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Local Embeddedness in International Professional Service Firm Networks

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Abstract

Networks have been recognized as an alternative internationalization approach for Professional Service Firms (PSFs). However, the exploration of tensions, which result from attempts to unite network members and in the same time support their diversity, has been rather neglected in the past. Furthermore, the role of local embeddedness in the presented setting seems to have been overlooked. We have implemented a qualitative research addressing the unity-diversity tension that occurs in cross-border interfirm networks from the perspective of managers in locally embedded PSFs. Through the lens of agency theory, we assess these kinds of networks specifically from two angles which shape the conflicts within them. First, local knowledge asymmetries among the network members hinder the practicality of formal outcome-based contracts. Second, professional knowledge asymmetries result in monitoring problems among the members and thus make formal behavior-based contracts inapplicable. Through our research we have further identified cultural differences among the members as a third factor contributing to conflicts. The members of these specific networks approach the examined tensions with creating unity by implementing informal, relational contracts based on social mechanisms such as trust, solidarity, information exchange and flexibility. This helps them to align the interests of their members as well as reduce professional knowledge asymmetries. At the same time, they seek to preserve their diversity in the form of their local embeddedness, i.e. their local knowledge, cultural background and their local networks.

Keywords: Interfirm Networks, Professional Service Firms, Local Embeddedness, Knowledge Asymmetry, Relational Contracts

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List of Abbreviations

Capital Intensive Service Firms (CISFs)

Knowledge Intensive Businesses (KIBs)

Knowledge Intensive Service Firms (KIFs)

Multinational Companies (MNCs)

New Technology Based Firms (NTBFs)

Professional Service Firms (PSFs)

Transaction Cost Economics (TCE)

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1 Introduction

1.1 Background, Aims and Objectives

The internationalization of service providers has generated growing interest in the last two decades (Grönroos, 2016). The service sector, especially Professional Service Firms (PSFs), is labelled as a driving force of the global economy, with its dynamics shaping international commerce (Sanchez-Peinado & Pla-Barber, 2006; Bryson & Daniels, 2015). According to the World Development Indicators, the service sector accounted for 68.45% of Global GDP in 2014 (The World Bank Group, 2017). Apart from acting as key facilitators for their clients' internationalization (Dicken, 2003), PSFs themselves have been widely used to analyze internationalization from a peculiar angle (Bryson & Daniels, 2015).

One way service providers can approach the objective of increasing their geographical reach is to participate in networks with their counterparts in other countries. The cooperation with similar service providers that are locally embedded in their respective countries and thus have a deep understanding of the market, can help foreign companies to serve clients from this market or to attend to clients from their own market when operating in the foreign country. However, it has been recognized that the cooperation in networks also frequently leads to conflicts among the network partners, which are operating in a space of tension between their diverse specializations and backgrounds and the need to foster the collaboration and coordination among the network's members (Saz-Carranza & Ospina, 2010). This research seeks to examine these tensions in order to deepen the understanding for their sources and how they shape network dynamics, and thus addressing two generally opposing tendencies in networks that have the potential to fundamentally influence their functioning.

For the purpose of this study, we follow Lenz & James (2007, p.375) in their definition of networks as multilateral forms of collaboration between legally and economically autonomous entities that use these relationships as a means to serve clients that wish to realize international projects. The network members thus operate in the same industry but act in different geographic domains. In section 2.3 we will give an overview of differing definitions of networks and motivate why we have chosen this definition.

On the one hand, the diversity of network members is often claimed to be one of the main reasons for their cooperation as the single network members are specialized in a certain area and can offer valuable insights to their partners (Gulati, Nohria & Zaheer, 2000; Rodríguez & Nieto, 2012). On the other hand, network members have a desire to sustain their autonomy (Jones, Hesterly, Fladmoe-Lindquist & Borgatti, 1998) and are subject to opportunistic behavior (Fonti, Maoret & Whitbred, 2017; Gulati, Wohlgezogen & Zhelyazkov, 2012), in line with the basic behavioral assumptions stated by agency theory (Eisenhardt, 1989). These individualistic inclinations call for measures to increase the probability of alliance survival, which are mainly based on social mechanisms (Das & Teng, 2002; Jones, Hesterly & Borgatti, 1997; Randolph, 2016).

We are specifically focusing on two aspects of these tensions that are specific to international PSF networks, namely their composition out of Professional Service Firms and the different nationalities of their members.

First, we are taking into account the specific aspects in respect to the nature of work of PSFs, which in our research are defined as suggested by Baschab and Piot (2004, p.6), who claim professional services to be “businesses in which professionals are providing a service not based on a tangible product”. This definition, apart from including more classic PSFs, such as lawyers, auditors, architects (Broadbent, Dietrich, & Roberts, 1997), incorporates other relevant industries, for instance, advertising, management consultancy, and media consultancy (Faulconbridge & Muzio, 2007). Research that focuses specifically on PSF networks has been sparse in the past, apart from investigations of specific industries or case studies of individual PSF networks (e.g. Bills, Cunningham & Myers, 2016; Lenz & James, 2007). A systematic coverage of the particular features of PSFs and their influence on the cooperation within networks has not been conducted to our knowledge. We believe, however, the fact that the work of PSFs is typically complex in nature and cannot be fully assessed by external parties (Sharma, 1997), might substantially influence the way that network partners cooperate and in turn intensify the unity-diversity tensions in these networks.

The second aspect we want to point out in this research is the local embeddedness of the PSFs and its implications for their cooperation, as in our perception it reflects the struggles of the network members to operate internationally through partners in foreign countries while keeping their local focus in their home country. Local embeddedness is a concept that comprises the local environmental ties of a company or its employees (Dequech, 2003). Thus, it describes the manner a local network and culture shape the way a company conducts business within its local market. As a company entering a new market may lack these local ties, it needs a local partner to support its venture, which is the foundation for the international networks we examine in this study. While this local knowledge of the network members is their biggest asset on the one hand (Faulconbridge & Muzio, 2007), it also entails a substantial knowledge asymmetry between the network members.

Correspondingly, we are studying the tensions in networks from two angles. First, we investigate how the specific characteristics of PSFs shape the cooperation among network partners. Scholars urge to explore the convergent and divergent tendencies in alliance networks (Bryson, Rubalcaba & Ström, 2012). Saz-Carranza and Ospina (2010, p.356) note that “a formal proposition for future research is that a central task in the governance of networks is to strategically engage both demands associated with the unity-diversity tension—to unite the network and to support its diversity”. We seek to clearly address this research gap.

Second, we look at how the local embeddedness of the network members influences this cooperation. Even though academics have already rather extensively researched the topic of liability of foreignness in the context of internationalization (Faulconbridge, 2008), a comprehensive examination of local embeddedness in the context of PSF networks appears to be missing. We feel that the media and advertising industry is very suitable for this type of research as local embeddedness plays a crucial role, especially in the way companies in this industry serve their clients (McQuillan & Scott, 2015). By examining independent, locally operating advertising companies and their functioning within international networks, this research project aims to enhance the understanding of PSF activities within international networks, the role of local embeddedness in this setting as well as the tensions that occur from this.

1.2 Research Purpose and Research Question

The purpose of this research is to examine the tensions that occur between members of PSF networks characterized by a strong local embeddedness. We want to understand how the characteristics of the PSFs and their local embeddedness shape their cooperation and what that means for the conflicts that arise among them. Furthermore, we want to gain an understanding of how the members deal with these tensions. We aim to do this by studying the perspective of individuals working in such networks, as the problem at hand is of ambiguous nature and strongly shaped by subjective, personal perceptions and decision-making. In addition, this perspective is needed to fully understand the social mechanisms that are at work in the examined networks and will help us answer our research question:

How do members of PSF networks that are locally embedded approach the tension between unity and diversity?

1.3 Limitations

After introducing the research question and purpose, we seek to clearly explain the limitations of this paper.

We briefly cover the formal contracts which take place at the beginning of the network formation. However we do not seek to analyze the specific elements of such contracts, for instance, equity or legal aspects. Instead, we assess them to show their limitations in our analyzed context and a clear need for the alternative. Furthermore, our research focuses on the members in locally embedded PSF networks. Thus, to some extent our research does not integrate neither the views of PSFs which have not joined such networks in the first place or have left them nor opinions of public networks' members. However, by incorporating these perspectives and thus examining the analyzed topic from three diverse points of view, we would broaden the research approach in a manner which would be unmanageable with our resources. Finally, we do not address the ideological aspect within particular PSF communities, especially in the ones of auditors and lawyers, which can significantly influence the working practices and the general collaboration. On the other hand, it has already received substantial attention from various scholars and has been claimed to be less relevant in our analyzed industry (Falconbridge & Muzio, 2007).

1.4 Outline of the Thesis

As the last part of the introductory section, we present a roadmap which guides our reader through the paper. Firstly, the literature review section sets the foundation and provides a relevant context for our research. We further deduct the theoretical framework, which acts as a linkage between the literature review and the following chapters of the research paper. Secondly, the methodology part seeks to explain how the research question is approached and which tools we use in order to achieve the purpose of the research. Thirdly, the methodology part is followed by the analysis of our empirical findings and the discussion section in which we seek to introduce all relevant discoveries and concepts observed from the gathered data. As a part of this, we will reassess our preliminary theoretical model. Finally, in the conclusion section we will outline our main findings and their implications and suggest areas for further research.

2 Literature Review

In order to provide the reader with a comprehensive overview of existing research findings on PSF internationalization, their functioning within networks and strategic implications of local embeddedness on the managerial level, the following section offers a summary of the main concepts and most applicable studies within the analyzed field. It starts with a broader overview of service internationalization which sets the base for the further analysis of narrowing categories of service. Firstly, we examine knowledge intensive firms (KIFs) and in the following its subcategory of PSFs. Subsequently, we shed light on professional knowledge asymmetry which is a result of PSF heterogeneity and is one of the important concepts in this paper, as we will incorporate it in our theoretical framework in section 2.4.2. Furthermore, we introduce the concept of networks as a mode of entry for PSFs that seek to internationalize and examine the functioning of these networks and the conflicts that can arise within them. As a vital aspect of this, we discuss the local embeddedness of network members and the resulting local knowledge asymmetries between them. Finally, we present the theoretical framework of this research, starting with a general discussion of agency theory and ending with the theoretical model we use for our analysis.

2.1 Previous Research on Service Internationalization

Economists and management scientists have only rather recently acknowledged the service sector's importance by extending the research on this topic (Bryson, Rubalcaba & Ström, 2012). A general shift from analyzing internationalization of manufacturing firms to internationalization of services has been witnessed among academics (Bryson, Rubalcaba & Ström, 2012). As the definition of international services is non-universal and is continuously evolving (Clark, Rajaratnam & Smith, 1996; Lommelen & Matthyssens, 2004), in this research we choose to use the definition of international services provided by Lommelen and Matthyssens (2004, p.97) as it shows the broadness of what can be recognized as international services.

The authors consider services to be international when one of the following conditions is satisfied:

- “ (1) the movement of service providers to clients abroad;
(2) the movement of foreign clients to service providers;
(3) the movement of both clients and providers; and
(4) no movement by either client or service provider due to the service delivery through objects, technological vehicles and/or assets”.

The increasing literature which analyzes internationalization of services has mainly focused on key drivers of internationalization, market selection, mode of entry and characteristics of firms which choose to export their services (Lommelen & Matthyssens, 2004). In this research paper we focus on the first three ones as we find them to be most relevant to answer our research question. Taking into consideration a large and continuously growing body of literature on service firms' internationalization and aiming to give a brief overview regarding the findings of previously mentioned topics, we use an existent literature review on the internationalization process of service providers by Lommelen and Matthyssens (2004) as a starting point for this section.

2.1.1 Motives for Internationalization

A great variety of reasons drives internationalization of service firms. Numerous motives to internationalize mainly concerned with manufacturing companies, such as competitive pressures, small and saturated domestic market and excess capacity, were concluded to be applicable to service firms as well (Lommelen & Matthyssens, 2004). However, the “client following” motive, which is specific to services, has received most attention among scholars (Bell, 1995; O'Farrell, Wood & Zheng, 1996, 1998; Sharma & Johanson, 1987).

General literature categorizes motives for internationalization into two groups: reactive (following customers and formal and informal networks) and proactive (managerial initiative and technology competence) (Lommelen & Matthyssens, 2004). Some scholars see service internationalization as a two stage process: switching from reactive to proactive. Firstly a company bases its internationalization on reactive motives, mainly by following its clients to new markets and once established it is motivated to expand its clientele by serving local foreign clients (Lommelen & Matthyssens, 2004).

2.1.2 Market Selection

General factors, determining the selection of the market into which service firms internationalize, are categorized into two segments: external and internal. Lommelen and Matthyssens (2004) classify them as following:

External:

- Political
- Economical
- Demographic

Internal:

- Product fit
- Resources
- Company's experience.

The market selection process is generally assumed to be based on rational choice (Hollensen, 2001; Jeannett & Hennessey, 1998). However, a systematic analysis of alternative options was found to be a less common practice in comparison to relying on the location of third network parties (Lommelen & Matthyssens, 2004). The authors highlight network partners, competitors and other business partners to be co-determining factors when selecting the new market to enter. For example, an empirical study on engineering consulting service companies concluded clients' location and network contacts to play a major role for those firms' regarding market selection (Coviello & Martin, 1999). Concerning an active selection of a suitable market to internationalize, closeness and responsiveness to the local customer shall not be underestimated as a determining factor (Dunning, 1989). Furthermore, not surprisingly knowledge intensive service firms which strongly rely on human resources, prior to making a choice take into consideration the availability of educated specialists as well as a communication network (Daniels, 2000).

2.1.3 Entry Mode

Once a firm makes a decision to perform at least one business function abroad, it has to choose how it will approach it. Scholars use the term “mode of entry” to describe it (Anderson & Gatignon, 1986). A great variety of entry modes has been suggested for service firms. It varies from fully-owned subsidiary and joint venture to non-equity arrangements (Anderson & Gatignon, 1986). Networks are introduced as another option for internationalization and can be defined as an alternative governance form to market and hierarchies (Jones, Hesterly & Borgatti, 1997; Koza & Lewin, 1999).

The determinants of entry mode choice vary immensely. As one of the first researches in the field, Patterson and Cicic (1995) have stated that the degree of face-to-face contact is one of the key determining factors of entry mode. The higher the need for frequent personal encounters, the more likely are location-bound solutions, i.e. the local representation of a service provider (Patterson & Cicic, 1995). Sanchez-Peinado and Pla-Barber (2006) argue that knowledge intensive service firms choose higher control entry modes to balance uncertainties in target markets because they are more vulnerable to misuse of their knowledge compared to capital intensive service firms. The authors point out three types of uncertainties: host country, demand and behavior, which subsequently have specific effects on internationalization of different service firms.

