economy. Case study's "Firm B" comes from this category; it started marketing in the German field at the beginning of the 1990s.
- 3. Successful and innovative younger firms**. These firms have managed to establish themselves as "players" on the Danish arena and have strong ambitions to increase their importance in the future. "Firm C" denoted the firm from this group used in our case study; it also commenced its Germany-related activities at the beginning of the 1990s.

The case studies were re-constructions of past activities. Using the terminology of Yin (1994), the study was multiple-case, in the sense that the export activities of not just one, but three Danish architectural service firms were examined. Furthermore, a key informant (Heide and John, 1995) and critical incident (Hedaa and Törnroos, 1997) design was used. The key informants were the actors in the case study firms who had been mainly responsible for or had contributed substantially to acquiring and completing projects in the German field.

SOURCES OF DATA

In case studies, researchers usually triangulate, i.e. collect data from several different sources using specific techniques in relation to each source (Silverman, 1993; Yin, 1994), as each source of data has its own strengths and weaknesses (Marshall and Rossmann, 1989). Furthermore, with regard to causal or teleological theory generation in qualitative research, the data must converge unequivocally and without exception (Alasuutari, 1995; Yin, 1994). In instances where the data does not converge in this manner, the study must remain locally descriptive (Alasuutari, 1995; Maaløe, 1996).

The primary data collection method was the semi-structured qualitative interview (see Kvale, 1996); however, analysis of documents was also used. These documents included:

- Danish and German industrial statistics and studies of exports and internationalization.
- Articles in Danish, German, and Pan-European professional publications.
- Firm- and organization-specific documentary data such as annual reports, brochures, minutes of the firms' meetings, and strategy plans, as well as studies undertaken by Danish and German architects' organizations and Ministries of Housing

Finally, during the completion of the three case studies, thirteen supplementary interviews with yet other key actors, e.g. German and Danish public officials, persons from other German, Danish or Danish-German architectural firms, and representatives of Danish and German architects' organizations, were undertaken to allow for further data triangulation.

ISSUES OF VALIDITY

Assessing the external validity of qualitative research such as case studies is generally more controversial and problematic than in quantitative research (see e.g. Altheide and Johnson, 1994; Flick *et al.*, 1995; Kvale, 1996). In relation to this article's objective, it must be noted that the data provided by respondents by means of the key informant method was, by nature, neither representative nor chosen randomly (Flick *et al.*, 1995; Maaløe, 1996; Yin, 1994). It is therefore not possible to determine whether the information provided by the respondents provides a true picture of architectural fields in general situation with a statistically calculable error margin. Therefore the following descriptions of governance structures and relationship types will lead to the concluding hypotheses, which need to be verified in a later, quantitative study.

GOVERNANCE STRUCTURES OF THE GERMAN AND DANISH FIELDS FOR ARCHITECTURAL SERVICES

With regard to the case study firms as well as the other Danish firms interviewed, a large number of social contacts to other Danish construction industry actors who also were active on the German field were found. These actors included Danish engineering, contracting, and developing firms. Especially in their initial dealings in Germany, many Danish actors were attracted to each other and therefore met regularly abroad, due to their common background. Several Danes were, however, critical of this development, as they perceived that it impaired learning about the German field and achieving contact to German customers.

Sometimes a Danish architectural firm or another Danish construction industry firm subcontracted to another Danish firm. These agreements were, however, limited to a single project; project acquisition or cooperation with regard to multiple projects over time was usually not agreed upon beforehand. Instead actors chose to work together on an ad hoc basis, if all the involved parties believed that such cooperation was advantageous. Thus, in relation to the governance structure classification of Figure 2, the contracts between Danish construction industry firms active on the German field were *more of a social nature than a network of specific relations*. There were few economic, technical, logistical, administration, or legal bonds, relationship investments, or commitments (see Easton, 1992) beyond the individual projects. The individual architectural, engineering, and contracting firms also went about the task of establishing themselves on the German field mainly alone. Thus, as a rule, they accumulated their own separate knowledge bases and had their own dealings with German actors concerning both subsidiary establishment/ acquisition of German firms and acquisition of projects in the German field. (These results are similar to the assessments found in Andersen, 1995; Kadehors, 1995; Kallinkos, 1989; Torvatn, 1998.)

