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MNCs' behaviour in socio-political market –

A risk sensitive approach

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Abstract

This theoretical paper builds on a network view of MNCs' socio-political behaviour. In the received theory the proposition is that business firms behave proactively towards actors in socio-political market. This paper concentrates on relationship interdependencies and presents a more risk sensitive approach to relationship management in socio-political market. Relationship interdependencies are widely acknowledged in business network research, but the negative manifestations of relationship interdependencies are rarely discussed. The intended contribution of this paper is to incorporate relationship risk management elements to the interactional view of MNCs' socio-political behaviour by developing a framework summarising different manifestations of business relationship interdependencies, and by suggesting possible actions for MNCs to manage these interdependencies. Based on this discussion, a conceptual model of MNCs' risk sensitive behaviour in socio-political market is presented.

Keywords: MNC, socio-political market; business relationship interdependencies, relationship risk management

Introduction

The interaction of business and socio-political markets has attracted only few business network researchers (Jansson, Saqib and Sharma, 1995; Ghauri and Holstius, 1996; Welch and Wilkinson, 2004; Hadjikhani et al., 2008). This is somewhat surprising as governments influence firms' competitive environments in numerous ways. Governmental actions may have impact on different kinds of resource flows between a firm and its subsidiaries; products, capital, payments, people, and technology. Firm operations may also be influenced by social regulations related to environmental and product safety as well as by 'general administrative behaviour' of the government. (Ring, Lenway and Govekar, 1990, pp. 144-145) Even if formal governmental rules and structures in two countries are similar the political interest groups and different associations shape the way government and business firms interact. There are also informal constraints to business-government interaction resulting from the accumulated behaviours of people working as government officials and policy makers. These people may differ from each other in different countries due to the attractiveness of the position available in terms of e.g. salary range and prestige. (Hillman and Keim, 1995, p. 200) Government officials and policy makers that formulate and implement government policies are neither impartial nor objective. Government officials possess powers to interpret laws and make exceptions. (Jansson et al., 1995, p. 8) Network approach to business government interaction highlights the mutual interdependence of business and socio-political markets and postulates that firms may influence their business market by proactive participation in the socio-political market (Jansson et al., 1995; Hadjikhani et al., 2008). Trust and

commitment building in relationships with socio-political actors are seen as enhancing firm legitimacy and promoting firm's position also in business market (Hadjikhani et al., 2008).

The so-called emerging markets have increased their importance in international business activities of MNCs (Jansson et al., 1995, p. 1). These markets are stated to differ from Western economies and various challenges encountered by MNCs in these developing markets have been documented. Especially in China and Russia the business environment is described uncertain due to changing and inconsistent interpretation of laws and regulations, corruption, and bureaucracy. (Liuhto, 1998; Jones, Fallon and Golov, 2000; World Bank, 2005) If compared with western "standard" of economic system it may seem that e.g. in Russia and China the state has not completely succeeded in creating formal governance systems to support effective business activities. Regardless of the reasons behind the phenomenon, informal governance systems like networks are often utilised in business and business network logic seems to differ from Western European equivalent (Salmi, 1996; Ramström, Jansson and Johansson, 2006). Some existing business networks have been built "to a considerable extent on the old hierarchical system of organisations and relationships" (Salmi, 1995, p. 206). Each nation and its economic system is historically embedded and in former planned economies like Russia and China the central role of government in economy has not abolished. On the contrary, government involvement in business has recently been noted to increase both in Russia and China (Liuhto, 2007; Luo, 2007). In this paper the central role of government in business

(Liuhto, 2007), specific form of network logic (Ramström et al., 2006; Schrader, 2004) emphasising personal relationships, and existence of few strong competing interest groups or networks in business (Puffer and McCarthy, 2007) are seen as contextual elements of MNCs' operating environment in emerging markets that request a specific risk management framework for managing relationships especially in socio-political market.