Ekeledo and Sivakumar (1998) point out a great range of factors which influence a firm’s choice of a specific entry mode, such as capital intensity, cultural distance, country risk, firm size, market knowledge, type of service, market potential, multinational experience. Lommelen and Matthyssens (2004) summarize previous influencing elements and contribute by dividing them into internal and external factors. To begin with, regarding internal factors, companies providing soft services are in favor of choosing those entry modes which facilitate the overall interaction between client and provider whilst the service is being delivered (Lommelen and Matthyssens, 2004). Furthermore, it has been concluded by the authors that substantially less resources are required to set up a company’s presence in foreign market for labor intensive service businesses in comparison to capital intensive firm. In addition, a service company is more likely to integrate its operations abroad if the maintenance of control over foreign activities is an official policy within the company (Eramilli, 1992).

Nevertheless, external factors play a crucial role in the choice of an entry mode. Eramilli (1992) states that service company's willingness to integrate its international operations increases with the absence of partners in a host market. Moreover, the complete control practices decrease with growing cultural differences and cognitive distance (Sharma & Johanson, 1987). Additionally, integration as an entry mode is positively related with a host market's cultural, economic, political similarities (Brouthers, Brouthers & Werner, 1996).

2.1.4 Heterogeneity of Service Providers

As shown, Lommelen and Matthyssens (2004) have gathered significant findings from research regarding the internationalization of service providers. However, compared to manufacturing firms, this area remains thin (Merchant & Gaur, 2008). Research on service internationalization has been conducted from different angles, although, two out of three main approaches lack a clear discussion of the service context, regarding the distinctiveness of service characteristics and service providers (Lommelen & Matthyssens, 2004). In other words, the authors point out that overall research on service internationalization neglects the heterogeneity among service firms which can result in misleading conclusions. Moreover, Merchant and Gaur (2008) have confirmed the same findings when examining the analyzed period 2003-2007. The authors concluded that none of their selected studies developed a typology, which needs to be reassessed as different types of services yield "substantial differences" (Contractor, Kundu, & Hsu, 2003). Kundu & Contractor (1999) highlight different internationalization approaches as a significant reason to avoid analyzing service firms as homogenous.

After establishing a general definition of international services and providing the reader with a brief outlook on the large body of research that has been conducted on this topic, it is crucial to highlight that we do perceive neither all services nor the firms which deliver those services as homogenous (Contractor, Kundu, & Hsu, 2003; Kundu, & Contractor 1999).

2.2 Previous Research on Groups of Services

In order to ensure that this research project does not fall into the same trap and to refrain from the generalization highlighted above (see section 2.1.4), we seek to clearly outline the groups of service providers which in turn serves the reader as a comprehensive overview on service firm categorization. Moreover, by focusing on one group of service providers and analyzing their specificity we aim to provide the reader with a deeper understanding of the topic and insightful outcomes.

2.2.1 Knowledge Intensive Firms

Abdelzaher (2012) systematically guides us through different groups of service firms. Firstly, services are introduced to be distinctive from manufacturing. Secondly, capital intensive service firms (CISFs) are differentiated from knowledge intensive service firms (KIFs). The first group consists of, for instance, hospitality and airlines, whereas the later one entails a diverse group of services varying from R&D and engineering to advertising and consultancy (Abdelzaher, 2012; Miles, 2005). There is no standard approach or generally accepted definition of KIFs which are also known as knowledge intensive business (KIBs) (Wood, 2002). We follow Bettencourt, Ostrom, Brown & Roundtree (2002, p.16) who define KIBs as “enterprises whose primary value-added activities consist of the accumulation, creation, or dissemination of knowledge for the purpose of developing a customized service or product solution to satisfy the client’s needs”. We chose this definition, as it puts a great emphasis on the role of knowledge in creating customized services and tailored solutions to meet clients’ expectations. According to the majority of authors, KIFs are grouped into two categories: Professional Service Firms such as consulting, auditing and advertising, and new technology based firms (NTBFs), including software designing and engineering services (Abdelzaher, 2012; Huggins & Weir, 2012).

2.2.2 Professional Service Firms

After defining and describing the KIFs, we can now look into its subgroup of PSFs. One of the key obstacles which negatively affect the empirical and theoretical studies on PSFs is the lack of a universal definition. Instead of having a clear central term, the majority of scholars use key examples of what PSFs are, such as law and accounting firms (Nordenflycht, 2010).

“Of the fifty-two articles and books used [...], only twenty one offer a definition of the term PSF” (Nordenflycht, 2010, p.159). This has led the main body of literature to concentrate precisely on these two industries. Nordenflycht (2010) explains that in its current state the PSF literature might be considered simply a “literature of law and accounting firms” (Nordenflycht, 2010, p.170). Interestingly, the authors suggest that the ambiguity of the PSF term stems from the undefined concept of professional. In this case we choose to follow his suggestion and highlight that the main characteristic associated with the term is “their mastery of a particular expertise or knowledge base” (Nordenflycht, 2010, p.156).

In order to avoid getting into the ongoing complex discussion regarding the definition of PSFs, in our research we chose to take a broader stance and follow the definition suggested by Baschab and Piot (2004), who define professional services as “businesses in which professionals are providing a service not based on a tangible product”. This description, apart from including more classic PSFs, such as lawyers, auditors, architects (Broadbent, Dietrich, & Roberts, 1997), incorporates other relevant industries, for instance, advertising, management consultancy, and media consultancy (Faulconbridge & Muzio, 2007).

The focus of this research paper is largely based on the examination of PSFs among all service providers’ groups. Characteristics that are commonly used to describe PSFs are rather diverse and, thus, worth declaring. Inseparability of production and consumption is common among services, including those provided by PSFs. Concerning the specifics of PSF, Abdelzaher (2012) stresses client dependence, tacit knowledge and knowledge of the local market. Furthermore, professional knowledge is highlighted to be a crucial characteristic of PSFs (Dou, Li, Zhou & Su, 2010).

2.2.3 Professional Knowledge Asymmetry

Knowledge asymmetry arises from dissimilarities in task-related knowledge and significantly differs from information asymmetry (Sharma, 1997). According to Sharma (1997), the former is concerned with how the agent does a job whereas the latter focuses on not knowing what the agent does. When knowledge asymmetry is discussed within the context of PSFs it is often referred to as a professional knowledge asymmetry. Professional knowledge asymmetry consists of a specialized and dynamic body of knowledge (Larson, 1977). Taking into account the persistence of heterogeneity (Klette & Griliches, 1997) related to professional knowledge asymmetry, it is important to understand the actual roots of it.

Even if two PSFs work in the same industry, they shall not be treated as homogenous (Faulconbridge & Muzio, 2007). Intangible resources, such as diverse working practices, organizational flexibility, corporate culture, specific capabilities of one company which arise from its heritage, for instance, historical circumstances or other internal factors, are hard to imitate and thus lead to increasing heterogeneity among the PSFs (Hitt, Bierman, Shimizu & Kochhar, 2001; OECD, 1998). Furthermore, human capital can be seen as one of the key assets of PSFs, thus disregarding heterogeneity of employees and the firms they work in, would be based on an obvious oversimplification towards the complex nature of individual people, their skills, talents and capabilities (Nordenflycht, 2010; Tang & Naumann, 2016). In addition, “different firms produce the same service using different processes” (Agnes, 2000, p.350). Hence, diverse ways by which professionals approach complex tasks should be considered as important factors which influence the professional knowledge asymmetry among PSFs (Sharma, 1997; Faulconbridge & Muzio, 2007). Task complexity together with the heterogeneity of human resources and other intangible assets reinforce professional knowledge asymmetry among PSFs, which in turn limits one’s ability to oversee a PSF’s work and, thus, effectively use monitoring as a control mechanism (Sharma, 1997).

2.3 Networks

One of the entry modes for PSF internationalization discussed in section 2.1.3 is the participation in an international network with similar service providers in foreign markets. There are numerous synonyms in the literature for networks and network-like configurations, like constellations (Das & Teng, 2002; Jones et al., 1998), alliance networks (Das & Teng, 2002; Gulati, 1998; Koza & Lewin, 1999), and federal structures (Morgan & Boussebaa, 2015).

Networks describe interfirm relationships, where firms can generally collaborate with vertical and/or horizontal partners (Gulati, Nohria & Zaheer, 2000). However, many authors focus on exchanges between different firms from the same industry (Ball, Lindsay & Rose, 2008). Within these networks, partners have multilateral relationships (Koza & Lewin, 1999) as opposed to dyadic relationships, involving only two parties. Networks can be defined as an alternative governance form to market and hierarchies, as introduced by Williamson (1985) (Jones, Hesterly & Borgatti, 1997; Koza & Lewin, 1999). Powell (1990) explains that they entail “indefinite, sequential transactions within the context of a general pattern of interac-

tion” (Powell, 1990) and are thus conceptualized as long-term relationships. The coordination mechanisms of these relationships can be formal (Koza & Lewin, 1999), but are mostly described as informal (Jones, Hesterly & Borgatti, 1997).

We follow Lenz & James (2007) in their definition of networks as multilateral cooperative relationships between legally and economically autonomous entities that use these relationships as a means to serve clients that wish to realize international projects. The network members are thus operating in the same industry, but are no competitors due to their different geographical domains. This definition highlights the internationalization aspect relevant to our research as well as the different local backgrounds of the network members and the network’s structure focused on autonomy, allowing us to specifically look into the unity-diversity tension in networks with locally embedded members.

2.3.1 Previous Research on Networks

Networks have earned considerable interest by researchers. For PSF networks, the industries that have been investigated in this context mainly span Research and Development (e.g. Arranz & Arroyabe, 2007; Li, Eden, Hitt, Ireland & Garrett, 2012), accounting (e.g. Cooper, Rose, Hinings, Aharoni & Nachum, 2000) and audit firms (e.g. Bills, Cunningham & Myers, 2016; Lenz & James, 2007). Further, according to Albers, Schweiger and Gibb (2015), existing research on networks has mostly focused on three areas: first the emergence and formation phase, second the management and features of networks, and lastly the adaption processes within networks. Since we are looking mainly at existing networks and the internal coordination within them, we will focus on this field in the following. However, to have the right understanding of the conflicts that can occur in network management, we will first shed light on the rationale behind the participation in networks from the members’ perspective.

2.3.2 Why PSFs Choose Networks

Gulati, Nohria and Zaheer (2000, p.204) emphasize that for a firm, a network is “a source of both opportunities and constraints”, because it can hinder firms from acting completely freely. So the question arises, why firms choose network strategies over other modes of entry for internationalization.

From a Transaction Cost Economics (TCE) perspective, alliance networks are an appropriate governance form in environments with high demand uncertainty and high human asset specificity and when tasks are complex and have to be finished under high time pressure (Jones, Hesterly & Borgatti, 1997). According to Jones, Hesterly and Borgatti (1997), under these conditions, networks represent a possibility to stay flexible to encounter uncertainty as well as reduce lead time through specialization of the network parties. Because members of networks are specialized in geographical or functional fields (Koza & Lewin, 1999), participation can in turn provide firms with access to resources, technologies and expertise through building relationships with these partners (Gulati, Nohria & Zaheer, 2000), especially in cross-border collaborations (Rodríguez & Nieto, 2012). Brouthers and Brouthers (2003) show that, in terms of TCE, entry mode choices of Professional Service Firms differ from manufacturing firms when it comes to the determining factor of behavior uncertainty. While manufacturing firms tend to prefer wholly owned entry modes in situations with high behavioral uncertainty, service firms prefer mixed forms for market entry, like joint ventures or networks. The authors explain this by the increased complexity of operating internationally due to cultural differences and geographic distance (Brouthers & Brouthers, 2003). Important to note is that, even though network members decide to collaborate to reach a common goal, they maintain a certain degree of independence through the network form (Koza & Lewin, 1999).

2.3.3 Network Functioning

When it comes to the configuration and the management of networks, researchers have focused on various different aspects that determine the way that network members work together. Das and Teng (2000) have identified three fields in which tensions occur in strategic alliances, namely cooperation versus competition, rigidity versus flexibility and short-term versus long-term orientation. Saz-Carranza and Ospina (2010) speak generally about a unity-diversity tension. Park and Ungson (2001) stated that there are commonly two areas of conflicts in alliances, namely interfirm rivalry and managerial complexity. Gulati, Wohlgezogen

and Zhelyazkov (2012) speak about the same fields when they describe how research on networks has taken two different directions: collaboration and coordination. According to them, collaboration has been the focus of past studies. It describes the degree of joint goal seeking with an agreed-upon input from all parties. Studies in this field often emphasize the opportunistic behavior and “free-riding” of network members due to the partners’ differing interests (Gulati, Wohlgezogen & Zhelyazkov, 2012). However, they also state that both collaboration and coordination together determine the effectiveness of networks. Factors that enhance the synergy among these aspects are the experience the alliance partners have with each other and correspondingly the routines of collaboration they have established (Zollo, Reuer & Singh, 2002).

Collaboration and Free-Riding

Various scholars refer to social exchange theory when characterizing networks, i.e. the way reciprocal relationships within the constellation are structured (Das & Teng, 2002; Li et al., 2012). They state that alliance networks are based on reciprocity, or on generalized social exchange to be more precise. This means that network members contribute to the common network goal rather than putting an effort into an interaction with one single network member or partner. There is no direct exchange of efforts, thus, there is a lack of accountability of single members. In general, constellations with generalized social exchange are often subject to free-riding behavior of members which results in a high need for trust among participants (Das & Teng, 2002; Li et al., 2012). Generalized social exchange can either be net-based or chain-based. For chain-based networks, the interactions between the members form a chain, i.e. A-B-C-D. For net-based networks, members interact more freely and without a formal order, so for example A-D and D-B (Das & Teng, 2002; Li et al., 2012). The different kinds of generalized social exchange in turn call for different social mechanisms to moderate members’ behavior and reduce free-riding. Li et al. (2012) argue that the need for coordination as well as safeguarding mechanisms is greater in net-based networks since the return on one firm's efforts are more uncertain (McCarter, Mahoney & Northcraft, 2011) and show that equity-based structures are more common for net-based networks than for chain-based networks.

Other than free-riding, network members have additional ways of pursuing their own interest over the interest of the alliance. Gulati, Nohria and Zaheer (2000) introduced the term “learning races” to describe how individual network members may extract as much information and knowledge from a network as quickly as possible and subsequently exit the alliance. Jones et al. (1998) note that existing client relationships of one network member could become subject to attacks by other members if they work together on projects for this client. This might hold true especially for the case of co-opetition networks that have recently gained increased interest among scholars (Arranz & Arrayabe, 2007; Bengtsson & Kock, 2000; Lacam & Salvetat, 2017). Co-opetition describes the ambiguous relationship of competitors who interact in an alliance and thus co-operate in some parts of their business (e.g. international markets), but are competitors in others (e.g. home market) (Bengtsson & Kock, 2000). Lacam and Salvetat (2017) showed that tensions in these kinds of relationships occur mostly when alliance members pursue the goal of international expansion, thus internationalizing firms in networks are especially affected by tensions among collaborating competitors.