Concerning German customers and construction project cooperation partners, the contacts of the Danish and German architectural firms to these were also mainly on a project-to-project basis, with few examples of long-term bonds, relationship investments, activity links, and commitment. For public sector customers or customers building publicly subsidized projects, the public tendering legislation of the European Community seeks to neutralize relationship effects through "impartial" selection procedures which are used on a project-to-project basis in both Germany and Denmark (Danish Association of Consulting Engineers, 1996).

On the basis of the above, the governance structure of both the Danish and the German architectural projects fields is judged to be the *socially-constructed market*. Seen generally, levels of (a) *mutual dependence or perceived mutual dependence*, (b) *bonds*, and (c) *relationship*

investments (see Easton, 1982), i.e. the characteristics of specific relation-like interplay, were too low to result in the *socially constructed network* governance structure.

RELATIONSHIP TYPES ON THE GERMAN AND DANISH MARKETS FOR ARCHITECTURAL SERVICES

Although general relations predominated on the German and Danish architectural projects fields, all three case study firms experienced a few longer lasting relations which can be categorized as relationships in Dwyer, Schurr, and Oh's (1987) usage (see Figure 3) as well as "domesticated" in Campbell's terms (see Figures 4 or 5). Firm A, the *internationally renowned firm*, and Firm B, the *nationally renowned firm*, had several projects for two different Danish multinational firms with operations on both the Danish and German fields as well as in other locations around the world during the nineties. These projects were part of established long-term relationships that were already several decades old. These relationships contained some level of commitment and activity integration (e.g. concerning the organization of the use of design software), and thus technical, administrative, and logistical bonds on top of the social elements. Additionally, Firm A had a similar longstanding relationship to a large Northern German firm that mainly operates in Germany. Firm C, the *successful and innovative younger firm*, had a relationship to a very large Nordic firm that needed to have buildings constructed at a number of sites in Germany for several years during the nineties; it constructed a series of buildings for this client. This relationship was, however, terminated when the large firm requested that Firm C also construct buildings in Poland, as Firm C did not feel it had the resources to begin operations in a second non-Nordic country.

All three firms furthermore indicated that they had a preference for multiple-project client relationships. From their viewpoint, long-term relationships (a) meant a reduction of the time-consuming and expensive process of creating a *credible promise* (Løwendahl, 2000) in the eyes of the clients, (b) gave them more security concerning future client orders (thus reducing *discontinuity*), and (c) enabled them to learn to optimally meet the unique needs and preferences of clients.

Most buyer-seller relationships experienced by the interviewed firms were, however, characterized by market-like interplay with power variations. The Danish field was marked by excess capacity throughout the nineties, whereas the German field experienced a lack of capacity at the beginning of the same decade. This was due to the recent unification of the two German states and the subsequent need for improvements to many buildings in the eastern part of the country. Therefore the German field had some characteristics of a seller's market until the mid-nineties, in that architectural firms following seller command strategies could be found,

resulting in seller's and captive market situations. Thereafter Germany's architectural field resembled a buyer's market, and buyer command strategies were in fact used by many purchasing firms.

The Danish respondents from architectural firms B and C, which had first attempted operations in Germany at the beginning of the nineties, indicated that the initial lack of capacity situation had enabled them to use command mechanisms to depart from the existing German norms. German customers had been more tolerant of organizational adaptations when working with foreign firms during this period, as they had had few alternatives to using these firms. On the other hand, when the capacity problems reversed, customers demanded that the architectural firms meet their needs and the "common norms" without any accommodations. Examples of command, "buyer's market" tactics used by buying actors on the German and Danish fields were "no cure, no pay" approaches as well as fee pressure.

Aside from final customers, other actors in the construction industry also used the command-related approaches in their cooperation with architectural firms. For example, several leading large German project management firms developed the practice of informing architectural firms that they had previously worked with about projects that they had heard of as part of their service to their clients. The clients then chose among these architectural firms in competitive procedures. In this "buyer's spot market" situation, which was caused by a command strategy used by a third party, the architectural firms' relationships to the project management firms were merely a prerequisite for being considered for the project at hand. Similarly, acquisitions of Danish contracting firms by Swedish firms in the nineties led to an increase in contracting firms' use of command strategies in dealings with other construction industry firms in the Danish field (see also Lubanski, 1999).

Finally, respondents' statements suggest that, in accordance with Andersen (1999), following a cooperative strategy toward a competitive-oriented large private sector customer was possible and, in some situations, desirable, due to the perceived benefits of a potential future relationship. Despite the initial mismatch, this behavioral pattern might in rare instances lead to the customer changing to the more cooperative relational behavioral pattern.

