

STRATEGIZING AS NETWORKING FOR A NEW VENTURE

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By

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ABSTRACT

Strategizing as networking has become a strong theme especially in the IMP tradition. In this paper we focus on new ventures and how these develop through the relationships they form and how that form the firms' development. Strategizing through network development also concerns how the firm perceives its network of connected relationships and how it acts in relation to these perceptions. The aim is to identify patterns in the network development of a new venture.

The paper is based on a single case study of a new venture that has been interviewed at two occasions. The first visit was in 2009 when the company had developed its first two customer relationships, and then again in 2012 when the network had been expanded to include nine customer relationships. The case study captures the firm's 'story' of how these relationships were built and how they have developed since the start of the company in 2000.

Keywords: New ventures; relationships; interaction; strategizing; networking; pattern

INTRODUCTION

In this paper we investigate the early development process of a new venture. Previous studies of early development processes tend to focus on the lack of resources and the liabilities of newness of the new venture. It is believed that new ventures have a problematic situation since their lack of resources prevents them from investing in their products and organizations as well as forming ties with important actors. One stream of literature focuses on the initial conditions of the venture and how these conditions form the development of the venture (Colombo and Piva, 2012; Keating and McLoughlin, 2010; Milanov and Fernhaber, 2009), while other authors argue that it is possible for new ventures to act and interact within their networks in an inventive way in order to develop high performing portfolios of network relationships (Ozcan and Eisenhardt, 2009). When research on networking and strategizing is concerned, Partanen and Möller (2011, p.1) argue that “the academic literature has yet to propose a systematic managerial tool for the strategic network building process”.

When new ventures are concerned, Snehota (2011) identifies five themes of relevance for understanding new business formation. These are concerned with the interdependence of businesses, the boundary setting of businesses, organizing, interaction in business relationships and the actor as acting in business networks. With those five themes as a foundation, this paper takes an interactive view to new venture activity (Ford and Håkansson, 2006) and strategizing (Gadde et al., 2003), which point to the key issue of interacting with other firms over time (Håkansson et al., 2009).

In this paper we focus on strategizing as networking. Networking is seen as a process of developing and being developed by the (connected) relationships of the firm. The aim is to identify patterns in the network development of a new venture.

The structure of the paper is as follows. First we discuss methodological approaches to identify patterns of networking for new ventures. Then we present a theoretical framework centred on strategic processes and patterns in networking, followed by description and analysis of the networking and identified strategic patterns of the studied new venture. The paper ends with tentative conclusions and identifies areas for future research.

RESEARCH METHOD FOR IDENTIFYING PATTERNS OF EARLY INTERACTION

This paper builds on a study of a new venture, referred to as Epsilon. The product of Epsilon is a method of packaging food that is ready to eat after heating in a microwave oven, including a particular patented valve that is part of the packaging system. The only part that is developed and produced by Epsilon is the valve, but the customers need to invest in an entire packaging line including equipment for filling the plastic troughs with food, adding plastic covering films and valves, cooling the food, etc. Epsilon was founded in 2000 and is located outside Gothenburg, Sweden.

Methodological approach

To understand strategizing processes, both retrospective backwards tracing and sequential following forward are needed according to Bizzi and Langley (2012). Aaboen et al. (2012) suggest an approach to capture views of the past, present and future at different points in time by relying on a combination of narratives and network drawings. The approach includes network drawings that are developed during each visit to the case company. At the next interview the previous network drawings are validated at the same time as they are updated based on what has happened since. Consequently, the narratives collected at each occasion include both reflections on the past and description of the current state together with ideas of the future. By using the approach suggested by Aaboen et al. (2012) we are able to capture new ventures' developments over time as well as their reflections on their development. By using this approach, the boundary of the network that is subject to study is identified in an inductive manner while we rely on a deductive (theory based) approach by focusing on specific dimensions reducing the complexity of the network. The focus is on the particular events that are connected to the perceived changes in the network position of the new venture in focus. Furthermore, it is important to uncover stories of what actually happened rather than the stories that the firms prefer to remember (Hoholm and Araujo, 2011). By relying on the combination of network drawings and narratives, this approach contributes to structured reflections regarding the firms' strategizing and network development.