As the collaboration of network partners is a behavioral outcome (Gulati, Wohlgezogen & Zhelyazkov, 2012), mechanisms in this area mainly comprise social measures. Social mechanisms that have been proposed to hinder opportunistic behavior or the ‘underinvestment’ of individual network members include collective or social sanctions and reputation effects (Das & Teng, 2002; Jones, Hesterly & Borgatti, 1997). Furthermore, generalized reciprocity and social mechanisms are facilitated by what Das and Teng (2002) call an integrative macroculture. Macroculture in turn encompasses the aspects: trust among the network partners, perceived legitimacy and shared goals (Randolph, 2016). Trust plays an especially important role when it comes to supporting the network since the perception of the network’s performance has a significant impact on the members’ willingness to contribute to its shared goal. Fonti, Maoret and Whitbred (2017) demonstrated the correlation between free-riding of members and the perceived performance of the network. They state that members that perceive the performance of a network as either especially weak or especially strong are more likely to free-ride on the activities of other network members (Fonti, Maoret & Whitbred, 2017). If partners trust in the network and the individual members of the network, McCarter, Mahoney & Northcraft (2011) suggest that this will decrease the perceived vulnerability and in turn increase the chance of survival of the alliance.

Coordination

Coming back to Gulati, Wohlgezogen and Zhelyazkov (2012), the coordination side of network management treats the alignment of the members' actions with the common network goal. For Park and Ungson (2001), coordination difficulties are grounded in the very reason networks form - the specialization of their members. The differences among the network members result in highly complex interactions between them which can lead to coordination failure (Cui, 2013). These differences may stem from cultural diversity (Park & Ungson, 2001) or simply the firm-distinctive expertise that shapes their perspective (Jones et al., 1998). Thus, the coordination-side of networks is strongly related to the concepts of local embeddedness and local knowledge asymmetries, which we will introduce in the following.

Local Embeddedness

Taking into account that a large part of this research paper will assess local embeddedness and its role in the independent PSFs networks, it is necessary to provide the reader with a concise description of the concept. In general, the concept of local embeddedness has been examined from different angles such as political, cultural, social etc. (Dequech, 2003). Wright defines local embeddedness as “a company’s efforts to interact and build relationships with local actors in order to exchange resources, knowledge and information” (2010, p.127). We choose this definition as it highlights the opportunities that local embeddedness provides a company with. Furthermore, scholars view local embeddedness as ties developed to connect with local stakeholders. These are strongly based on commonly accepted working practices and local culture (Newburry & Yakova, 2006).

Local Knowledge Asymmetry

After discussing professional knowledge asymmetry in section 2.2.3, this subsection covers a second type of knowledge asymmetry - local knowledge asymmetry (Dou et al., 2010). Local knowledge asymmetry arises from one party having more knowledge on a local market’s customers, operating environment, market characteristics and rivals than another (Ethiraj, Kale, Krishnan & Singh, 2005). Other authors claim that local knowledge asymmetry is derived from a lack of local embeddedness, which is characterized by a strong local network in the host market and a strong relationship with a main customer (Coviello, Ghauri & Martin, 1998) which can be characterized by trustworthiness, confidence, “facilitated by spatial proximity” (Agnes, 2000, p.348). Following the latter explanation, local knowledge asymmetry can be even more pronounced when comparing developed and emerging markets, especially,

as the latter is characterized by rather high external uncertainty, unstable business ambiance, peculiar marketing systems and non-homogenous clients segments (Arnold & Quelch, 1998).

In the context of PSF networks, the specific knowledge that one member has of a market, a country, a region or a system it operates in should be seen as one of its biggest assets (Faulconbridge & Muzio, 2007). Thus, the local knowledge asymmetry can affect the way a local PSF serves its clients. The process of entering new markets for PSFs is characterized by the liability of foreignness (Faulconbridge, 2008; Faulconbridge & Muzio, 2012; Jeffcut & Pratt, 2002). In other words, once a PSF enters a new market it may lack local knowledge, the credibility in locals' eyes and local networks. However, the type of local knowledge asymmetry can differ from industry to industry. While law firms face different legal systems, licensing and professional bodies as main challenges when expanding into foreign markets, cultural differences are highlighted as the key obstacle for advertising firms (McQuillan & Scott, 2015).

We argue that this even holds true for the collaboration among PSFs which have local knowledge of different markets, countries or systems they operate in. In these situations, local knowledge asymmetry will occur which can lead to the non-measurability of outcome, i.e. a situation where PSFs cannot evaluate the work of other PSFs from the same industry due to local peculiarities. This is in line with the statement of Agnes (2000, p.350), who explains that for collaborations of PSFs, "customization introduces uncertainties regarding quality control". Thus, if network members collaborate on one project that requires them to prepare a customized solution which will be applicable in their corresponding markets, there is a rather high chance that, due to the existing local knowledge asymmetry, partners are not capable to fully evaluate the final result of their peers' work. The described non-measurability of outcome indicates the complex nature of collaboration within networks and will thus be one of the cornerstones of our preliminary theoretical model which we will introduce in section 2.4.2.

2.3.4 Summary

We have shown in this section the different tendencies and tensions that occur in networks and have established the basis for our examination of tensions that occur due to a focus on local knowledge of network partners. On this note, we want to emphasize that most of the literature in networks- and strategic alliances-research focuses on avoiding alliance failure by bringing network members closer together, for example by the means of creating trust, rou-

tines, shared goals etc. However, it is not to be forgotten that one reason for creating networks is the diversity and specialization of the different partners. Thus, Saz-Carranza and Ospina (2010) talk about a “unity-diversity tension”, i.e. the right balance between individualistic and collaborative tendencies. According to them, both sides of this tension are needed for effectiveness, as “diversity provides the resources and unity ensures the capacity to use them” (Saz-Carranza & Ospina, 2010, p. 356).

2.4 Theoretical Framework

In the following, we will first introduce general agency theory and researchers’ more recent move towards loosening some of the basic assumptions and limitations of the theory. Subsequently, we will present our chosen theoretical model, which draws on findings from these recent developments of the theory.

2.4.1 Agency Theory

Networks have been examined in the light of various theories and concepts, as for instance TCE (Dorn, Schweiger & Albers, 2016; Sheth & Parvatiyar, 1992; Villalonga & McGahan, 2005), Social Exchange Theory (Das & Teng, 2002) or Resource Based Theory (Das & Teng, 2000; Sheth & Parvatiyar, 1992; Villalonga & McGahan, 2005). Agency theory has been claimed to not be applicable to alliances because it treats conflicts of interest which are not incorporated in the original concept of collaboration networks (Sheth & Parvatiyar, 1992). We believe, however, that applying it to the conflicts in networks can contribute to seeing how tensions in networks are created through knowledge asymmetries and differing interests of the network members. Further, we want to incorporate recent tendencies in the agency theory literature that lead away from the pessimistic view on human behavior that underlies agency theory.

Traditional Agency Theory

According to agency theory, when a principal delegates work to an agent and is dependent on him to conduct this work correspondent to the principal's wishes, agency problems will arise. This stems from the fact that typically, both parties have differing interests. Further, agency theory typically assumes that economic actors are opportunistic, thus the agent will seek to fulfill his own interests rather than the principal's. This results in the need for control and monitoring mechanisms (Besanko, Dranove, Shanley & Schaefer, 2013). Thus, a major stream of research in this area focuses on general characteristics of the relationship between principals and agents and the determinants of the optimal contract between the two parties, which can be either outcome- or behavior-based (Eisenhardt, 1989). Eisenhardt (1989) suggests that outcome-based contracts, i.e. contracts where the result of the agent's work is measured and rewarded, are more likely in situations with high outcome uncertainty, where both parties have strongly differing interests, the principal is risk-averse, or the outcome can be measured easily. At the same time, behavior-based contracts are favored when the agent's behavior can be monitored efficiently, the agent is risk averse and the working process can be easily defined by the principal (Eisenhardt, 1998). Agency theory further has several underlying key assumptions, the first one being the differing interests between the principal and the agent. Further, the actors are assumed to be opportunistic and their decision-making is supposed to be characterized by bounded rationality (Shapiro, 2005). A vast amount of literature on agency theory focuses on formal contracts to resolve the coordination problems resulting from these issues (Stephen & Coote, 2007).

Recent Developments, Social Mechanisms and Relational Contracts

Recently, scholars have started to question and loosen some of these presumptions and oversimplifications of agency theory. On the one hand, traditional agency theory is only partially applicable to the context of PSFs due to the characteristics of these companies. Sharma (1997) explains how due to the complexity of professional services, it is difficult for the principal to monitor and meter the agent's performance. This makes incentives based on performance costly. We discussed this aspect of "professional knowledge asymmetry" in section 2.2.3.

On the other hand, scholars have recently started to examine the role of social factors in agent-principal relationships. Hoenen and Kostova (2015) show how agency theory can be applied to multilayered relationships in Multinational Companies (MNCs), as opposed to the simple dyadic relationships traditional agency theory looks at. Conventionally, in MNCs, the

headquarter is assumed to be the principal while the subsidiaries represent the agents. However, the authors state that the subsidiaries also take the role of the principal in some relationships within the MNC, for instance with other subsidiaries. This leads to a more complex and “multilayered” model of control relationships, which can be studied “utilizing agency work on multi-tier and nested structures, dual agency, and social aspects of the agency relationship in addition to its contractual nature” (Hoenen & Kostova, 2015, p.111).

Lubatkin, Lane, Collin and Very (2007) argue that a firm’s governance is constantly changing over time when principals and agents engage in social mechanisms together to create efficient control- and incentive-systems. They further suggest that the governance mechanisms used to control agents differ among countries. They explain this by the different attitudes towards opportunistic behavior and bounded rationality emerging from the national institutional context and the related socialization experience. To conclude, they state that “the more similar partners’ expectations regarding opportunism, the more likely it is that the alliance will be successful” (Lubatkin et al., 2007, p.54). Faulconbridge and Muzio (2007) show how this is reflected in multinational law networks, where formal governance mechanisms may not play as big a role as the professional norms and ideals of the national context of the law firms. Fehr and Falk (2002) have challenged that economic actors only act out of self-interest and show that people can also be driven by the desire to reciprocate and avoid social disapproval. In the same line, Cuevas-Rodríguez, Gomez-Mejia and Wiseman (2012) give an overview of how the enrichment of agency theory with trust theory can redefine the principal-agent relationship as one of cooperation as opposed to one of conflicting interests. They suggest that an increasing number of stakeholders will not increase agency costs because this will lead to social norms of obligation and reciprocity. Further, they state that agents are willing to self-regulate due to intrinsic rewards related to cooperation in some situations, in turn reducing the necessary monitoring by the principal.

Related to these tendencies is the issue of relational contracts, which are self-enforcing and occur in repeated transactions when opportunistic actions that will damage a partner result in the end of the relationship. When both partners are interested in the continuity of their transactions, they will thus try to maintain them by acting less opportunistically or non-opportunistic (Halac, 2012; Kvaløy & Olsen, 2009). This entails the building of trust through long-term relationships and in case of incomplete formal contracts (Kvaløy & Olsen, 2009), information asymmetries (Halac, 2012) or hidden action (Stephen & Coote, 2007), such rela-

tional contracts can reduce agency costs by aligning the interests of the actors. They can be applied in a situation when more formalized contracts are inapplicable or inconvenient (Chassang, 2010). Stephen and Coote (2007) suggest that the perception of relational behavior, which they define as trust, solidarity, flexibility and the willingness to share information, positively affects the perception of goal alignment in principal-agent relationships. The authors state that these relational behaviors are “central to creating a socially embedded relationship where the maximization of joint utility is promoted over self-interest” (Stephen & Coote, 2007, p.286). They build upon the suggestion of Ghoshal and Moran (1996), according to whom formal governance mechanisms, i.e. monitoring and control, may actually increase opportunistic behavior due to social effects on the relationship. This means that if a principal implements measures to control an agent, the agent might become more willing to act opportunistically, contradicting the implication of traditional agency theory.

To conclude, agency theory has underlying assumptions about human behavior that have been loosened in recent years, with scholars emphasizing the role of trust and social factors in principal-agent relationships. Other than formal contracts, relational contracts have been shown to align the interests of principal and agent through these social mechanisms. In the next chapter, we will show how this extended view on agency theory can help us understand how PSF networks function without strong formal contracts but through social norms of reciprocity and trust.

2.4.2 Preliminary Theoretical Model

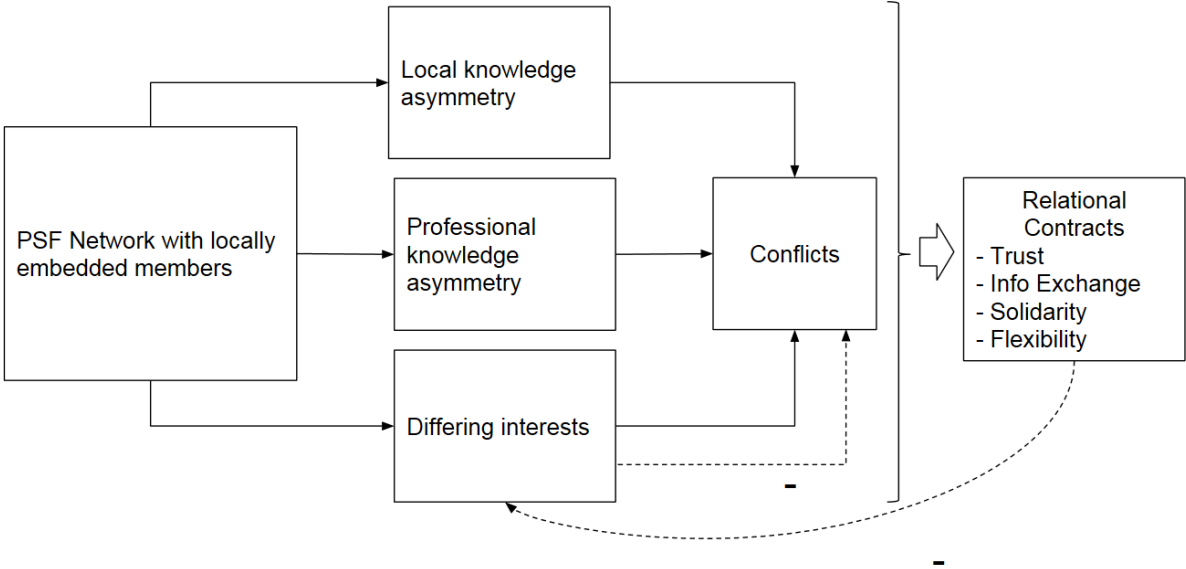


Figure 1 - Preliminary Theoretical Model

The analysis of the literature review sets the base for the theoretical framework of this research paper which is shaped by agency theory explained in section 2.4.1. The framework consists of the following key components: PSF networks with locally embedded members, professional knowledge asymmetry, local knowledge asymmetry, different interest, conflicts and relational contracts. It should be noted that we are looking at the principal-agent relationships between the members of the network, which are assumed to be multilayered and changing. This means that one member can be both principal and agent, depending on which relationship is in the focus, similar to the relationships between subsidiaries of MNCs Hoenen and Kostova (2015) examined, as explained in section 2.4.1.