To summarize the above discussion, the relationship types found in the German and Danish construction industry fields of the nineties will now be inserted in Figure 5's relationship categorization. This is done in Figure 6 below:

Figure 6 emphasizes the unique features of the undercapacity situation in Germany at the beginning of the nineties, when the purchaser had to accept seller command strategies to be insured business with the seller. In contrast, throughout the nineties buyer command and competitive strategies as well as the mutually cooperative domesticated market situation were found. More specifically, for the case of Denmark, the buyer command strategies were found through-

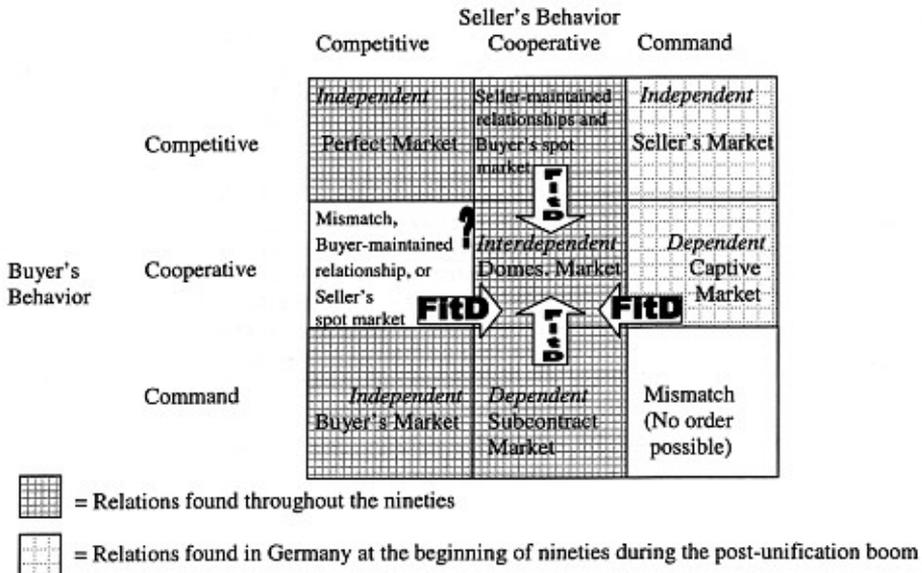


FIGURE 6. Relationship Types Found in Architectural Project Acquisitions.

out the nineties; these were first generally present in the German field after the undercapacity situation had been overcome. However it is interesting to note that there were no examples of the buyer wanting to follow a cooperative strategy, when the sellers wanted to follow a competitive strategy. This was due to the strong preference of the architectural project selling firms for relationships. Thus, the white square where the purchaser is following a cooperative strategy yet the buyer is following a competitive strategy is marked with a question mark, as there were no empirical observations of this situation in the study (Skaates, 2001).

THE ROLE OF NORMS IN ARCHITECTURAL PROJECT ACQUISITION

The interviews with Danish architects indicated that those with no previous experiences on the German field generally had trouble with the following points (see Dræbye, 1999 for similar results from a wider range of Danish construction industry actors), as they did not initially comprehend the existing German normative framework:

1. Understanding potential German clients' views and interpretation of "Nordic design" or "Danish design", in cases where these clients indicated preferences for these types of design
2. Assessing the value of Danish references to German clients

3. The ability to design buildings in accordance with the German DIN-norms
4. Knowledge of German national and local legislation concerning building permits and the unwritten rules connected with the process of obtaining these permits
5. Assessing the Germans' assumed formal and informal responsibility division in design and construction projects in cases where both German and Danish firms participated in the proposal phase
6. Negotiation patterns on the German field. Here the scope of tolerance of potential German clients to slight deviations from their technical specifications, the scope of detail covered in the negotiations, the role of attorneys, the meaning of perceived "adversarial" and "strength-showing" behavior, and price negotiation practice were mentioned.
7. Assessing the German norms concerning conflicts. (Litigation and other court proceedings were and are more commonly used in the German field than in the Danish field.)

Further interviews with e.g. public officials and industry organization representatives confirmed that these factors varied substantially from Denmark to Germany.