Data collection

In 2009 we did a first interview with the marketing manager of Epsilon regarding how the initial relationships had been initiated and developed, as well as how the relationships were connected with each other. For this interview, we had prepared an interview guide consisting of five broad themes: initial ideas of how to develop customer relationships, how the firm met its first customers, how the firm developed its first customer relationships and its impact on the development of other resources, how different customer relationships were connected to each other and how the firm foresee its development in two years time. The result of the interview was the views of the past, present and future of Epsilon at that time.

In February 2012, we revisited Epsilon and during this interview we again collected their current views of the past, present and future by using similar questions as at the first interview. This time we also brought the network drawings describing its situation of the past, present and future captured in 2009. By bringing these network drawings we received the marketing manager's reflections upon the narratives collected three years ago. The interviewee could easily relate to the network drawings and could talk us through what had happened with the different relationships since the last interview, what new that had developed and especially about different connections between relationships. The network drawings facilitated the understanding of the development of the relationships of Epsilon. The network drawings also functioned as a way of triangulation and validation of our understanding of the data collected at the first interview. We also received reflections regarding their changed ideas about the future network, which enable us to analyze the new

venture's strategizing in view of its perceptions of the network and of the formation and development of new and existing relationships.

In addition to the interviews we have used several sources of secondary data. Since the first interview in 2009 we have continuously collected information, such as articles in business press, newspapers, press releases, and information from the Invest Sweden Agency about Epsilon and stored it in a certain folder. In particular, a press release from Invest Sweden Agency functioned as important background to the new collaboration with a certain Japanese partner.

THEORETICAL FRAMEWORK

In general terms a process can be described as a sequence of events or activities that show how things change over time (Van de Ven, 1992), while Sørensen et al. (2010) argue that development processes tend to be more complex, disorderly and interactive than is visible in presentations of consecutive stages. According to Halinen et al. (2012, p. 215): "*process* research deals with how events come into being and unfold over time in a context". Halinen et al. thus emphasize that processes take place in a certain context. In this study, that context is viewed as a business network context. It means that a single firm's development cannot be properly understood without also including its business relationships and counterparts in the network of which it is part. By taking a network view on strategy processes, interdependence and co-evolution (Baraldi et al., 2007; Gadde et al., 2003; Håkansson and Ford, 2002) become central aspects of how to, from a new venture's perspective, develop and manoeuvre in a network.

There are many different types of processes taking place at various levels in networks; some processes are firm internal, while others are involving many actors in networks, such as firms and their suppliers and/or customers. To capture strategy processes in networks, they need to result in some conceptual and general outcomes. One way to accomplish this is to identify some process *patterns*, i.e. "descriptive regularities in the evolution of phases of a process over time" (Bizzi and Langley, 2012, p. 230). To clarify, a process includes a sequence of events or activities, while a pattern refers to some type of regularities. Those regularities can be identified, not only in one single process, but also in several processes and/or over time. A process and a related pattern can thus be described and analyzed with focus on many possible dimensions. One example of a study of network processes and related patterns having a broad focus is Lundgren (1995). By studying the area of digital image processing, Lundgren (1995) suggested network evolution as a process consisting of simultaneous emergence of networks of actors and a technological system. A framework was developed for analysis of emergence of industrial networks identifying three different phases of network development: genesis, coalescence and dissemination. Another example of network evolution is a study that takes resources as a focal dimension (see e.g. Baraldi et al., 2011). In this study, innovation in network processes is studied as changes in resource combinations (Håkansson and

Waluszewski, 2002), where innovation is seen as combining resources in new ways that create value for key actors in the network. The relational interfaces (Dubois and Araujo, 2006), become of central concern since they set the basic terms for how one relationship can be connected to other relationships. By looking at the changes in the interfaces, Baraldi et al. (2011), identify patterns of changes in resource interfaces with regard to producing, using and developing.