Theoretically this paper builds on a network approach of MNCs' socio-political behaviour (Jansson et al., 1995; Hadjikhani et al., 2008). Additionally, theory of social capital has fostered ideas related to different dimensions of assets and liabilities arising for the company in relationships (Granovetter, 1973; Coleman, 1988; Nahapiet and Ghoshal, 1998; Maurer and Ebers, 2006). The negative manifestations of relationship interdependencies that may be faced by a business firm e.g. long-term relationships reducing the flexibility of actors, institutionalisation in the relationships causing inefficiency (McLoughlin and Horan, 2000), uncertainties due to network turbulence, and legitimacy risk are acknowledged and discussed as the interactive approach has sometimes been accused of giving overly optimistic impression of the outcomes of long and close relationships in business (Terho, 2008; McLoughlin and Horan, 2000). The positive outcomes of close personal relationships in business may be attached to emerging market studies as well. Personal relationships and networking are often associated with successful business in emerging markets, especially in Russia and China. Social connections with the appropriate authorities are considered a necessity in the absence of functioning market institutions. The significance of

“blat” in Russia and “guanxi” in China are well documented in several academic studies. (Michailova and Worm, 2003; Park and Luo, 2001) Personal relationships as well as formal and informal networks are seen to stabilise the uncertainties caused by insufficiently developed institutions. Reliable and committed partners and relationships with various actors including government officials are seen vital for efficient and flexible business operations in the region. (Törnroos and Nieminen, 1999, p. 4)

In sum, this paper attempts to summarise the negative manifestations of business relationship interdependencies and to incorporate risk awareness to the interactive model of MNCs’ behaviour in socio-political market. In this study, theory of social capital has fostered ideas related especially to different dimensions of liabilities arising for the company in relationships (Granovetter, 1973; Coleman, 1988; Nahapiet and Ghoshal, 1998; Maurer and Ebers, 2006). The negative manifestations of relationship interdependencies that may be faced by a business firm e.g. long-term relationships reducing the flexibility of actors, institutionalisation in the relationships causing inefficiency (McLoughlin and Horan, 2000), uncertainties due to network turbulence, and legitimacy risk are focused on. Relationship risk management in socio-political market is associated with individual and firm level awareness of relationship interdependencies (Ritter, 1999; McLoughlin and Horan, 2000). The utilisation of relational continuum in business relationships is also highlighted (Atkinson and Butcher, 2003; Atkinson, 2004).

Earlier research

Knowledge on interplay between business and governments is vast and globalisation has contributed to the growing interest of the subject. It seems that the role of national governments is changing as globalisation proceeds and multinational corporations increase in size. (Behrman and Grosse, 1990; Dunning, 1991) Managerial approaches to the subject, however, have developed more recently. It is suggested that managers do not consider government affairs as an integral part of primary business. (Hillman, Keim and Schuler, 2004; Shaffer, 1995) There exists an extensive quantity of literature on MNC - government interaction (Peng, 2000). Brewer (1992) provides a classification of this literature and groups the approaches to the MNC - government interaction to macro- and micro-levels. On a macro-level the approaches or models applied in the studies are grouped as Sovereignty at Bay model, dependency model and neo-mercantilist model. In the Sovereignty at Bay model the powerful MNCs are pictured to infringe the sovereignty of nation states. The conflictual-adversarial aspects of MNCs and (mainly) host countries are at the centre. In the dependency model a cooperative partnership of MNCs with industrial home governments and conflictual-adversarial relations with developing host governments are in focus. In the neo-mercantilist model the weakness of home governments due to MNCs in relation to the freedom of choice in national security and economic goals is emphasised. On a micro-level the approaches are based on a bargaining model or eclectic theory. The central thought in a bargaining model is that the outcomes in MNC-government relations depend on the relative stakes and resources of the parties. (Brewer, 1992) Boddewyn (1988) has integrated political aspects to the

theory of MNC (eclectic theory) and highlights the acceptance of non-market forces in the eclectic model which then implicates that market imperfections may be enacted through political behaviour. The importance of collaborative interaction between businesses and government in a successful strategy implementation is acknowledged as well by e.g. Murtha and Lenway (1994).