Figure 1 illustrates the complex relations among the components. As the basis for the whole theoretical framework, we distinguish two specific attributes of the examined networks: the PSFs which act as members of the network and their local embeddedness which allows the network to flourish. Local embeddedness indicates that each member has a specific local knowledge which cannot be assessed by other members; hence, results of their work are not accurately measurable by their peers. Speaking in terms of agency theory, members will not

be able to fully utilize outcome-based contracts to align the interests of their peers with their own (Eisenhardt, 1989). Further, PSFs differ from manufacturing firms since their working process is too complex to be comprehended by outside parties and even two PSFs in the same industry differ significantly in regards to their intangible assets, as discussed in section 2.3.3. This creates a situation of professional knowledge asymmetry between the different network members, similar to the knowledge asymmetry between client and professional suggested by Sharma (1997). Thus, we argue that the PSF representing the principal in a member relationship cannot monitor the behavior of the agent and thus will not be able to control him/her by using behavior-based contracts (Eisenhardt, 1989). In addition, principal-agent relationships are assumed to be characterized by differing interests and opportunism according to agency theory (Besanko et al., 2013). These different interests of network members and their assumed opportunistic behavior combined with the previously mentioned local and professional knowledge asymmetries lead to conflicts which cannot be fully controlled by neither behavior- nor outcome-based contracts. Thus, as the usual measures of overcoming such conflicts remain inadequate, an alternative approach is needed. Following Chassang's (2010) suggestion, we argue that under these circumstances, relational contracts will be the members' approach to deal with network inefficiencies. Further, in line with Stephen and Coote (2007), we assume that relational behaviors, comprising of trust, information exchange, solidarity and flexibility, align differing interest. This will in turn reduce the conflicts within the network, as represented by the dashed lines in figure 1.

2.5 Summary

In our literature review, we have set the base for our study by introducing several key concepts including internationalization, PSFs and interfirm networks. We want to highlight again the heterogeneity of PSFs due to their differing core abilities, tools and intangible assets and that this heterogeneity can result in professional knowledge asymmetries between collaborating PSFs. Further, we have discussed networks as one possible way to internationalize. Scholars have examined the relations between network members, which are frequently subject to conflicts. In this context, we have examined the concept of local embeddedness of the network members and related local knowledge asymmetries between them. Finally, by drawing on recent findings from the area of agency theory, we have introduced the theoretical model that will help us to answer our research question. We assume that the different knowledge

asymmetries between the network members and their differing interests will lead to conflicts that cannot be solved solely by utilizing formal, behavior- and outcome-based contracts. Thus, we argue that the network members will approach these conflicts by implementing relational contracts, which will help to align their interests.

In the following section, we will discuss how we designed and conducted our research in order to answer our research question.

3 Methodology

In the following chapters we will draw on the preliminary theoretical framework outlined in the section 2.4.2. In order to remind the reader of our research question, which was presented in the section 1.2 we reintroduce it below:

How do members of PSF networks that are locally embedded approach the tension between unity and diversity?

This part of the research paper aims to describe the methods used to answer the research question. We start by motivating our choice regarding research method. Subsequently, we introduce our research design and later explain our data collection process. Afterwards, we present the quality concerns of the thesis, which is followed by the limitations of the methodology. Lastly, this chapter is summarized to provide a clear overview of the section.

Taking into consideration that the overall research paper resembles a social constructionist study, which leads to the assumption of a relativist ontology and subjectivist epistemology, the overall research process can be described in a cyclical instead of a linear manner (Easterby-Smith, Thorpe & Jackson, 2015). As the majority of social science research projects consists of both inductive and deductive reasoning processes (Kallio, Pietilä, Johnson, & Kangasniemi, 2016), both of which were used in different parts of this paper. The research was mainly approached in a deductive manner, meaning that the topics emerged from the theory and were later narrowed down and subsequently empirical findings were collected. An inductive approach was used when we were observing empirical findings and allowed new ideas to emerge.

3.1 Qualitative Research

Bryman and Bell (2007) suggest that a researcher has two options regarding how he/she can conduct a study: quantitative and qualitative. According to the authors, the former is very useful when making generalizations and attempting to measure relationships between variables. Meanwhile, the latter is mostly used when a researcher seeks to get deeper insights into a complex context. We chose to address the analyzed area by using a qualitative study for a several reasons. To begin with, we follow the suggestion of Merchant and Gaur (2008) who

point out strategic alliances in the non-manufacturing sector as a recommendation for further qualitative research. Moreover, our choice was strongly influenced by our unit of analysis, which is an employee in a managerial role within a PSF network focusing on local embeddedness. Of specific interest for us was the perception of the arising tensions by people working in these networks and how they deal with them, which is why we chose a qualitative approach in this study, allowing us to evaluate the personal perspective of different network members. It enabled us to see each manager as an individual case and analyze their views, choices and thoughts in depth. The goal of this research is to examine different perspectives and obtain individuals' views, rather than verifying a specific relationship between two variables. Additionally a qualitative research approach allowed us to take soft and non-quantifiable aspects into account (Easterby-Smith, Thorpe & Jackson, 2015). Moreover, we chose to use a qualitative study, as it gave us greater chance to avoid the encumbrance of data availability (Nachum, 2000). Overall, the paper is of a descriptive nature as it seeks to provide the reader with deeper insights into the dynamics within international PSFs networks.

3.2 Research Design

Bryman and Bell (2015) describe research design as a framework which allows generating, collecting and analyzing data. Out of the four different dimensions prioritizing diverse aspects of the research process, within this paper we chose understanding “behavior and the meaning of that behavior in its specific social context” (Bryman & Bell, 2015, p.49) as our aim. The case study research design was selected as a point of departure in order to answer our research question which mainly sought to analyze the context of PSFs functioning within networks. Taking into account our research question, we followed the advice of Yin (2009), who claims that a case study design is most suitable when researchers address the topic by asking question of ‘why’ and ‘how’.

Out of four types of case study presented by Bryman and Bell (2015), we chose to see a case as a single person and his/her perception in our research. Thus, each respondent constitutes a separate case. We use decision makers to see how they collaborate and approach the tensions between unity and diversity in their corresponding networks. It means that employees with managerial roles in focal networks were interviewed in order to obtain greater insights into the field of Professional Service Firms functioning within international networks. We did not

seek to analyze specific networks or agencies, but instead we looked into the phenomenon of unity-diversity tensions from the respondents' perspective. The interviews with involved stakeholders provided personal insights and prevented simplification, which could lead to missing out important qualitative aspects. To be more precise, focus areas of the interviews were: the role of the individual within the network, characteristics of the network the person works in, dynamics of the company's participation within the international network, the role of local embeddedness in this context, local and professional knowledge asymmetries and tensions which occur as a result of PSFs internationalizing through an international network. Moreover, this research is based on four cases, as according to authors case studies are not limited to the study of a single case (Bryman & Bell, 2015). The focus was on individual cases through which we sought to see commonalities among the perception of the individual respondents.

3.3 Data Collection

Transparency is crucial in order to convince the reader of the value of the research (Easterby-Smith, Thorpe & Jackson, 2015). In order to meet the expectations of the reader, we seek to comprehensively explain how we have gained access to the network members, selected the interviewees and conducted as well as recorded the interviews. The information was obtained by, firstly, conducting desk research and, secondly, verifying the gathered findings through interviews with local PSFs that operate internationally through networks. We chose to conduct semi-structured interviews in order to accomplish an appropriate balance between openness and structure (Kallio et al., 2016). We did not seek to have predefined responses, but rather wanted our respondents to approach questions in a flexible manner. Taking into account that the analyzed topic can be uncomfortable for the interviewees as they did not wish to talk negatively about their network partners, we had to ensure a trustworthy and comfortable space, which we created through guided open-ended questions. In other words, the semi-structured interview design gave us important insights into individual perceptions on benefits and challenges within the analyzed context. At the same time, as the analyzed topic required us to cover a number of significant subject areas during limited time, we had to follow a topic guide which structured our interviews (Taylor, 2005).

The criteria for selecting the cases were mainly based on availability and access to networks and employees of their members who had deep insights and different levels of experience in the analyzed context. We have chosen to examine international networks within the advertising and media industry, as their members are PSFs with a great focus on local knowledge (Dou et al., 2010; McQuillan & Scott, 2015), which we expected to provide us with great insights into the analyzed field. Moreover, purposive sampling and snowball sampling were the two main sampling approaches in this research. To begin with, after the first interview with one of the analyzed media agencies, Pilot, was conducted; we got access to two other respondents who belong to the same agency network by using snowball sampling. The additional interviewee from the network AMIN was contacted via email. The contact information of the respondent was found on the official website of the network. LinkedIn as an alternative approach was explored, but did not bring fruitful results. Figure 2 gives a comprehensive overview of our respondents.

Figure 2 - Respondents

No.	Company Name	Position in the Company	Network Name	Role in the Network	Country of the Member	Duration of Employment
1.	Pilot	Executive Director	Local Planet	Network leader for Pilot	Germany	3.5 years
2.	CoSpirit Media-Track	Account Director	Local Planet	Gatekeeper & Project Manager	France	4.5 years
3.	-	-	Local Planet	Executive Director	-	1 year
4.	Thorn	CFO	AMIN	Project Manager	Sweden	1 year

Overall, four interviews were conducted. Gender criteria did not play a role when selecting informants, but simply to give the reader a better overview, two women and two men were interviewed. The respondents were from Germany, France, Sweden, and the United Kingdom, which limits our sample to European countries. Furthermore, the duration of employment (see the figure 2) was an important factor in the selection of respondents as we believed that a

minimum period of employment time (1 year) within a complex network is needed in order to have valuable insights and a detailed overview of its functioning and the subtleties. We elaborate on the quality of our sample in the subsection 3.5. As mentioned above in this section, the primary data was mainly collected through interviews. Whilst preparing the interview questionnaire, we used one of the researcher's working experience in the field in order to ensure the appropriateness of the utilized language, including industry specific terms, in order to create an atmosphere based on trust and familiarity. All interviews were conducted in the setting of 2:1, meaning that two researchers were conducting an interview with one respondent. This allowed one person to lead the interview, whilst the partner was taking additional notes and provided occasional follow-up questions. In order to obtain more insightful answers, laddering and probing techniques were employed whilst conducting the interviews (Easterby-Smith, Thorpe & Jackson, 2015). To give the reader an idea of the process, we see value in presenting an example of a question as well as an example of a probing question we used throughout the interviews (for a full list of questions see appendix A):

Question:

“Does local embeddedness play a role for your company and the way you serve your clients?”

Probing question:

“In what way?”

The interviews lasted approximately 45 to 75 minutes. As the majority of respondents were located outside Sweden and due to time and financial factors, the interviews were conducted via phone and Skype. In order to ensure the reliability of the gathered information and ease the transcription of the interviews, all interviews were recorded and transcribed after getting permission from the respondents¹.

¹ Interview transcripts are available upon request

3.4 Data Analysis

The analysis of this research paper is based on interviews and their interpretation. Following the chosen analytical approach, the empirical data was examined through the lens of the pre-defined preliminary theoretical framework presented in 2.4.2, whilst keeping the research question in the focus (Flick, 2014). The data was analyzed in two stages. In the analysis of our empirical findings, we utilized a thematic approach as it allowed us to group our findings under main topics. We started by using a deductive reasoning process for defining themes based on the theoretical model and, subsequently, grouping thoughts of respondents under set themes. Additionally, we let themes evolve out of our empirical data, thus following an inductive approach. Later, important quotes were chosen to provide the reader with a vivid message as delivered by the interviewee. Then, the narrative was prepared aiming to describe key ideas, occasionally illustrating them with mentioned quotes. In the second phase, we applied pattern matching technique in order to see if our findings are in line and confirm the preliminary theoretical model. Even though the theoretical framework was drafted on the basis of the literature review, some adjustments were made after analyzing the data, which revealed unexpected but crucial aspects.

3.5 Quality of the Design

As this study is of a qualitative nature and explicitly seeks to explore individual perspectives and views, we do not focus on the representativeness of the sample but rather want to explore subjective views and reasoning of the interviewed employees and managers (Easterby-Smith, Thorpe & Jackson, 2015). In other words, in this qualitative study we prioritize other aspects of research quality than validity and reliability. We took into account the classic three main criteria for qualitative studies: authenticity, plausibility and criticality (Golden-Biddle & Locke, 1993). Regarding the plausibility, our research contributes to the ongoing discussion among scholars in the area of relational contracts from a theoretical perspective. However, we put our strongest focus on authenticity and trustworthiness of the gathered data. Delivering results which meet these criteria was essential in order to answer the research questions in a profound manner.

Regarding trustworthiness, the credibility of the respondents played a major role in the selection process. Thus, we clearly indicated in the initial stage of the contact with the selected networks that we wish to interview employees who are in managerial or leading roles. More specifically we sought to interview people who have experience in working on common projects with their network partners, act as gatekeepers within a network in the corresponding country, have contributed to the enrolment process of a network or have a strong knowledge of how a network is coordinated. As indicated in the section 3.3, we had set minimum employment duration of one year.

Concerning authenticity, as selected networks are not public networks, the information available publicly is rather limited; for instance annual reports are not available. Thus, the most suitable approach in order to get the right information regarding the internal functioning of the analyzed networks was precisely through chosen interviewees. In turn, it makes our analyzed data authentic.

Touching upon the generalizability of the findings, we believe that PSF networks focusing on local embeddedness, their members and especially managers who run the networks, can use our research to reflect on their current situation - the collaboration aspect as well as tensions occurring within their specific network. The research can be relevant for various PSF networks which do not necessarily need to operate in the advertising and media industry. Instead, the focus on local embeddedness is what unites the addressed PSF networks.

3.6 Research Limitations

This part of the research aims to put clear constraints and to set the scope for the study. Concerning the type of research, longitudinal designs could be of relevance in order to see how members' perspectives on PSF networks change over time, whereas action research could lead to rich findings and deep insider's observations. However, both types of research are more applicable once a basic knowledge is established concerning the analyzed context, which is precisely what we aim to deliver through our research paper. Regarding the sample, a few important limitations need to be covered. The study is focused on the media and advertising industry, which leaves out other industries that are of a similar creative nature, for instance, architecture. However, in order to avoid underlying side effects originating from the differences between industries, we chose to concentrate on a single area of commerce. Moreover, even though gender might have an effect on the managerial perception of the PSF networks, we do not aim to address it in our research as it would give the research project a completely different direction. Furthermore, all interviews were conducted in English which is not the native language for the majority of the respondents. Thus, in the ideal case a translator could have assisted to conduct all interviews, which was, however, not feasible for this study. Lastly, interviews were conducted with merely four respondents, who did, however, provide us with diverse and interesting insights into the analyzed context. We attempted to conduct additional interviews, but the potential respondents had to reschedule meetings to the end of May and the beginning of June, which was too late for our research project.

3.7 Methods Summary

In this chapter, we presented our reader the methods we have used in order to answer our research question. To begin with, we have motivated our choice to conduct a qualitative study. Subsequently we explained that a case study design based on semi-structured interviews is the most suitable approach as we aim to obtain insights into a complex phenomenon which requires an appropriate balance between structure and openness. Furthermore, we provided various details on the data collection and sampling selection to ensure transparency. Moreover, we introduced three key areas that demonstrate the quality of the research: plausibility, trustworthiness and authenticity.