We also have resources in focus for our framework. To be able to capture patterns in new ventures' network development, a framework that enables us to study changes in certain dimensions is needed. In this study we use the framework by Håkansson and Waluszewski (2002) pinpointing how resources are developed through interaction between and within the resource categories of business units (here the focal new venture and its counterparts), its business relationships, products and facilities.

Resources can be regarded as “heavy” (Håkansson and Waluszewski, 2002) in that they constitute investments that are difficult to change. This phenomenon is also discussed as path dependence, referring to that certain technical solutions are built in historically into an industrial system and then can be understood as ‘locked-in’ by historical events (David, 1985). However, there are also studies pointing at a less history determined view of technology development (Araujo and Harrison, 2002) and even studies suggesting the opposite (Håkansson and Waluszewski, 2002b). In contrast to being inhibited by the few resources available within their firm they may make use of the resource collections of their network. This contrasting view of the role of early resources has also been elaborated on in the context of new ventures. One stream of literature focus on the initial conditions of the venture and how these conditions form the development of the venture, while other authors focus on how the venture can influence its development. Milanov and Fernhaber (2009) address the phenomenon of ‘network imprinting’ and more specifically how the size and centrality of the initial alliance partners influence the size of the start-up companies’ networks. Similarly, Colombo and Piva (2012) argue that new ventures may have ‘genetic characteristics’ that imprint the firm development. Keating and McLoughlin (2010, p. 998) focus on the entrepreneurial imagination “made up of diverse connections in knowledge that give rise to an opportunity” and apply them to the development process of a venture. In contrast, Ozcan and Eisenhardt (2009) suggest that the venture itself can influence its development by having a clear idea of its future network position.

For new ventures, Aaboen et al. (2011) discuss the process of ‘*fitting*’ a new product into an existing structure and point to the importance of fitting with the customers’ production facilities. In contrast to the process of replacing a product in an existing resource structure, another process is related to ‘*adding*’ new features to products and/or facilities of the customer. For the ‘adding to’ process, the customer relationships are considered important in order to convince the customers about the value with the new features. At the same time, the process of networking, i.e. relating business units and relationships, need to be present in order to make resources ‘fit in’ or ‘add to’ a resource structure of a customer. Certain resources and paths can thus be seen as facilitating the development process of some

resources. Again, looking at resource interfaces seems vital for understanding the strategizing processes. Hence, what resources and resource interfaces that are ‘facilitators’ of change will be analyzed to identify the patterns of new ventures’ network development.

THE STORY OF EPSILON DEVELOPING ITS NETWORK

The product of Epsilon is a method of packaging food that is ready to eat after heating in a microwave oven. A particular patented valve is included as part of the packaging system and it is this valve that is developed, produced and sold by Epsilon, although the customers need to invest in an entire packaging line. A line includes equipment for filling the plastic troughs with food, adding plastic covering films and valves, cooling the food, etc.

Epsilon currently has 15 employees and a turnover of around 35 M SEK, whereas Epsilon in 2009 had eight employees and a turnover at the same level as today. In 2009, Epsilon had just recently developed their product together with their suppliers and two potential customers. In addition they had established relationships with their two first paying customers; C1 and C2. C1 had connections with one of two potential customers that Epsilon had developed its product together with. C1 produces and sells ready-made high-quality meals in a new chain of food shops. C2 had connections with one of the board members of Epsilon and focused on potato-based food. Following soon thereafter was C3, a Norwegian company who wanted to add ready-made food to their product line of dry food. C3 was the first customer to approach Epsilon instead of the other way around. The fourth customer, C4, was a large Finnish food producer and C5 a Dutch firm originating from a potato supplier with connections to C2. Furthermore, Epsilon had started to negotiate with two companies in USA, C6 and C7, who had visited the production lines of C3 and C4. Epsilon had, at this time, also started to look into the Japanese market. For the future Epsilon anticipated that they would have to grow using their current resources either on their own or as part of a larger company. The customer relationships would be strengthened so that the customers could help each other with the further development of their facilities. Moreover, Epsilon planned to encourage their suppliers to refer customers to Epsilon and grow by developing one key customer relationship in each country.