A more recently developed interactional view to study MNCs' relationships with political actors and the state differs from the hierarchical approaches mentioned above (Jansson et al., 1995; Hadjikhani, 2000; Hadjikhani and Ghauri, 2001; Hadjikhani et al., 2008). Interactional view argues against the passive role of MNCs (adaptation) and homogeneous influence of political actors (Jansson et al., 1995; Hadjikhani and Johanson, 1996; Hadjikhani 2000). Political activities are seen as “an essential and distinguishable part that supplement the business activities” in which high commitment and political knowledge of MNC is attached to positive outcomes or gains in business sphere (Hadjikhani and Ghauri, 2001, p. 273). Mutual interdependence of business and socio-political markets is highlighted and the difference of business and political actors' value systems is acknowledged (Jansson et al., 1995; Hadjikhani and Thilenius; 2005). The business firm proactivity and possibilities to influence are founding propositions in this theoretical view and this way it shares some ideas with studies on lobbying. Legitimacy is seen as the main goal or objective of MNC as operating in the socio-political market (Jansson et al., 1995; Hadjikhani et al., 2008) and has its origins in political science (Hadjikhani et al., 2008).

The discussion on risks and risk management has not been forgotten in earlier research of MNCs' socio-political behaviour or in international business research (Hadjikhani et al., 2008; Miller, 1992). Especially the discussion of political risk is closely related to MNCs' international operations. Research on MNCs and political actors considering more explicitly risk issues has, however, been based on hierarchical view (Hadjikhani et al., 2008; Hadjikhani and Thilenius, 2005) and not on the interactional view. In the interactional view the relationship mutuality has been highlighted (Hadjikhani et al., 2008). In business relationship management literature the negative interdependencies and risk awareness have been discussed (Möller and Halinen, 1999; Ritter, 1999; McLoughlin and Horan, 2000) even though not too systematically (Terho, 2008). The importance of risk awareness related to business relationship management is acknowledged in this literature (Ritter, 1999; McLoughlin and Horan, 2000) and the need to incorporate managerial calculability to the concept of trust in inter-organisational relationships is recently suggested (Mouzas, Henneberg and Naudé, 2007). In this paper mutual interest is not considered to exclude the possibility and even essence of calculability in business exchange relationships especially on inter-organisational level. As risk categorisation is often based on the source of risk (Miller, 1992) the concept of political risk could be applicable in this study on several occasions. Legitimacy risk or reputation risk (Bebbington, Larrinaga and Moneva, 2008; Bebbington, Larrinaga-González and Moneva-Abadia, 2008) could be used in some occasions. In this paper, however, the concept of relationships risk management is used. It is based on understanding and

awareness of the multidimensionality of business relationship interdependencies on different actor levels within a MNC.

The structural complexity of contacts with government organisations is well illustrated by Jansson and colleagues (1995) in Indian business context. The existence of several different government institutions with their departments and delegations of authority and responsibility does challenge companies constrained always to some extent with resources. In addition to business firms other actors in socio-political markets are numerous: bureaucrats, ministers, parliament members, opposition parties, interest groups, media etc. and they all have different aims and values. (Jansson et al., 1995; Hadjikhani and Håkansson, 1996; Welch and Wilkinson, 2004) Firm activities in socio-political market may be simply categorised to activities related to policy formulation and policy implementation (Jansson et al., 1995, p. 8; Welch and Wilkinsson, 2004, p. 218) This may assist in analysing the relationship patterns. In a network approach the business firm behaviour in socio-political market has been roughly categorised as adaptation or influence (Jansson et al., 1995, p. 8; Hadjikhani and Ghauri, 2001, p. 265). In political literature firm behaviour has been categorised as proactive or reactive. A business firm may engage itself in proactive political actions as trying to influence public policy shaping e.g. through lobbying. A more reactive approach includes activity types as tracking the development of legislation/regulation. (Hillman et al., 2004) The proactive approach has been further divided to transactional and relational approaches. Transactional approach is more ad-hoc and issue specific and relational is more long-term or on-going

cooperative approach. (Hillman and Hitt, 1999; Hillman et al., 2004) Firms may also choose to act alone or collectively (Hillman et al., 2004).