4 Industry Background, Analysis and Discussion

This section consists of three parts: background, analysis of our empirical findings and the discussion.

In the first subsection, we seek to give the reader a brief but clear explanation of the functioning of PSF networks within the media and advertising industry. We acknowledge that the examined topic and industry are rather specific, which requires us to first set the base for a further interview analysis and discussion.

In the second subsection, we provide the reader with key findings obtained through the conducted interviews. Taking into consideration that the empirical findings were approached through thematic analysis, the structure accordingly follows five examined themes which we derived from the preliminary theoretical framework (see section 2.4.2). Firstly, we will assess the respondents' perception of the concept of knowledge asymmetry, consisting of professional and local knowledge asymmetries, in order to demonstrate the underlying characteristics and specifics of such networks and to explain the complex dynamics within the network which arise from them. Secondly, we address the conflicts which occur in the partnership characterized by the previously mentioned knowledge asymmetries, differing interests and cultural differences. Lastly, we shed light on the relational contracts which act as complement or an alternative to formal mechanisms.

In the third subsection, we point out the four main contributions of our study by relating our empirical findings to relevant literature. Furthermore, these are assessed through the preliminary theoretical framework. In such manner, we seek to critically evaluate the theoretical framework (see section 2.4). The final aim of this part is to adapt the current theoretical framework and to explain any adjustments made, based on the reviewed literature. If needed, the adjustments are explained by introducing new theoretical concepts.

4.1 Industry Background

In order to set a clear base for the reader we feel that there are two levels which need to be briefly explained: First, the media and advertising agencies' nature of work and second, the practical side of their functioning within independent international networks. The media and advertising industries are similar concerning how clients are acquired and served, the purpose of their service and the nature of client-agency relationship. We found this by consulting non-peer reviewed articles prior to conducting our interviews and found it confirmed in our respondents' statements. Thus, within the empirical data analysis and discussion we purposely do not aim to differentiate and compare them but instead examine the functioning of these PSFs in independent international networks.

To begin with, there are various ways in which media and advertising agencies acquire clients. One of the most common approaches takes place when agencies are invited to compete with their rivals for a campaign or a client allocation. An agency can be invited by the client himself/herself or through an auditor who is hired as an intermediary by the client to mediate the whole pitching process. In other cases, the competition is publically announced and an agency expresses their wish to participate. After that, the agencies are given a short brief on the client's expectations and are provided with a deadline to present a proposal for the campaign. Subsequently, the client chooses among the presented concepts and selects the one where he/she sees the most potential and the one which meets his/her needs the best. Another way of generating 'new business' is when previous or existing clients approach an agency directly, hiring it to launch a campaign for them. In many cases, after the company wins a pitch, it signs a framework contract for a fixed period of time. However, winning a pitch is just the beginning of the work. The role of an agency is to implement the proposed strategy and manage planned campaigns. It entails continuous communication with the client or an auditor, depending on the situation, in order to show the working progress and to adjust to the client's requests.

The media and advertising industry consists of smaller agencies, which are privately owned, and big holding groups, which are public and referred to as big networks. Big clients are mainly served by big holding groups, which are able to provide them with international services through their structure whereas smaller agencies mostly compete on the national level. However, as smaller clients increasingly internationalize, their agencies also seek to compete

on an international level and thus form independent networks. The previously introduced big networks differ significantly from independent networks. One of the big differences is the corporate governance and the overall structure. Big holding groups have influential external shareholders whereas independent networks seek to preserve the decision-making power within the individual company. Furthermore, big networks are rather centralized and have large headquarters which play a significant role in creating overarching strategies. Independent networks on the other hand choose to sustain their autonomy and small headquarters, consisting of few people, which act as facilitators for the coordination on common projects as opposed to leading the network.

4.2 Analysis of Empirical Findings

This subsection addresses five main topics which work as a guideline for the reader and provides a complete overview of our empirical findings. A majority of the themes include various sub-themes, which aim to highlight key aspects and ensure the comprehensiveness of our analysis.

4.2.1 Knowledge Asymmetry

The respondents pointed out two types of knowledge asymmetries which occur in independent international networks: professional and local knowledge asymmetries. The following covers how our respondents perceive differences among network members from functional and geographical angles.

Professional Knowledge Asymmetry

Network members that belong to the same independent network and function in the same industry can still differ significantly from one another in many aspects. Interviewee no. 3 claimed that international networks consist of heterogeneous members who have different capabilities and areas of expertise. For example, the agencies of respondents 1 and 2, which both belong to the same network, have very different areas of specialized knowledge: while

one has developed technologies very well designed for retail clients, the other one is very strong in programmatic advertising². Thus, some agencies have stronger expertise in a specific task, program or system, even though they provide - at the first glance - very similar services. According to interviewee no. 3, some of his/her network members have very different approaches to the way they work with clients. Respondent no. 1 said that his/her agency is used to a very structured way of working, whilst other network members complete tasks in different manners. In some cases this leads to reworking the delivered project or some parts of it. He/she clarified that content was not reworked but the structure and the manner of presenting. Thus, from the interviews it appeared that partners have different expertise in different aspects and often practice diverse working approaches. Furthermore, projects are of a complex nature and usually conducted under strong time pressure. It makes being able to accurately evaluate each step of their working process extremely complex.

Local Knowledge Asymmetry

As mentioned in section 2.3.3 once network members attempted to internationalize by themselves, they faced difficulties in overcoming their country's borders. Such barriers refer not to the physical limitations but rather to the differences among cultures, markets, customers and legal systems. Such limitations occur as countries and even regions within one country differ significantly. For instance, respondent no. 2 claimed that France has a lot of specific regulations that foreign agencies are not aware of. He/she thought that it is essential to be aware of what one can do and cannot do in the specific market. According to respondent no. 1, the knowledge gap among partners can lead to partners misjudging the prepared solution, especially if a general trend has differing levels of relevance. Respondents no. 1 and 3 added that knowing your target group and having a deep knowledge of the market is essential to their work, otherwise one may overlook a specific aspect which can undermine the whole strategy and weaken the value of the project.

"[...] you can't underestimate the importance of understanding your local market, your consumers and the business in each market." (Respondent no. 3)

² Automatic real-time bidding for online advertising spaces

According to respondent no. 2, having this specific knowledge within one market is one of the greatest assets and a strong selling point which not only attracts clients within the country but makes each agency valuable for the network as well. Furthermore, the local network is a crucial part of having an expertise in a country. Respondent no. 4 stated that having connections with various kinds of businesses in the market they operate in, allows them not only to acquire new clients but as well to connect clients with other clients and maintain their strong position in the market. Furthermore, respondent no. 3 claimed that the key to a successful strategy involving more than one market is to understand local similarities and differences. According to him/her it is essential to leverage the power of the local when creating a strategy by understanding the local market: the landscape, the vendors and the culture of each country.

“[...] each region is different, each media landscape is different and therefore you cannot have one fee that fits all and therefore you need to have individual and tailored solutions per country [...]” (Respondent no. 1)

The tailored solutions which are adapted to each individual country can incorporate local insights. According to respondent no. 3, the big agencies seem to lack this local knowledge. He/she explained it as follows:

“Of course they will be getting insights from the local agencies they have in these countries, but it is still not as powerful, it can't be.”

Instead of setting one global strategy, which is mainly created in the headquarter of the big networks rather than close to the market it concerns, respondents claimed that their networks chose a customized approach. Thus, the examined independent networks do not deliver one strategy which is then applied in all involved markets, but rather multiple strategies are developed which are then combined together. Interestingly, all respondents claimed that preserving their local knowledge of specific markets they operate in is extremely important. Interviewee no. 3 pointed out the following:

“[...] if we lose our capabilities locally, then we are no longer the local international network, which is how we design ourselves - the local international network.”

He/she said that in order to sustain their uniqueness, it is crucial not to assume that consumers are the same anywhere. From the media and advertising perspective, customer groups are very fragmented and different.

4.2.2 Conflicts

Throughout the interviews, we sought to gain insights from the interviewees on different tensions that emerged within the network. However, this was difficult at some points since the interviewees did not want to talk about any negative aspects of their networks or did not want to defame their network partners. Thus, the review of the interviews will be more interpretative in this part, as we include statements where the interviewees hinted to tensions or conflicts without elaborating on what they mean, even after probing from our side. After examining the areas in which tensions can arise among network members, we will describe what kind of formal mechanisms the networks use to reduce these tensions and how our interviewees perceive these formal mechanisms.

Tensions

In the following, we will examine the two sources for tensions that we have observed in the interviews, namely differing interests, as expected after the literature review, and cultural differences.

Differing Interests

To set a base for shedding light on the differences of interests among the network members, we sought to understand the interests of the individual agencies in the first step. The respondents stated that prior to joining the network; the agencies were functioning successfully in their local markets. However, all of them encountered a similar problem when attempting to internationalize - the lack of international experience. The membership in the network allows its members to win big national clients which priorly would have chosen one of the big holding groups. Hence, we can say that the participation in the networks is a means to enhance their own customer base and thus, following their own individual interests rather than a common goal. This was confirmed by the respondents' differing views on the relevance of creating legitimacy in their local market through their membership in a network. While respondent no. 1 said that what he valued most in the networks were the international projects, respondents 2 and 4 stated that they valued the legitimacy they gained in their local market more. These differing views underline that the network members have their own interests in mind when evaluating the network.

Through the interviews we further attempted to understand if our respondents reflectively observed any differences of interests among network members. The noted differences were mainly concerning reciprocity within the network and the autonomy tendencies of single network members.

Free Riding & Reciprocity

One area where the respondents described tensions among network members is the degree of contribution by every single member, i.e. the reciprocity.

Interviewee no. 1 stated that especially in the beginning of the collaboration, the independent network did not fully meet his/her personal expectations. His/her agency had the aspiration to conduct bigger projects, whilst some partners seemed to use the network rather for smaller projects and to get more information about specific markets.

“[...] so it was all these kind of small and tiny requests where there's no real budget or real business behind.” (Respondent no. 1)

Further, all of our interviewees generally acknowledged that some network members contribute more to the network than others, although some respondents were initially hesitant to state this openly.

“So, I think everyone is involved because everyone wants to make the network work better. So when people have a task and they agree on it, they usually do a good job. I think some of them are contributing as much as I do I think. Not everyone, but ...” (Respondent no. 2)

The respondents further stated various reasons for this imbalance of participation. On the one hand, the different levels of engagement might be the product of structural preconditions. In one network for instance, the members have different levels of equity in the network. Their participation automatically depends on this factor since more equity will give them more rights and responsibilities. Further, interviewee no. 3 noted that the level of participation is also correlated to the size of the member's local market, i.e. members from markets like China or the US, which attract many clients, will be involved in more projects than members from minor markets. However, respondent no. 1 from the same network still noted that one of the 'bigger' agencies is not contributing as much as others, emphasizing the willingness and individual choice of the single members to put effort into a common project. According to the respondent, this depends on how much the respective members feel they can gain from the collaboration. For instance, smaller agencies might put more effort in the network than bigger

agencies since they see it as an opportunity to generate more business and gain bigger clients than would be possible for them if they acted on their own.

For projects, these different levels of contribution occur because some agencies might prefer to allocate their time to other projects, as the specific client is less interesting and the budget which they get from the client is smaller. On the other hand, those members who see great opportunities and financial benefits from the common project will be willing to invest much more of their time and effort. This can lead members who think they are contributing more to feel like they have to constantly push their network partners to work for the common goal. Respondent no. 1 added that without everyone delivering good results, no one will actually benefit. Even if it is a smaller client everyone needs to put his/her best foot forward, because only when succeeding with small clients, big clients will follow.

“[...] everything is kind of a mixed calculation and [that] the amount of work you spend on small things is as important as the work you spend on big things.” (Respondent no. 1)

Furthermore, respondent no. 4 noted that the length of the network membership might play an important role as well. As their agency had not been a member for a long time, they had not established a relationship with other network members. Thus they were sometimes not the preferred partner for the region they are located in. Finally, the level of participation might also depend on the individual that is responsible for the network in the single member companies.

Autonomy

Related to these cultural differences is the fact that the network members might want to keep their autonomy and thus refrain from subordinating themselves to other agencies or the network in general. This is linked to the way the networks are constructed. As explained in section 4.1 the networks do have small headquarters which fulfill a facilitating role rather than a controlling function and their members do not have to follow a strategy set on a network-level. Further, every agency continues to act as an independent company that is solely supported by other agencies, they “keep their identity” (Respondent no. 3). When members do have differing opinions in this setting and no party to mediate among them, the emerging situations can be loaded with tensions.

“Yes and also that they're used to work alone, if I can say that. We are used to work in our own country and we are good in the country. We are only the best agencies in the network so we are used to win clients in a certain way. Every agency has an entrepreneur so we have a way of doing it. It can be different and hard to change if you do it with other people than you're used to.” (Respondent no. 2)

Adding up to this is the fact that the network members are not used to working on an international level. They are used to working on their own and in their own way. As much as they might resist being controlled by other network members, they might be unable to coordinate international projects with other agencies as a lead agency. The fact that some agencies are starting to hire experts to manage international projects in one of the networks, as explained by respondent no. 1, is a clear indication for this. However, it is also clear to the members that the success of the network depends on every single member and their ability to contribute.

Cultural Differences

Cultural differences are perceived as one of the advantages that members gain from the membership of the network. Respondent no. 1 stated that one of the benefits which he/she personally saw in being a member of the international network was that by collaborating with people from multiple cultures and on diverse projects he/she and his/her colleagues are able to get new perspectives and extend their way of thinking and working.

However, differences in the members' cultural backgrounds were also highlighted as another area which causes tension. According to our interviewees, this can either affect the relationship among the member companies or the relationships with their clients. On the one hand, members' cultural differences make the communication between them difficult, since they have different ways of working or as one respondent put it, “different culture, different habits, different ideas” (Respondent no. 1). This can for instance arise on smaller issues like terminology which can lead to major misunderstandings, as respondent no. 2 described it. On the other hand, these cultural differences also concern the relationship with the clients in different countries. In cases where the clients only have contact with one “lead” agency, this agency is responsible and accountable for the communication with this client. Both the client and the lead agency have a certain cultural background, differing from other members' backgrounds that might work on the same project. However, if the work of its network partners does not

match the client's expectations, this might lead to tensions between the lead agency and the other member. Respondent no. 1 described a situation like this in the following way:

"[...] they have different approaches on how they work with clients. And in their region this may be fine but for international projects [it is] not. [...] This is maybe because of the German way of thinking, everything needs to be structured and everything needs to be nice and pretty [...] in the German way. But this was not something I would show my clients [...]."

Formal mechanisms

To counter the discussed tensions, networks might deploy a variety of formal mechanisms. Apart from behavior-based mechanisms and outcome-based mechanisms, which we have explicitly asked about in the interviews, the respondents named governance measures related to the structure of networks.