In order to generate the credible promise necessary for architectural project acquisitions (Løwendahl, 2000), the case study firms generally had to make a good impression in their initial interactions with potential clients. This included making the impression that they were competent in areas 1–6. At the beginning of the nineties, the process of architectural project acquisition was easiest for Firm A, the *internationally renowned firm*. This is because it had been active on the German market for over a decade and thus had knowledge concerning the above mentioned six points as well as some preexisting social bonds to German executives. Firms B and C, the *nationally renowned* and *innovative firms*, respectively, had to acquire knowledge of interpretations of actors on the German field to achieve similarly credible promises. Therefore, during the initial phase, actors from Firms B and C were dependent upon the flexibility of German clients with regard to norms, which in turn was granted due to the previously mentioned unique "buyer's market" situation. As previously mentioned, this situation enabled Firms B and C to overcome much of their initial inability to follow the norms of the German field through the trial-and-error process of experiential learning.

With regard to references, the degree to which Danish references could be used in Germany varied widely among project types. References concerning the most prestigious design projects – e.g. theaters and art museums – were transferable, as it was and is widely accepted in the German field that both foreign and German architects design these types of buildings. Furthermore, references concerning the construction of e.g. bridges and sports stadiums were

widely accepted because there are accepted international standards for these types of facilities, such as the UEFA soccer stadium standards. In contrast, Danish references for most other types of architectural projects had little value in Germany, with the possible exception of caring sector facilities (e.g. day care centers or nursing homes). Several of the interviewed Danish architectural firms got the impression from their German counterparts that these believed that the Danish might be especially competent in constructing these types of facilities, as they perceived that Denmark had been a "progressive welfare state" for a number of years.

The number of references recognized in Germany influenced the Danish architectural firm's credibility in the eyes of German clients and thus its relative power and position, which in turn also influenced the norms governing the negotiation of the terms of the relationship with other parties. Firm A was, as the most well established firm, also the firm that was most able to avoid potential buyer command tactics such as excessive fee pressure and "no cure, no pay" terms. It was more often granted access to "distinguished" customers who treated it as an equal and showed more outward concern about issues such as quality of technology and design.

In addition to achieving architectural project acquisitions, credible promises were used by the case study firms in "foot in the door" attempts (Andersen, 1999) at creating a basis for a future relationship, should the client desire this. Examples of such promises included pledging to develop capabilities in a certain construction technique or to provide more service than usual after the end delivery of the building design. In this case, however, interview statements suggest that this required an even better understanding of the dynamic between interests and norms on the part of the Danish architectural firms. This is because these dynamic effects were concurrently – and, to some extent, jointly – manipulated with by buyer and seller during the period of one-sided relationship maintenance.

Danish respondents moreover suggested that key relation-related differences between the norms of the Danish and/or German fields such as the difference in the prevalence of using court proceedings to solve disputes could be related to size. As the Danish field is relatively small, the Danish construction actors active on the German and Danish field often knew or knew of each others reputation, whereas it was much more common that German actors operating on the German field had not even heard of many of the other actors.

CONCLUSIONS

The theoretical framework focusing on norms, relationship governance structure, and relationship types presented in the initial sections of the article was especially suitable for analyzing the developments in the relationships of the Danish architectural firms. This is the case be-

cause the complex, knowledge-intensive, intangible, and art-related nature of the field of architecture makes the examination of norms and the related focus on social construction of a credible promise (Løwendahl, 2000) very important. Furthermore, on the basis of the descriptive data analysis sections, the following general hypotheses for professional services that are sold as projects can be presented:

1., Concerning the link between norms and initial transactions:

"In complex, intangible modes of business, such as the professional services, understanding the norms of a field is generally a pre-condition for doing business in the field, due to the fact that achieving sales is dependent upon the credible promise."

This hypothesis is implicitly contrary to the suggestion of the Uppsala internationalization model (e.g. Johanson and Vahlne, 1977) that internationalization is mainly a learning-by-doing process. Furthermore, one of its implications is that as many of the cognitive elements of field norms are implicit and taken for granted (Scott, 1995), professional firms will often find themselves in a Catch-22 situation: Achieving initial projects depends upon understanding the norms of the field, which in turn are best learned through project activities. However, as the extraordinary undercapacity problems enabled the Danish case study firms B and C to undergo a learning-by-doing process in the German field, a second hypothesis concerning the same link and a third hypothesis concerning relationships can be put forth:

2., Concerning the link between norms and initial transactions, as well as economic conditions:

"Due to the fact that understanding the norms of the field is generally a pre-condition for doing business in the field, professional service firms should choose to enter new fields at point of time when the field is booming, growing rapidly, and/or marked by undercapacity problems, if they assess that they will need to learn the norms of the field in the field itself. In these situations, customers will be more tolerant of deviation from the norms."