Resources available for business firms in socio-political market are various: public procurement contracts may be tempting, for some operations licences are required, financial resources like tax holidays or concessions, grants and subsidies may be available (Jansson et al., 1995; Welch and Wilkinson, 2004). Intangible resources as knowledge, legitimacy and influence seem to be essential resources available in the socio-political market (Jansson et al., 1995, Hadjikhani and Johanson, 1996; Hadjikhani and Ghauri, 2001; Welch and Wilkinson, 2004). It is worth mentioning that the importance of these different resources to firms varies in different operational phases that a firm undergoes in a foreign market (Ghauri and Holstius, 1996).

The recently published network view of MNCs' socio-political behaviour (Hadjikhani et al., 2008) presents a theoretical tool for understanding the interaction between non-business and business actors. Long-term relationships, mutual trust between the interaction parties, and resource commitment are seen to contribute to legitimacy in socio-political market. Even if the nature of trust, commitment and legitimacy in business and socio-political markets is different the elements in these two markets are interdependent. Trust and legitimacy in socio-political market support firm activities in business market. (Hadjikhani et al., 2008)

The theoretical view

The theoretical view of this paper builds on network view of MNCs' behaviour in socio-political market. Even if presenting somewhat different approaches to the interaction, the two studies of Jansson and his colleagues (1995) and Hadjikhani and colleagues (2008) are central. Theory of social capital has influenced the theoretical view of this paper in three ways: the interdependencies highlighted in business networks generally and in the socio-political market may also have negative manifestations that could be discussed under social liability (Granovetter, 1973; Coleman, 1988; Portes and Sensenbrenner, 1993), social capital (liability) has several dimensions that may be categorised as structural, relational and cognitive (Nahapiet and Ghoshal, 1998), and social capital is dynamic in nature (Maurer and Ebers, 2006). The first notion of the social liability is taken into consideration as to acknowledge the fact that close and cohesive relations may be based on a level of reciprocity which promotes inertia as well as relational and cognitive lock-in (Maurer and Ebers, 2006). The dimensions of social capital assist in analysing the level of business firm proactivity in a more systematic way. The third notion refers to the specific dynamics in social capital that call for active relationship management from a business firm side.

Business firm is the level of analysis in this paper. Individual, however, can not be ignored as in the social capital theory the micro-macro link is essential. (Granovetter, 1973; Coleman, 1988) A two level analysis has been used and argued for by e.g. Maurer and Ebers (2006). They (Maurer and Ebers, 2006, p.

264) state that “firm’s social capital builds on and is generated by the social capital of individual firm members”. The structural dimension of social capital is in this paper related to both individual and a firm. The relational and cognitive dimensions of social capital are mostly associated to individuals but have some manifestations on a firm level. It should be noted that a specific network logic that may be assigned to certain geographical areas do have varieties in the way social capital is assigned to an individual and a firm. It has been noted that e.g. in East and Southeast Asian business environment the firm or business network is based more on individual’s social network and in North-European business context the network relationships are more related to organisations. (Jansson and Ramström, 2005)

As been based on the interactive approach it is not assumed in this paper that a business firm can independently plan and take actions in the network. The management concept means developing an understanding of the firm’s relationships and optimising the scarce resources for relationship development (Möller and Halinen, 1999; Ford and McDowell, 1999). Relationship risk management is thus based on relationship awareness (McLoughlin and Horan, 2000) and defined as a systematic review of firm’s relationship interdependencies and proactivity and development of the organisational structures and learning capability of the firm based on the findings. In the socio-political market of emerging markets the analysis of business relationship interdependencies is proposed to be essential. Table 1. below provides a brief

summary of negative manifestations of business relationship interdependencies and makes some suggestions to manage them.