Structure

On a network level, there is a headquarter that is managed by few persons and mainly fulfills a facilitating role. The headquarters are not involved in client projects but direct the operational side of the collaboration. As respondent no. 4 stated it:

"They're really there to facilitate, make it easier for us to find new business".

This distinguishes the examined independent networks from the bigger network agencies, that are publicly owned and that have a headquarter which sets a network-wide strategy. As these big networks are accountable to their shareholders, their members are bound to the central strategy to a certain point and cannot act independently, as the interviewees illustrated.

All respondents described that in their networks, the collaboration on international projects can be initiated by single network members that ask their partners to support them in the required countries. For local planet, some projects are also initiated by external media auditors that approach the international headquarter. In this case, the headquarter coordinates the project, but one of the involved agencies will still be the functional lead of the project. Thus, the coordination in independent networks is rather based on the individual member level, with single agencies taking more responsibility for single projects than others. However, there are still entities on the network level. For Local Planet, this is the board and the network leadership team, which are responsible for making general decisions, e.g. regarding the financials and the overall direction the network is heading. The board consists of the founding agencies

while the network leadership team is made up of members of the “most important agencies” (Respondent no. 1), with the biggest potential for new business. One of the respondents claimed that this way of coordinating work can also be an advantage compared to the bigger networks, since independent networks “don’t need a central structure” (Respondent no. 3), which makes the network more flexible towards the clients. On the agency level, network members have one gatekeeper that is the main contact for other network members and coordinates the work for international projects inside the individual agency. As mentioned, some of the agencies of Local Planet started to think about hiring an expert in international media projects to handle this kind of coordination, which shows how demanding this task can be. There are regular exchanges between members, mostly through telephone calls or skype meetings, which are used for the sharing of information and updates on opportunities for new projects. Apart from this however, the intensity of communication between the network members is rather flexible and depends on the projects they are involved in at the time.

Thus, the structure of the examined independent networks can mainly be described as decentralized, with high involvement of the network members themselves and a subordinate role of the central entities like the headquarters.

Formal Behavior-Based Mechanisms

We have put forward in our theoretical model the assumption that professional knowledge asymmetries result in the non-applicability of formal behavior-based mechanisms. In this section, we have grouped all mechanisms mentioned by our interview partners that are related to the ways that network members can influence or control the working process of their peers. This will help us in the next step to evaluate if our assumption is applicable in the examined networks.

Initially, we want to describe the situation of respondent no. 4, who has never coordinated an international project in his network and thus has certain expectations when it comes to these processes. Subsequently, we will contrast these expectations with reflections of the other respondents who have conducted international projects with their partners.

“[...] *We will make sure that we have the full information.*” (Respondent no. 4)

For upcoming international projects, respondent no. 4 explained that he/she aims to have a complete overview of how their partners work and what they are doing. This should be based on extended communication, with a kick-off meeting in person and subsequently regular ex-

changes over means of remote communication. However, the respondent acknowledged that this is connected to the fact that he/she does not know the other network members and has not worked with them yet and claims that this might change after they have gathered experience in collaborating. The client is the focus of their attention, and the main goal is to deliver good results to the client. According to respondent no. 4, they can only enable this by monitoring their network partners closely.

On the other hand, the other interviewees have a different perspective on the monitoring of their partners after having worked with them in the past. As discussed above in this section, they will communicate with their network partners on a regular basis, as respondent no. 4 suggests. Respondent no. 2 stated that in the beginning of a project, he/she will have daily contact with the network members while it will decrease to a weekly update after the project has been initiated. Further, he/she explained that due to their internal way of working, network partners have misunderstood the results of their work in the past. Thus, this interviewee feels there is a need for more formal rules and processes that structure the way that the network partners work together. However, this contrasts with the perspective of respondent no. 1, who stated that he/she does not have any insight into the working process of his/her partners:

“No idea. It’s a black box. You throw in a project or task and you hope that you get something back but what happens in their agency and who is doing it and how - no idea.”

(Respondent no. 1)

Thus, we can conclude that the perception of the applicability of behavior-based mechanisms to monitor or control network partners differs widely among the respondents, depending on their experience. It seems like the more projects they have participated in, especially in a leading role, the less they feel like they have control over others’ work processes. We will discuss the implications this has on the management of the network in section 4.3.4.

Formal Outcome-Based Mechanisms

We have suggested that the asymmetry of local knowledge will lead to the non-applicability of outcome-based mechanisms in PSF networks. In the following, we list the outcome-based mechanisms our respondents were mentioning in order to assess the applicability of our assumption. As outcome-based mechanisms, we understand means to control the result of the network members' work rather than the behavior of the agencies or how they get to these results.

One of the networks seeks to ensure their members' commitment through their ownership structure. Every member is a shareholder of the network; this increases the incentives to contribute to the network's success for each single member. However, the amount of shares the members hold can differ and this will in turn affect the degree of participation from the respective agencies.

On the member level, the implementation of outcome-based contracts looks different: as stated in the previous section, the main focus is to deliver appropriate results to the clients of the network. Every network member participating in an international project will receive an individually negotiated profit in case the project is implemented. This eventually depends on the evaluation of the project by the client. Finally, as one of the network members represents the "lead" for each project without formal authority, they will be accountable for the results presented to the clients without having developed all of the work. Respondent no. 1 explained however, that due to the missing knowledge of foreign markets, the evaluation of the partners' results may not be possible when it comes to the details of the developed solution. He/she illustrated this with an example of a common international project, where his/her solution was strongly questioned by his/her network peers and he/she was even pressured to change it according to norms the peers had derived from their local markets. However, after having shown his/her solution to the client, it became clear that it was the right approach for his/her local market. Thus, the other local agencies had not been able evaluate it correctly as they lacked knowledge of this market and its peculiarities.

“And it was one day before the presentation; everybody forced me to change this. We haven't done it and the local, the German client said: brilliant, all other regions need to increase the digital. [...] But in Germany it's not the case, so therefore you need to know the approach, you need to know the other media and how to get in touch with your target group [...].”

(Respondent no. 1)

Thus, on this level, i.e. for individual projects, outcome-based contracts seem to be connected to difficulties of measuring the results of others' work.

Thus we can see two levels of outcome-based mechanisms: firstly, the network-level mechanisms ensuring that every member has a certain amount of commitment and secondly, project-level mechanisms incentivizing the engagement in single projects. The second level of mechanisms can be witnessed among the project-team and the client as well as among the project members, while the monitoring among project members is connected to difficulties of metering.

4.2.3 Relational Contracts

In this section, we have grouped all statements by respondents that are connected to the four dimensions of relational behavior, as utilized in our preliminary framework and defined by Stephen and Coote (2007).

Trust

One indication for the relevance of trust as a relational behavior is the importance of the familiarity among the different network members. For instance, respondent no. 4, whose agency has not been in its network for a long time, stated that network members that need support in his/her region might prefer working with partners they have already established relationships with. At the same time, he/she emphasized that he/she wanted a personal meeting at the beginning of a common project, which also shows that establishing a personal relationship is of relevance. Further, when describing the coordination process of international projects, the interviewee reflected that he/she will not monitor their partners only after having worked with them several times to make sure that they deliver appropriate results. Respondent no. 1, who has experience in international project work, explained how close monitoring of network partners is not possible, but

“[...] you need to trust that everybody comes up with the best people on the project, with the best negotiations, with the best benchmarks in their countries.”

This holds true especially for partners who are not as interested in a common project as others because their share of profit would be smaller. All interviewees emphasize in this context the role of the partner selection. Especially Local Planet, which has the aspiration to bring together the best independent media agencies, places importance on this factor. On the other hand, transparency also plays a major role in the collaboration of network members, for instance regarding the disclosure of cost- and profit-structures of the network members. This can be seen as another instrument to build more trust among the partners.

However, it can also be noted that trust into a network as a general construct depends on time and individual experiences as respondent no. 4 stated. He/she reflected that they will only be able to evaluate the actual benefits of being a network member in the long run. This indicates that the trust in the network can only be built up with time, as the individual members gather positive experiences and returns from their participation.

Information Exchange

“We can't have closed doors; it has to be a collaborative, truly open team.”

(Respondent no. 3)

All interviewees acknowledged the importance of sharing knowledge among the network partners. Apart from the regular meetings and phone calls discussed earlier, network members use workshops specifically aimed at exchanging information and generating new business opportunities from that exchange. Further, respondents mentioned online tools to share relevant information.

However, they also emphasized that a process of sharing local knowledge is enhanced in phases of project work when partners see an opportunity to use the gained knowledge in practice. An overview of the different markets thus might be important, but the sovereignty of local knowledge of the single markets remains with the network partner in the respective market. In other words, network members share their local knowledge as much as necessary to conduct a project but refrain from going beyond that. One respondent further emphasized how the lead for a project has to understand the involved local markets to be able to make the overarching strategy fit the local solutions.

From the respondents' points of view, knowledge sharing regarding functional knowledge might be more relevant and feasible. For instance, one of the agencies is an expert in programmatic advertising, a second one has developed sophisticated tools for retail clients and a third one has gathered a broad knowledge base in the construction industry. These experts are willing to share their specialized expertise with their network partners and it is even seen as a merit, i.e. as something this member can “bring to the network” (respondent no. 2). Partly, the sharing of this functional knowledge is coordinated on the network level and the expert agencies are openly encouraged to independently spread their knowledge throughout the network, for instance through workshops.

“So France's job is to share their knowledge of retail and their tools and systems with the other network agencies, so that the other network agencies would develop the same or get educated by the French team on retail. [...] So you have to recognize who is strong in what area across the network and basically give them the responsibility of sharing that knowledge and expertise and tools and systems, and whatever they have internally, with everyone else.”

(Respondent no. 3)

Through enhancing the common knowledge of the network, they aim to bring all network members to an even level of professional knowledge. Further, all respondents indicated that professional knowledge asymmetry is tackled through functional knowledge sharing within projects. Respondent no. 1 highlighted that whilst working on one project or pitch, if it is noticed that one or two members are lagging behind in some area, the other members and the headquarter will need to support these members.

“The whole network is as strong as the weakest link, so you need to help and support these [...] agencies that they are able to handle these kind of projects.” (Respondent no. 1)

This shows the importance of the fact that the network can only work well if all of its members are strong and emphasized the interdependency of the different network members.

Solidarity

The general perception among our interview partners was that all network members are equally willing and motivated to contribute to the common network goal. The ownership structure of the member agencies contributes to this: the interviewees stated that all members are run by their owners, thus the commitment and motivation of them to grow the network and in turn gain benefits from it are high. On a project level however, respondents felt that this motivation was sometimes lacking, as already discussed in section 4.2.2. Therefore, respondent no. 1 explained how single members should be aware of how the participation in every single project will contribute to the network benefits, relating to the reciprocity effects of the network relationships.

The common brand name, common communication material and generally the common ‘look and feel’ can contribute to the feeling of cohesiveness and these tools are used on a project-basis when it will be beneficial, e.g. for international pitches. However, as mentioned earlier, the agencies still maintain their own identity and mostly approach clients using their own name. Thus, one can note that the common identity of the network is subordinate to the local identity of the single members. This is also confirmed when the network members reflect on the common goal of their network, as the respondents either were not aware of the common goal or had different perceptions of it.

From the three respondents from local planet we have interviewed, we have not received the same answer once, for instance:

“Yes, we have actually. It's very simple, it's to serve our clients fairly well, to be very client-focused.” (Respondent no. 2)

“Our main kind of goal is to restore trust in our industry.” (Respondent no. 3)

Every network member felt that their own goal was aligned with the overall goal of the network though, so it can be assumed that these differences are once again grounded in the differing perceptions of the single interviewees.

Flexibility

Flexibility in networks can be witnessed on two levels. First, the network seeks to act flexibly towards the client, to adapt to his/her specific needs. This is facilitated by the flexible internal structure of the networks, i.e. that they do not have a big headquarter but each project is led by the agency resident in the local market of the client. Second, the network members show flexibility on single projects as well. For instance, they share their knowledge when it is needed or “from case to case” (Respondent no. 4). Furthermore, as international projects are mostly conducted under great time pressure, they require fast decision-making:

“In pitches you always have to adapt, because you get feedback often from a pitch consultant or you might have a meeting and the client would ask a question and you know that: ‘oh, we have to adapt this quickly because they obviously think that this is important and we’re not focusing on it enough.’ There is always adaption going on through the process.”

(Respondent no. 3)

Thus, the complex and fast-moving nature of the projects in the examined networks makes internal flexibility necessary in order to act flexibly towards the clients as well.

4.3 Discussion

After having discussed the empirical results in the previous section, we will now relate our findings to the preliminary theoretical model introduced in section 2.4.2. In the following, we will first highlight the four most prominent findings, out of which two confirm the theoretical model and two call for an adjustment of the model. Subsequently, we will present the adjusted theoretical model.

4.3.1 Applicability of Agency Theory in the Chosen Context

As discussed in section 2.4.1 researchers have claimed in the past that agency theory might not be applicable to collaboration networks, as the central element of agency theory are conflicts of interest (Sheth & Parvatiyar, 1992). However, as we will show in this section, our findings confirm that agency theory may apply to these kinds of networks in certain contexts.

We have identified three levels of principal-agent relationships in the examined networks. First, when working on projects, the different network members have principal-agent relations with each other. As anticipated, their roles can change depending on the projects they are involved in. For projects where a specific agency takes the “lead”, this agency represents the principal in the relationship while the agencies that collaborate on the project represent the agents that seek to maintain their individual and local identity and autonomy. As respondent no. 1 stated, members might not be willing to put effort in projects that have a low potential for profit and are thus not aware of these reciprocity effects. This, in turn, indicates that there are indeed conflicts of interest in networks based on collaboration, making agency theory a relevant lens with which to study these organizational forms. Hoenen and Kostova (2015) suggested that multilayered control relationships, like the ones we have observed in networks, should be studied using social aspects. We are following this suggestion by looking at the relational contracts among the agencies and, as we will discuss further, have observed that these social mechanisms may be relevant in reducing agency costs.

Second, what we want to point out here is that the members are in a relationship of mutual dependency with each other, as the success of the network as well as single projects depends on the commitment of every single agency involved. Thus, apart from the principal-agent relationships in specific projects mentioned above, we could see another type of relationships

on the general network level, i.e. the organizational base for the organization. When looking at traditional agency theory, the principal is dependent on the agent to fulfill the tasks delegated to him in a way that will benefit the principal (Eisenhardt, 1989). This is similar in the examined relationships, however there is no single, formal principal as the headquarter of the networks only takes a facilitating role. Every network member can act as a principal depending on the conducted projects. When numerous principals have differing interests and goals, this can lead to “principal-principal” conflicts (Young, Peng, Ahlstrom, Bruton & Jiang, 2008). In the examined context, this concerns the network level. Thus, the alignment of interests has to be tackled on a network level as a base for the collaboration. To our knowledge, principal-principal conflicts have not been examined with regards to networks yet. However, this could be an interesting angle for discussing the dynamics of these specific relationships in the future. This is also related to the reciprocity within the network. As the examined networks have a net-based reciprocity structure (Das & Teng, 2002), the need for coordination is specifically high due to the uncertain return on efforts (McCarter, Mahoney & Northcraft, 2011). The fact that there is no formal coordination mechanism in place and network members display autonomous tendencies makes effective reciprocity harder to realize. As suggested by researchers in the network area, this increases the relevance of social coordination mechanisms (Das & Teng, 2002; Gulati, Wohlgezogen & Zhelyazkov, 2012; Randolph, 2016). Pointing in the same direction from an agency theory perspective, scholars have noted the relevance of relational contracts when formal contracts are incomplete or inapplicable (Chassang, 2010; Kvaløy & Olsen, 2009), as suggested in the preliminary theoretical model.