3., Concerning the link between relationship types and economic conditions:

"Economic conditions impact possible relationship types in that economic boom, rapid growth, and undercapacity give selling firms greater opportunity to follow command strategies."

The third hypothesis had already been put forth by various authors (see e.g. Campbell, 1985; Dwyer, Schurr, and Oh, 1987; Porter, 1980). Thus it is in less need of further testing.

Furthermore, the interviewed respondents' answers suggested that understanding norms

is even more important in establishing relationships due to the fact that a more extensive credible promise must be made over a period of time before the purchaser is willing to commit herself to a relationship. Thus:

4. Concerning the link between norms and relationship types:

"In complex, intangible modes of business, such as the professional services, demonstrating profound understanding of the norms of a field over a period of time is generally a pre-condition for establishing client relationships, due to the fact that establishment depends upon an extensive credible promise."

Conversely, references concerning the previous projects of the architectural firm had an influence upon the types of norms the architectural firm was subject to, as the most renowned and best-established firm A was also able to get the most favorable terms in the German field. Thus:

5. Concerning the link between previous relationship types and norms:

"The previous projects of the firm influence its position in the field, which in turn influences the norms governing the current and future project negotiations, as

5.1. The norms vary among the different possible positions of the field

5.2. Certain firms are able to move to more favorable normative positions within the field on the basis of previous projects"

Similar hypotheses have been put forth previously in sociological and institutional theories concerning artistic and educational fields (see e.g. Bourdieu, 1979; Fligstein, 1990); however, they are still very unusual for professional services marketing theory (see Skaates, 2001).

Furthermore, the suggestion put forth by several respondents regarding the influence of field size is worth examining. Thus:

6. Concerning the link between field size and norms:

"Certain norms vary systematically between fields of different sizes."

This hypothesis has received extensive theoretical treatment by Coleman (1990), who attempted to build a general sociological theory about the genesis of norms. Thus Coleman's work would be a good starting point for more extensive hypothesis generation for subsequent testing.

Finally, concerning links to the governance structure, all previous hypotheses concerning relationship types are implicitly related to the general governance structure, as the prevalence of the different relationship types determines the governance structures of a field. However, as the market governance structure was the dominating governance structure during all observed

periods, it is worthwhile to test two further hypotheses; the second one takes the process of the institutionalization of norms into account:

7. Concerning discontinuity and relationship types:

"Discontinuity in business leads actors to prefer spot markets over relationships"

8. Concerning relationship types preferences and norms:

"As discontinuity in business leads actors to prefer spot markets to relationships, norms are generated that are more supportive of markets than relationships"

The last two hypotheses are relevant not only in a professional services project marketing context, but also in many of the so-called virtual organization contexts (see e.g. Snow, Miles, and Coleman, 1992). Additionally they would be relevant not only to the field of marketing but also to evolutionary economics (see e.g. Nelson and Winter, 1982).

As for suggestions for further research, due to the key role that the social construction of demand plays, marketing academics should assess other areas in which industrial network theory might fruitfully be supplemented with insights from institutional theory. Cova, Mazet, and Salle (1996) have suggested that project marketing is one such area, due to complexity and the uniqueness of client needs as well as providers' abilities. However, there may be yet other business situations, e.g. new industries, industries new to a region or country, or periods of transition (see Salmi, 1995), in which social constructive issues – and thus norms – play a decisive role in marketer's attempts to generate trust, attraction, and social bonds.

Furthermore, to address the previously defined "research gap" concerning the interplay of norms and interests, more rigorous definitions of trust, attraction, and social bonds are needed. These definitions should encompass the implicit norm-interest dynamics, e.g. how marketers' attempts to generate trust, attraction, and social bonds in specific situations may change the normative framework used to assess the same marketers' offerings. These dynamics could best be studied through a comparative study of the existing in-depth case studies of this issue from different business-to-business environments.

Finally, with regard to the concept of the field, key issues that need to be addressed in conceptual refinement include the following: When and to what extent can a field be defined in territorial terms in business-to-business marketing studies (compare e.g. Cova, Mazet, and Salle, 1996 to Tikkanen, 1998)? When is it relevant to look at relationship marketing efforts on the basis of fixed interpretive frameworks? And conversely, when should struggles in the field to redefine the frameworks of interpretation be the focus of marketing studies? ■

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