Table 1. Summary of negative manifestations of business relationship interdependencies including some management suggestions.

	Structural	Relational	Cognitive
<u>Negative manifestations of business relationships</u>		flexibility constrains institutionalisation role overload relational lock-in cognitive lock-in	
<u>Level of proactivity (awareness)</u>	<ul style="list-style-type: none"> ▪ who interacts with whom? how often? ▪ by what means? (personal vs. impersonal) ▪ acting alone/collectively 	<ul style="list-style-type: none"> ▪ how different dimensions of relational continuum are utilised (utility vs. personal/ competence vs. relational-based) 	<ul style="list-style-type: none"> ▪ actors' awareness of assets and liabilities of (close) relationships
<u>Management</u>	<ul style="list-style-type: none"> ▪ analysis of the level of proactivity related to policy formulation and implementation with help of structural network analysis 	<ul style="list-style-type: none"> ▪ analysis of the level of proactivity related to policy formulation and implementation with the help of relational continuum 	<ul style="list-style-type: none"> ▪ analysis of the "network competence" level of a firm, state of awareness of social liability
A. Creating an understanding			
B. Actions		task division/ rotation questioning of routines clear communication of corporate policies and values providing learning possibilities exposing actors to new ways of thinking incentives follow-up/control	

Negative manifestations of business relationships

Network approach is suggested to be applicable in examining the constraints and possibilities a company is facing with its counterparts (Håkansson and Snehota, 1995). In Table 1. above the focus is first on these constraining factors. Interdependence of network actors is a core notion in network approach and even if not often highlighted it is acknowledged that long-term relationships may in certain circumstances reduce flexibility of a business firm (Ritter, 1999; Möller and Halinen, 1999; McLoughlin and Horan, 2000). If analysed with the help of

the three dimensions of social capital, on a structural level the flexibility constraints may be related to fact that firm resources are to some extent always scarce and relationships are a source of cost (Håkansson and Snehota, 1995; Möller and Halinen, 1999). On a relational level flexibility constraints may be related to reciprocity requirements of relationships which may increase in close and cohesive relations (Maurer and Ebers, 2006, p. 286) because individual human beings are the actual parties in the interaction. On a cognitive level the flexibility constraints could be related to norms, obligations and expectations of individuals (Nahapiet and Ghoshal, 1998). As relationships are embedded the different types of embeddedness (historical, technical etc.) influence and constrain the interaction between the actors in all these dimensions.

Institutionalisation tends to develop in a relationship due to continuity. Routines build up and may be carried out without a thought of their necessity and efficiency. For a firm this may cause unnecessarily high costs and overreliance on some partner. (McLoughlin and Horan, 2000) Structurally a role overload of an individual may cause institutionalisation because an individual as an actor may not have possibilities to look for new partners. Role overload may be created if too many or too different relationships are the responsibility of a limited number of people. There may not be time to question the routines. Role overload situations are also a threat to a business firm if a central actor e.g. decides to leave the company or simply becomes ill. On a relational level the institutionalisation may be related to actor or counterparty requirements. Counterparty may demand certain level of relationality in interaction. Relational

or cognitive lock-in which represents inertia in a relationship and partner selection may be caused by institutionalisation. Satisfactory relations in the past foster the tendency to continue the cooperation with same partners without questioning. (Maurer and Ebers, 2006)

Business firm proactivity in socio-political market

In the network view of MNCs' behaviour in socio-political market a business firm proactivity is considered beneficial for business. Business firm proactivity may be partly a manifestation of embeddedness. E.g. in India the complexity and multi-level character of MNCs' government contacts has been documented by Jansson with his colleagues (1995). This is probably a manifestation of the historical embeddedness of former planned economies as several studies on Russia and China have also reported on high levels of bureaucracy which is considered one legacy of planned economy (Liuhto, 1998; Thornton and Mikheeva, 1996; Peng and Luo, 2000). The acknowledgement of different dimensions of embeddedness (Halinen and Törnroos, 1989) may help to analyse the business firm proactivity in socio-political market. This type of analysis conducted separately for policy formulation and implementation could help in assessing the level of inertia and institutionalisation in the firm routines. Density of interaction as such may be a cause of relational or cognitive lock-in and decrease the firm efficiency but could also be a manifestation of temporal, social, technical, spatial, political, or market embeddedness.