Third, apart from the relationship between the agencies, we have noticed a further agency relationship between the client and the network, which is manifested in the relation between the client and the lead agency, adding another layer to the complexity of the control relationships. As we are focusing on the relationships between the network members in this study, we will not examine this level of conflicts further. However, it is important to keep in mind that the lead agency acts as a representative of the client and thus, is in itself both principal and agent at the same time.

Finally, our assumption that there is a professional knowledge asymmetry not only between client and professional service firm as suggested by Sharma (1997), but also between PSF and PSF, has been confirmed in the examined cases. As noted in section 4.2.2, network members who have participated in network projects recount difficulties in monitoring their partners due

to different working practices and different specializations. This shows how agency theory should be adapted to specifics of the actors examined and that it is not universally applicable without reconsidering its basic assumptions. However, we have also seen that this professional knowledge asymmetry can be reduced through relational contracts, as we will discuss in section 4.3.3.

4.3.2 Role of Cultural Differences

Two key factors creating tensions within networks were identified in the empirical findings section: differing interest and cultural differences. Differing interests, as discussed previously, act as an underlying assumption for agency theory which has been chosen as a cornerstone for the introduced theoretical framework (see section 2.4.2) and the overall thesis. Respondents saw differing interests through diverse angles, among them free-riding and reciprocity as well as autonomy, both of which have previously been anticipated to be potential reasons for conflicts in independent networks. However, cultural differences emerged as an additional, significant factor which contributes to the complexity of the relationship among network members. Cultural differences are “the integrated and maintained system of socially acquired values, beliefs, and rules of conduct which impact the range of accepted behaviors distinguishable from one societal group to another” (Adler, 1997 (cited in Jackson & Guerra, 2011, p.447)). We chose this definition as it points out norms that are acceptable in one society and not in the other, which seems to be applicable when analyzing tensions related to cultural differences.

Concerning cultural differences as one of the sources for tensions, we find support for this finding in the literature on network dynamics. In section 2.4.1 we have already introduced the reader with Lubatkin et al. (2007), who argue that differences among countries can affect the collaboration among partners and play a role in arising conflicts. Furthermore, by analyzing the respondents’ answers, we noted two main aspects in which cultural differences play a role: internal and external effects. The prior is concerned with the communication and overall collaboration between members which can be complex due to different working approaches, culture, habits and utilized terminology. The latter aspect mainly points to the cultural differences between a client and foreign agencies involved in the project, which can create misunderstandings and failure to meet the expectations of the client. Indeed it is consistent with other scholars’ claims who point out that agency relationships and thus tensions are strongly

influenced by the national cultural values which affect the manner how principal and agent perceive information usage, decision making and situation evaluation (Fidrmuc & Jacob, 2010; Salter & Sharp, 2001). Moreover, as stated in section 2.1.3, the complete control practices decrease with growing cultural differences and cognitive distance (Sharma & Johanson, 1987). Even though some of these scholars look into the tensions that cultural differences cause within MNCs between headquarters and their subsidiaries, arguments used by the authors are applicable in the context of international PSF networks, as we have seen from our empirical findings. By incorporating cultural differences as a factor that can cause tensions in the analyzed type of networks in our initial model, we acknowledge their importance in this context. Instead of adding an additional category to the existing three main causes of conflicts – local knowledge asymmetry, professional knowledge asymmetry and differing interests (see section 2.4.2) – we observe a strong link between cultural differences and local knowledge asymmetry. Both concepts share an underlying element of local embeddedness (see section 2.3.3). Indeed, Meyer, Mudambi and Narula (2011) add that these two elements of local embeddedness have reinforcing effects on each other. Local knowledge asymmetry is derived from a lack of local embeddedness by one party and can be characterized by a weak local network in the host market, a weak relationship with the local customers and a fragmentary understanding of the host market environment (see section 2.3.3). In the meantime, cultural differences refer to the accepted behavior and norms and thus address the relationship side of two or more parties embedded in their respective, differing societal groups. In other words, the former looks at the inferior-superior relationship between two parties, one of which is locally embedded and another is not. The latter focuses on the fact that two parties have different perceptions of acceptable norms, rules and values, depending on the country and culture they are locally embedded in. Hence, local knowledge asymmetry and cultural differences are both put under the label of local embeddedness in the adjusted theoretical framework.

4.3.3 Functional vs. Local Knowledge Sharing

The second adjustment to the theoretical framework concerns the effect of knowledge sharing on professional and local knowledge asymmetries. To begin with, both local and professional knowledge asymmetries appear to be relevant in the analyzed context. The empirical data approved theoretical findings which proclaim the heterogeneity of PSFs in the same industry. In fact, respondents provided us with a variety of examples which shed light on professional knowledge differences among the network members. Most of them were related to diverse

functional knowledge in specific tasks, utilized programs or systems. This finding was already anticipated in section 2.2.3 based on Larson (1977), who claimed that such types of expertise are grounded in a specialized and dynamic body of knowledge. Furthermore, interviewees confirmed the view of Hitt et al. (2001), that agencies are miscellaneous as a result of their intangible resources such as working practices. In addition, the complexity of tasks which characterizes the services of media and advertising agencies was indeed highlighted by various respondents, and is supported by scholars like Sharma (1997) and Faulconbridge and Muzio (2007). Moreover, the ability to monitor PSF's work, according to Sharma (1997), happens to be rather constrained. That was affirmed by one of our respondents who referred to it as a "black box". Hence, the presented findings on professional knowledge asymmetry were expected based on the literature review in section 2.2.3.

Through the interviews we discovered that network members attempt to share their professional knowledge with their partners. It appeared that functional knowledge sharing is perceived positively within the analyzed networks. As a matter of fact, professional knowledge sharing is openly encouraged and assumed to be a crucial element towards stronger networks (see section 4.2.3). Based on these findings we attempted to re-evaluate professional knowledge asymmetry and how it is affected by professional knowledge sharing. In the introduced preliminary model, information exchange is one among four dimensions which contribute to relational contracts (Stephen & Coote, 2007) and is supposed to align differing interests among the network partners. However, taking into consideration our empirical findings, we see that professional knowledge sharing in turn also reduces professional knowledge asymmetry. This new finding is incorporated in the adjusted theoretical framework (see figure 3) by adding an additional dash line which links relational contracts (information exchange to be specific) and professional knowledge asymmetry. The impact of this reduced professional knowledge asymmetry, however, was less clear in our empirical findings. We assume that it might potentially result in a better applicability of behavior-based contracts, as the common knowledge base might enable partners to better evaluate the behavior of their peers. Chassang (2010) suggests a similar mechanism in the context of information asymmetries. He found that in a repeated game, i.e. through continued cooperation, agents can improve their monitoring and in turn implement more efficient routines for cooperation (Chassang, 2010). This assumption could be explored in further research, possibly longitudinal studies, as we will explain in section 6. Further research might also shed light on the further implications of this on the principal-agent relationships and on the relevance of relational contracts.

At the same time, findings revealed local knowledge asymmetry to be playing a different role within the analyzed networks than professional knowledge asymmetry. Local knowledge according to respondent no. 2 is one of the agency's greatest assets which helps to attract clients and bring a unique and valuable contribution to the whole international network. This is supported by Faulconbridge and Muzio (2007) who claim that PSFs possess a significant asset which is the knowledge of the specific market that a firm operates in. Moreover, in section 2.3.3 we introduce the concept named liability of foreignness which addresses issues that a PSF faces when attempting to enter a foreign market. According to Faulconbridge (2008) and Faulconbridge and Muzio (2012), it is related to the lack of local knowledge which includes, for instance, clients, competitors and markets' characteristics and operating environment. All of these aspects were mentioned by our respondents who as well pointed out the importance of local knowledge.

However, the local knowledge which differs from member to member also leads to the lacking measurability of outcome (Agnes, 2000). This was confirmed by respondent no. 1, who stated that the knowledge asymmetry in some cases results in partners misjudging the prepared campaign or specific tasks. Interestingly, all interviewees highlighted the significant importance of preserving their local knowledge. Moreover, we found that network partners are less willing to share their local knowledge than professional knowledge. One of the interviewees stated that the former appears mostly when working on a common project; however sovereignty of local knowledge remains essential to the network's identity. Thus, even though local knowledge sharing indeed takes place in the analyzed networks, the degree and willingness to do so is limited. Considering that agencies and networks they belong to perceive the local knowledge to be their main assets, it is not surprising that they tend to keep it within their agency and are hesitant to share it. According to Eisenhardt and Schoonhoven (1996, p.140): "[...] firms often have resources from past investments and knowledge which they have built up over time that they may be reluctant to share in alliances".

Thus, when analyzing empirical data, we unexpectedly discovered that relational contracts impact professional and local knowledge asymmetries in different ways. To some degree they reduce professional knowledge asymmetry among network members. At the same time, in the analyzed networks we observed that members seek to maintain and preserve their local knowledge which hinders local knowledge sharing and thus does not result in a significant decrease of local knowledge asymmetry.

4.3.4 Contracts

When it comes to contracts used to reduce agency costs, we have assumed in the preliminary theoretical model (see section 2.4) that due to the specific characteristics of the examined networks, local and professional knowledge asymmetries lead to the non-applicability of outcome- and behavior-based contracts.

As pointed out in the analysis of our findings (see section 4.2.1), the professional knowledge asymmetry among the PSF network members results in difficulties of monitoring, stemming from functional specialization, different working styles and the characteristics of the conducted projects. According to agency theory, behavior-based contracts are a practicable way of reducing agency costs when the behavior of the agents can be set by the principal in advance or can be captured in information systems (Eisenhardt, 1989). Both of these preconditions are not given in the examined context. Thus, behavior-based contracts are not feasible measures of control in PSF networks. Our findings confirmed this, as the respondent who had relevant experience in conducting international projects with network partners, stated that they could not monitor the behavior of their project partners (see section 4.2.2).

Furthermore, we found that outcome-based contracts are partially applied on two levels. First, as the network members own shares of their network, it is anticipated by the respondents that their commitment towards the network is rather high. Second, the agencies will potentially receive profits when their common projects are implemented, depending on the client's feedback (see section 4.2.2). However, the lead agencies as principals have difficulties in measuring the results of their peers. Further, agencies with lower stakes in specific projects will put less effort in these than the agencies with high budget shares, deepening the dependency among the network members. Thus, outcome-based contracts are only partially applicable and specifically not applicable on the level of single projects regarding the principal-agent relationship this study is focusing on, i.e. the relationships among the peers.

Recent research on agency theory has emphasized the relevance of relational contracts in situations with limited feasibility of formal contracts (Kvaløy & Olsen, 2009). We have incorporated the four elements of relational behavior, solidarity, flexibility, trust and information exchange, according to Stephen and Coote (2007) into our theoretical framework, which we will examine in the light of our findings in the following and underlie our findings with the work by scholars from the field of network and alliance research.

In the conducted interviews, we could partially find indications for solidarity, i.e. the general orientation towards a common goal rather than an individual goal, in the examined networks. This holds especially true for the network level, as the respondents shared their view on how all members are committed to their respective networks. However, we also found that the identity of the network functions as a subordinate level to the local agencies' identity and that the commitment regarding specific projects may be low when there is no immediate gain perceivable for the network members (see section 4.2.3). Thus, we could witness the acknowledgement of the relevance of a common goal which does not, however, necessarily translate into equal commitment due to the differing interests. Coming back to research on interfirm networks, scholars have emphasized the role of a shared goal for the success of collaboration networks (Randolph, 2016; Saz-Carranza & Ospina, 2010), pointing to the same direction as the relational contracts. A question for scholars and practitioners could be how to translate this general commitment towards the network into dedication to single projects.

Furthermore, the examined networks display a certain degree of flexibility. This stems from their ambition to stay flexible towards the client and the high time pressure under which they conduct projects. These parameters lead to the necessity of agile decision making and flexible project management (see section 4.2.3).

Finally, we have found strong indications for the importance of trust in the examined interfirm networks in three areas. First, the selection of the network partners seems to play an important role in creating trust. When the network members can be sure that their peers are successful in their respective local market, this will make them trust in their peers' capabilities. This is also confirmed by recent studies on the success of networks (Bravo, Squazzoni & Boero 2012; Lee, Park & Yoon, 2016), as the selection of appropriate partners can reduce uncertainty and ensure commitment in the alliance. A second factor that creates trust in the examined networks is the longevity of the relationships of the members. This can be noticed on the hand by the narration of respondent no. 4, who has not been in the network for a long time and thus does feel like his partners prefer to work with other members and on the other hand by the statement of respondent no. 2, who claimed that after having worked with a network member before, the collaboration gets easier. Zollo, Reuer and Singh (2002) have shown that routines, created through partner-specific experience, can enhance the performance of alliances by "facilitating the information gathering, communication, decision-making, conflict resolution and the overall governance of collaborative process" (Zollo, Reuer

& Singh, 2002, p.709), thus confirming the effect of long-term relationships between partners. The third factor enhancing trust in the examined networks is transparency. This may seem surprising as we have noted how networks members have difficulties in evaluating the behavior and the outcomes of their peers. However, the willingness to act openly in some respects, as for instance regarding the internal cost- and profit-structures as mentioned by respondent no. 1, will enhance trust among the partners. Tomkins (2001) has shown how the transparency in alliances in turn will increase with the longevity of the partners' relationships, thus showing that the concept of trust-building is a complex and multilayered process. Trust is also considered as a base for knowledge sharing in interfirm alliances (Lahtinen, 2013) which serves as the fourth element of relational behavior. As we have discussed in section 4.2.1, the important role of this element was also confirmed in the examined networks.

To conclude, we have seen in our study that relational contracts are used by networks focusing on local embeddedness. By increasing solidarity, flexibility and the trust among network partners, they seek to reduce conflicts among their members by aligning their interests. This is confirmed by the improved perception of the networks' effectiveness by respondents 1-3. At the same time, information exchange may be used to reduce professional knowledge asymmetry, as discussed in section 4.3.3. While using the relational contracts to foster the unity of the network, the network members seek to maintain their local embeddedness, which represents an asset in the collaboration with their peers, thus also fostering the diversity of the network, as suggested by Saz-Carranza and Ospina (2010).

4.3.5 Adjusted Theoretical Framework

We have introduced the preliminary theoretical model that we draw upon in our study in section 2.4.2. Furthermore, in the previous subsection, we have discussed the four main contributions of this research paper, two of which require us to adjust our theoretical framework. Hence, the role of cultural differences and the diverse effect of knowledge sharing on professional and local knowledge asymmetries are integrated in the adjusted theoretical framework (see figure 3).