On a relational level trust and commitment are important elements of business relationships and especially in socio-political market these elements are considered essential for building the firm legitimacy (Hadjikhani et al., 2008). Trust as a concept is multifaceted and complex (cf. Mouzas et al., 2007; Atkinson and Butcher, 2003). In socio-political market Ghauri and Holstius (1996, 87) have e.g. found that trust creation in micro (company) level is more challenging than in macro (national) or in global level causing over expectations of the future operations of business firms. It is not the purpose of this paper to contribute to the trust discussion but understanding of trust as a relational continuum is considered essential (Atkinson, 2004; Atkinson and Butcher, 2003). The acknowledgement that managerial calculability is part of inter-organisational or business relationships (Mouzas et al., 2007) and does not necessarily exclude the possibility of trust in business relationship is central as well. It should also be noted, that trust (at least in highly relational end of continuum) is not always necessary for successful functioning of a business relationship (Atkinson, 2004; Mouzas et al., 2007).

A relational continuum of relationship suggested by Atkinson (2004) has instrumental (or utility) relationships in the other end of continuum and relational relationships in the other end of continuum. In case of relational relationships the development of trust and friendship is considered important even if instrumental element of a relationship is still present. Personal relationships are categorised as a second relational type of relationship in which the relationship is seen to exist in its own right and to yield relational benefits in longer time perspective. The

organisational benefits associated to trust in personal relationships are not clear (Atkinson and Butcher, 2003). The business firm proactivity in socio-political market on a relational dimension could be assessed with help of relational continuum. High levels of trust or relationality may be a sign of unnecessarily high costs of relationship maintenance and also higher relationship risks. The value and risks of personal relationships may need case by case assessment on a firm level. The business firm proactivity on a cognitive level is associated with actors' awareness of the network interdependencies both on structural, relational and cognitive dimensions. Also the attempts to increase the level of "network competence" (Ritter, 1999) of a business firm could be seen as a sign of firm proactivity on a cognitive level.

Relationship risk management

As mentioned earlier, in this paper relationship risk management in socio-political market is associated with individual and firm level awareness of relationship interdependencies (McLoughlin and Horan, 2000). Systematic review of firm's business relationship interdependencies and proactivity based on the three dimensions of social capital may assist in developing the organisational structures and learning capability of the firm to the desired direction. Some of the suggested actions are quite simple as task division and rotation or regular questioning of organisational routines. Incentives and control procedures related to relationships may be more difficult to develop. Some actions may be well-known but not associated with relationship risk management. Ritter's (1999) construct of network competence could be utilised in this context. He (Ritter,

1999) postulates that availability of resources, network orientation of human resource management, intra organisational communication, and corporate culture have a role in developing network competence within a company. These notions have been fostering the suggested management actions as clear communication of corporate policies and values, provision of learning possibilities and exposing actors to new ways of thinking.

Conceptual model of MNCs' risk sensitive behaviour in socio-political market

The framework presented earlier in Table 1. is a brief summary of negative manifestations of business relationship interdependencies and suggestions for their management. Below, an attempt is made to add the complexities of both socio-political market and MNC as an organisation to the discussion. Legitimacy is a central concept both in socio-political market and in business market and legitimacy building in these two markets is interrelated (Hadjikhani et al., 2008). Business firm's legitimacy in business market may be based on e.g. superior product or efficiency/profitability and contribute to technical legitimacy. On a socio-political market conforming to laws, regulations, and societal values contribute to procedural legitimacy (Jansson et al., 1995, p. 42). Legitimacy may be also based on relationships with influential network actors. Media has a central role in building legitimacy and public opinion. The width of the legitimacy base of a company may thus be important. Compliance e.g. with the norms of a wider range of public would seem less risky option for a business firm. Naturally this is not always possible as niche markets are tempting as well. On a structural level the firm's technological superiority related to products and

manufacturing techniques, economical efficiency, and compliance with rules and regulations are evaluated. On relational level the firm's legitimacy base could be matched with different societal value systems.

Relationships are investments and they are costly to maintain. The value of a relationship is difficult to determine (Ford and McDowell, 1999). It is probably the aim of a business firm that the liability value of a relationship does not exceed the asset value of a relationship. If adding to this discussion the two levels of analysis, individual and a firm, the scheme gets even more complicated. It might be the case that the asset value of a relationship rests on an individual and the liability on a business firm. It might seem logical that even if the asset value of close personal relationships may be accrued to the firm level the actual asset in this case is owned by an individual and not by the company. For the liability side it may be different. Some type of asset versus liability value and owner test would seem necessary as considering the utility of a relationship.

Table 2. below presents a further elaborated framework for a MNC to assess its interdependencies and behaviour in socio-political market. Concepts of transparency, utility, and development are suggested illustrative as a risk sensitive behaviour is attempted. These concepts may be examined from MNC internal or external point of view. Transparency is closely related to legitimacy as media has often a significant role in public opinion formation. A firm should be aware of the networks it is connected to directly or indirectly in order to manage the risks in relation to structural interdependencies. Within a MNC this is a

challenging task due to the fact that several different actor levels have relationships with actors in socio-political market. Discussion of relationship utility is considered important especially if business relationships seem to represent high relationality. This is often the case when personal relationships are considered essential as in the case of emerging markets. Relationship development and dynamics should not be forgotten in order to avoid relationship institutionalisation and false impressions of constantly stable network structure.

Table 2. A framework for analysing MNCs' behaviour in socio-political market.

	Transparency (vs. fragility, turbulence) <i>STRUCTURAL:</i> Where do we stand internally and externally? Who we are connected to and why?	Utility (vs. risk, cost) <i>RELATIONAL:</i> How we are connected to our counterparties and why? Is it economically justified?	Development/ Dynamics (vs. Institutionalisation, relational and cognitive lock-in) <i>COGNITIVE:</i> Are we aware of our interdependencies and the dynamics? How do we try to develop internally and externally?
Legitimacy, commitment, and trust	<i>MNE internal:</i> What is our legitimacy/ commitment base? How different individuals contribute to these? Are we dependent on a single person? How do we communicate our position and aims? How well they are understood and followed? <i>MNE External:</i> Legitimacy base in the eyes of public? (S) Does it stand the critique of media/ public?	<i>MNE internal:</i> How do justify the use of personal relationships? <i>MNE external:</i> How much relationality and trust is aimed for? How much relationality is desired by the counterparty? Wide base -> more cost Narrow base -> more risk Relational base - > more risk and cost	<i>MNE Internal:</i> How risky is our position? How dependent we are on specific individuals? How counterparty expectations and our limits and goals coincide? Are we actively considering new contacts/ ways of working? How do we need to develop? <i>MNE External:</i> How turbulence in socio-political market affects our position? How social trends affect our position?

The three concepts of transparency, utility, and development are suggested to represent a more risk sensitive behaviour of a MNC in socio-political market and are thus added to the conceptual model of network view of MNCs' behaviour in socio-political market as illustrated in Figure 1. below.