This adjusted theoretical model helps us to answer our research question:

How do members of PSF networks that are locally embedded approach the tension between unity and diversity?

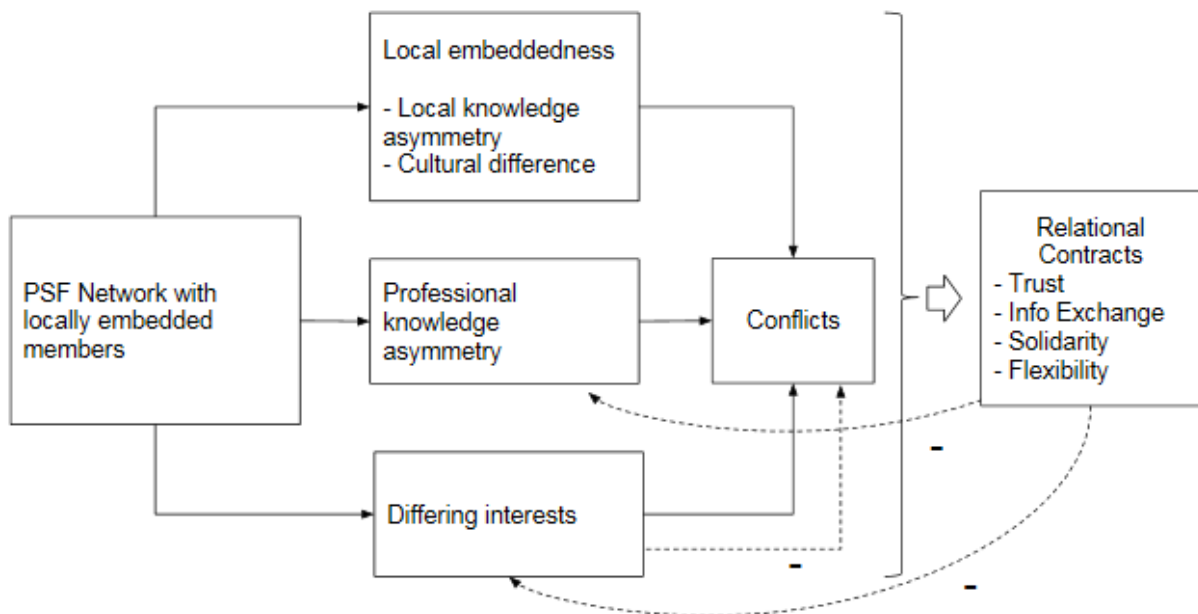


Figure 3 - Adjusted Theoretical Model

It further allows the reader to get a deeper understanding of the unity-diversity tensions within networks by acknowledging their complexity, explaining main components which shape them (local embeddedness, professional knowledge asymmetry and differing interests), examining relational contracts and the four key elements of relational behavior (trust, information exchange, solidarity and flexibility) as introduced by Stephen and Coote (2007) and finally

demonstrating how relational contracts affect the sources of tensions in the examined PSF networks. The two main angles we have chosen to examine conflicts in networks from are the local embeddedness of their members and the fact that the members in this study are heterogeneous PSFs. We found that the heterogeneity of PSFs leads to professional knowledge asymmetries, which in turn lead to problems of monitoring among the members. This in turn leads to conflicts where behavior-based mechanisms are not fully practicable measures of mediation. Further, our findings confirmed that the local embeddedness of the members leads to local knowledge asymmetries and problems of metering, which make outcome-based contracts among the network members costly to realize. One adjustment to the theoretical model in this context concerns the cultural differences among their members, as we have discovered from our findings that these are an additional, unforeseen source of conflicts in networks. As discussed in section 4.3.2, they can be seen as a result of the local embeddedness of the network members, which is why we integrated both “local knowledge asymmetries” and “cultural differences” under “local embeddedness”. Thus, we now see local embeddedness and its two components cultural differences and local knowledge asymmetries as a source of conflicts, rather than only local knowledge asymmetries. Further, we saw that the members in these collaboration networks have differing interests that can lead to conflicts, confirming this underlying assumption of agency theory.

Thus, conflicts in PSF networks focusing on local embeddedness occur due to three main factors: the heterogeneity of their members when it comes to their local background as well as their functional specialization and their differing interests. As expected, the data analysis supports the claim that the network members approach these conflicts by implementing relational behavior. By this, they are able to reduce the difference in interests and thus the conflicts among the members. In the examined networks however, information exchange in particular played an essential role, as we found that network members are willing to share their functional knowledge but interestingly, avoid sharing their local knowledge to some extent, as they seek to maintain their role as “local specialists” for their respective markets. Thus, we have integrated in our adapted theoretical model that relational contracts, specifically information exchange, reduce the professional knowledge asymmetries between the network members. However, it was not clear from our empirical findings how this in turn affects the conflicts among the members.

Thus, we can say that members of PSF networks focusing on local embeddedness approach the tension between unity and diversity in two ways. Apart from basic formal mechanisms, they implement relational contracts and thus seek to establish relationships that are based on social mechanisms deepening their collaboration, allowing them to align their interests to some degree as well as reducing professional knowledge asymmetry. However, they seek to maintain their diversity in form of their local embeddedness, i.e. their specialized local knowledge, cultural background and their local networks.

5 Conclusion

Smaller Professional Service Firms that seek to grow by serving big local clients or by approaching international clients face barriers stemming from the lack of international expertise. As their clients want to grow and expand abroad, they seek to find service providers that are able to assist them in their endeavors. Even if clients only plan to expand abroad in the future, choosing a service provider can be a strategic decision as clients might prefer providers that can offer them international assistance in the long run. Hence, service internationalization is becoming a more pressing topic for managers of PSFs. One of the approaches for service internationalization is partnering up with similar providers in foreign countries through networks which allows the companies to sustain their autonomy to some degree, thereby creating unity-diversity tensions. When it comes to advertising agency networks, local knowledge appears to be a crucial aspect in being able to provide tailored solutions. However, the same local knowledge contributes to creating conflicts within networks, which can be addressed by their members through relational contracts.

5.1 Relational Contracts to Approach Unity-Diversity Tensions

In this research paper we sought to look into the ways that members of PSF networks focusing on local embeddedness approach the tension between unity and diversity. We gradually assessed the unity-diversity tensions in PSF networks through a literature review, the analysis of qualitative interviews and discussion of our findings. The analyzed phenomenon is very relevant in the media and advertising industry, hence it was chosen as a suitable context to examine it. This paper's unit of analysis were employees with a managerial or other leading role within PSF networks in order to analyze their personal perception of the unity-diversity tension in the corresponding network. Moreover, choosing interview partners working in leading roles was crucial to answer our research question, as we sought to understand the perception of decision-makers and gatekeepers concerning our analyzed topic.

Through our research, we addressed two research gaps. Firstly, we demonstrated the relevance of agency theory in the examined context which some researchers had claimed was inapplicable to network alliances. We have shown that networks are indeed characterized by

goal incongruence of their members and resulting conflicts. The multilayered agency relationships which are characterized by mutual interdependency and the lack of a formal principal call for relational contracts to align the interests of the network members. Of specific interest for practitioners could be the dilemma of how to transfer the commitment of network members from the overall network level onto the project level, i.e. to make sure that network members demonstrate dedication towards single projects. This might hold true not only for the examined context but also for other kinds of international networks and, indeed, other forms of relationships based on collaboration with the same or similar characteristics.

Secondly, as urged by Saz-Carranza and Ospina (2010), we investigated the unity-diversity tensions in networks and, thus, addressed how networks embrace the diversity of their members and at the same time manage their collaboration. Local and professional knowledge asymmetries act as cornerstones for the overall dynamics in the PSF networks focusing on local embeddedness and they stem from the fact that PSF networks are based on the heterogeneity of its members. Through the adjusted theoretical model we demonstrated that information exchange as one element of relational contracts can reduce professional knowledge asymmetries. We find it to be a valuable finding which could be utilized by researchers in the future, who may assess how the reduced professional knowledge asymmetry affects conflicts in the analyzed context.

Apart from pointing out knowledge asymmetries and differing interest as the main sources of conflicts in the examined PSF networks, which we encountered through the literature review, we also discovered that cultural differences shall not be overlooked. They indeed contribute to the complexity of international PSF networks as they reinforce local knowledge asymmetry. Further, the duration of collaboration was revealed to play an important role in light of relational contracts. All four elements that form relational contracts take time to be built and enforced. This implication can be very valuable for practitioners who might need to realize that successful collaboration among PSF network members might require substantial time before showing actual positive results. This can be relevant for PSF network members, gatekeepers and managers who run networks, particularly as they can compare themselves to other players in the field and reflect upon their struggles in regards to collaboration and tensions.

Overall, our findings may be applicable not only in the analyzed context but indeed give valuable insights into partnerships where two elements take place: multilayered agency relationships and great significance of the individual members' local knowledge.

5.2 Suggestions for Further Research

In the following we will point out areas for further research which are closely related to the analyzed context. By providing these recommendations, we hope to share some valuable insights that we have discovered whilst working on this thesis. Our suggestions are grouped into two areas.

To begin with, we want to point out aspects that have not been part of our study but might be worth exploring.

It could be of relevance to see how the examined tensions and their components evolve over time which could in turn strongly affect the collaboration among network members. We believe that longitudinal studies could be beneficial especially in two areas. First, the influence of time on the implemented relational contracts in networks could be examined. We have seen some implications towards the importance of time in relational contracts in our interviews, but an in-depth analysis of this aspect would be beneficial. Furthermore, as presented in section 4.3.4, while the solidarity element was found to be only partially applicable, this could change over time. A second area where longitudinal studies could bring great insights is the effects of the observed reduction in professional knowledge asymmetry in the long run. Here, they could be used to see if this will increase the usage of behavior-based contracts, as suggested in section 4.3.4.

A second avenue for further research could be to generate a more balanced view on unity-diversity tensions in PSF networks in the examined industry, first through contrasting our findings with a similar study on big networks and second, by incorporating the view of agencies that are not/not anymore members of such networks. This research allows the reader to see how independent networks perceive big networks. However, it could be very interesting to contrast these findings with an opposite view, of how big network perceive independent agency networks, thus creating a holistic picture on the competition between these two types of networks. Thus a comparative case study could assess differences of management practices by interviewing private and public agencies. Furthermore, it could be very valuable to interview agencies which have left the international networks, as in this manner a researcher would avoid an over-optimistic view towards the benefits that members gain from being a part of such networks. By gaining the critical opinions on such networks, the reader could develop a balanced view on PSF networks and collaboration within them.

This research focused on the media and advertising industry and excluded PSF networks in other industries with a high importance of local embeddedness, such as architecture, in order to avoid underlying side effects originating from the differences between industries. A comparative case study on PSF networks which function in similar industries could provide the reader with interesting similarities and differences among these networks and industries they function in.

In the following, we will reflect on how our findings can be used in further research.

As noted in section 4.3.2, respondents pointed out the role of cultural differences in the conflicts among PSFs network members. As it was not our research focus, we did not conduct a comprehensive analysis of this aspect. However, it could be an interesting angle for further studies.

A large part of this paper is dedicated to looking into knowledge asymmetries, which were discovered to be affected differently by relational contracts. We have found information exchange to reduce professional knowledge asymmetry among network members. Thus, following this finding, we suggest researchers to look into the extent that the functional knowledge asymmetry can be reduced among members within a PSF network. Moreover, we suggest an action type research that would allow a researcher to get more insiders' knowledge by observing the working practices of different members and by personally getting involved in the process of reducing professional knowledge asymmetry within the PSFs networks.

Lastly, we have identified three levels of agency relationships in the analyzed networks, where the agencies have principal-principal relationships with each other on the network level and principal-agent relationships with regards to single projects and where lead agencies act as an intermediary between client and other agencies. Even though we did not analyze it in depth in this research paper, we recommend to integrate this three-level agency relationship into the view on PSF networks and to look into the interconnection of these levels.

We think that our suggestions concerning further research will be useful for researchers in two ways: by incorporating aspects which were not a part of our study and by building upon our findings. Ultimately, we believe that this research has opened the door for our reader into the dynamic and complex world of PSF networks, gave valuable insights towards the nature of tensions which occur in them and vividly demonstrated the role of 'local' in this context.

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Appendix A – Interview Questions

ROLE OF INDIVIDUAL

What is your position within your company?

Do you have a specific role within the network?

How long have you been working in the company?

PARTICIPATION/CHARACTERISTICS OF THE NETWORK

Since when does your company participate in the network?

Could you give us an overall idea of how you work / collaborate within your network?

Imagine your network gets a new client or an existing client wants to expand abroad. How would the overall process look like?

If conducting common projects, how many projects has your company conducted with / through the network?

If common projects are conducted:

Are they profit oriented?

How does the network determine the profit sharing among members for common projects?

How do you coordinate the work within the network?

How does your network differ from public networks, e.g. WPP or Dentsu Aegis, in this respect?

INDIVIDUAL PARTICIPATION IN THE NETWORK

How many projects within the network have you personally been involved in and in what way?

How often do you communicate with your network partners?

BENEFITS OF PARTICIPATING IN NETWORKS

From your personal perspective, what benefits or advantages do you see by being a network member / working with partners within your network?

Do you use the name of the network to approach clients? If so, in which situations?

If not answered before: Which aspect of being a network member do you value more: The credibility you gain in clients' eyes by being part of the international network or the actual projects you conduct through the network?

Do you see the network as a way to compete with public networks / how does the participation in the network help you compete over public networks?

If not answered before: What makes you different from the local branch of the public networks functioning in your local market?

Could you describe a situation when you or your company lost a client or a pitch against one of the public networks?

What do you think were the reasons for it?

LOCAL EMBEDDEDNESS

Definition: The way your company is positioned in your local market, with strong knowledge of the local industry and a cultural "fit" as well as personal network.

If not answered before: Does local embeddedness play a role for your company and the way you serve your clients? In what way?

If it plays a role: Do you see it as an advantage over international firms that compete in your local market? In what way?

If not answered before: How does it affect the relationship with your clients?

From your personal perspective, how important is it to preserve the local embeddedness on a scale from 1 to 10? Why?

To what degree do you share your local knowledge with your network partners?

Was there a situation when you did not share your knowledge and why?

CONFLICTS

Does your network have a common defined goal?

Do you feel that your company's vision is aligned with the vision of the overall network?

How does the concept of local embeddedness affect the relationship with other network members?

Can you describe a situation when you have struggled to work with your network partners?

If yes: What are the main causes of these struggles from your perspective?

Do you feel like others are contributing as much to the network as you do?

If you conduct common projects: How much insight do you feel you have in the working process of your project partners within the network?

Percentage wise, how often can you use the work prepared by your partners without any adaptations and changes from your side?

In case you had to adapt the work of your partners in the past:

Have you worked with that partner again? / Would you consider that in the future?

Did you monitor their work more closely?

How do you ensure that this does not happen again?