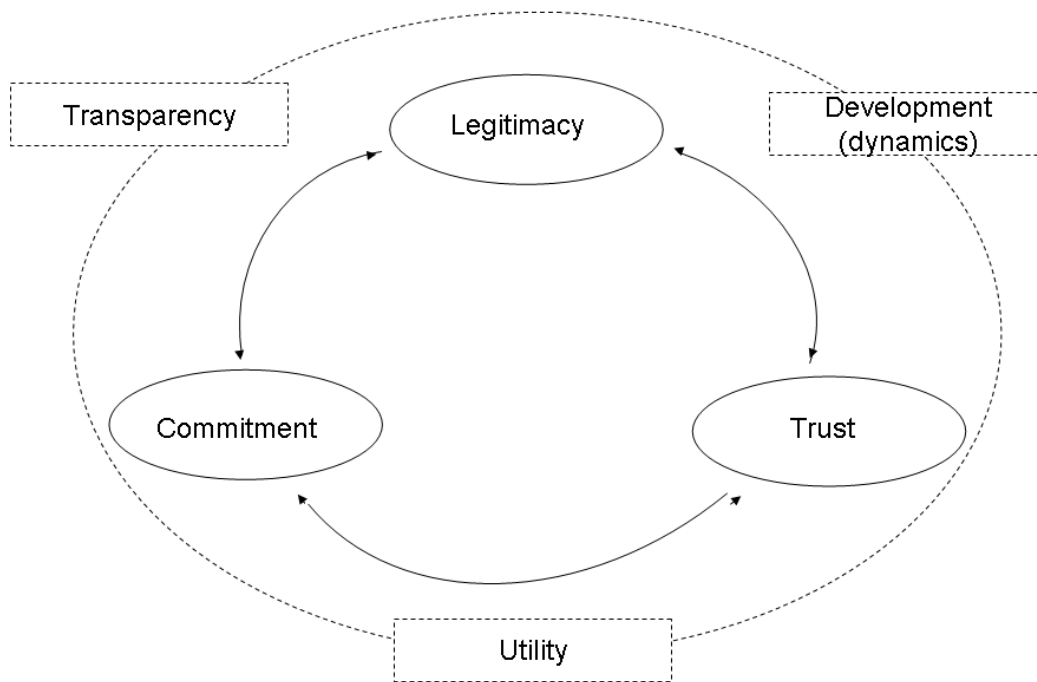


Figure 1. A conceptual view of MNCs' risk sensitive behaviour in socio-political market. (adapted from Hadjikhani et al., 2008, p. 914)

Conclusions

This study attempts to incorporate relationship risk management elements to the received theory on MNCs' behaviour in socio-political market. It is argued that awareness of the network interdependencies and level of business firm proactivity are the founding steps of risk management in socio-political market. A relationship risk management framework is proposed consisting of; summary of possible negative manifestations of relationship interdependencies, listing of ways to examine the business firm proactivity in structural, relational and cognitive dimensions, and proposed actions to manage the relationship interdependencies. Firm level awareness of the interdependencies through a

systematic analysis of firm level of proactivity in the socio-political market is suggested to be essential. On a structural dimension the awareness of different types of embeddedness may assist in revealing institutionalisation and inertia. On a relational dimension the assessment of level of proactivity with help of relational continuum may be helpful. On a cognitive dimension the awareness of relationship interdependencies on individual and firm level calls for clear communication of corporate policies and values as well as systematic offering of learning possibilities to the business network actors.

The emerging market context has been utilised in order to highlight the turbulence of the socio-political market and to avoid possible cognitive lock-in of research to Western European institutional context and network logic. MNCs operate increasingly in so-called emerging markets in which business network logic and institutional context is different from West European equivalent. From the relationship risk management perspective this increases the need to be alert in determining which level of proactivity in socio-political market is acceptable to a particular business firm. Operating efficiently in certain networks may presume a level of proactivity to be utilised which is not acceptable to a particular business firm from the risk management perspective. If this kind of situation is encountered either expectations of operational goals should be eased resulting on an accepted level of risk or the rising risk level of operations should be acknowledged. Ignorance of the interdependencies and relationship risks does not seem to be the option or a choice of a proactively operating MNC.

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