Looking back at the position of 2009, it was first established that C2 was now bankrupt and that the relationship with C1 had not developed as much as first anticipated. However, an expansion had been made in the relationship with C1 who had invested in a new production line. The old production line had been sold to an English start-up, C11. The contact between C11 and C1 was mediated by Epsilon and their agent, A, in England. C11 is making Indian food for the British market and is also negotiating with another brand about producing their food on license. The idea that Indian food becomes very tasty using the Epsilon production system has been provided to C3 by Epsilon, and C3 is now launching three new Indian dishes on the Norwegian market.

Now, C3 is the most important customer for Epsilon in many ways. C3 has become very successful on the Norwegian market and has managed to increase its market share to 30 percent based on the use of Epsilon's products in only a couple of years. In addition, C3 has developed a large and very sophisticated production line. C3 is also willing to show its production line to all Epsilon's potential customers except to potential customers that may become competitors to C3. In practice this means that all potential customers to Epsilon are welcome except for Swedish and Norwegian actors. Hence, C3 acts as a reference customer for Epsilon. Passing on experiences from other customers, e.g. ideas like the Indian dishes, is a way for Epsilon to strengthen their relationship with C3 and using this relationship to attract other customers. Looking back at the situation in Epsilon 2009, the focus was more on connecting their customers of that time and to facilitate knowledge exchange regarding the customer's production processes, while today it is C3 that functions as an important reference customer by showing their production site to potential new customers and by supporting other customers in improving their production processes. Hence, it is of high value for Epsilon to be able to offer C3 something, as in the example with the Indian food recipes.

Through one of their machine suppliers, MS, Epsilon found a new customer in Australia, C9, who paid a visit to C3 before signing a contract. The process from the very first meeting to the signing of the contract went quickly, only a couple of months, and Epsilon considers that the visit to C3 had a lot to do with this fast development. C9 is normally producing 'ready to heat' food for restaurants in Japan and now they had been approached by an Australian food chain who wants them to produce their food for the Australian consumer markets. When C9 contacted their Italian MS the representative suggested the Epsilon solution. Another new, but smaller, customer that was quick to sign a contract after a visit to C3 was C10, a Belgian company focusing on sea-food. Epsilon met C10 at a trade fair where Epsilon displayed their products together with another one of their MS.

Epsilon has also had negotiations with two American companies (C6 and C7) that both ended without any contracts. However, Epsilon has been able to sign a contract with another American company, C8. In contrast to the two first American companies, C6 and C7, who were food producers, C8 is a packaging company.

On the Swedish market Epsilon has found another customer besides C2. C12 owns cows and sells ecological meat directly to consumers. However, not all meat parts are equally popular on the market and therefore C12 intends to make stews using the rest of the meat parts using the Epsilon packaging technology. Initially the stews will be sold in only in one part of the country but C12 hopes that it will be able to grow slowly through geographic expansion of the market.

As of today (in 2012) the most important relationship, besides C3, is a very large partner, P, in Japan. The Japanese partner is a company of 40 000 employees with 500 people involved in working with the Epsilon product and finding customers on the Japanese market. Epsilon has had employees spending time in Japan educating them in the product technology and P has invested in a laboratory line to be able to perform tests for customers. The relationship started

at the largest Japanese packaging fair in 2008 to which Epsilon had been invited by Invest Sweden. The relationship evolved into something “that is as close as you can get to a joint venture without having one” according to the marketing manager. Epsilon manufactures the valves and the Japanese partner manufactures the rest of the equipment for the Japanese market and they also manage the customer interfaces. So far, the Japanese partner has found a couple of additional Japanese customers and an additional 25 companies in Japan and Korea are negotiating and testing Epsilon’s products.

Since 2009 most of the board of directors has been replaced. The managing director has also been replaced. The current managing director was previously the manager of a large Swedish packaging company with a similar business model, i.e. selling the equipment without any particular margins and making money on the valves. Epsilon has also issued shares which provided them with MSEK 7 on two occasions. The increased capital enabled Epsilon to hire one person that is dedicated to production and one person that is dedicated to marketing and sales. The purpose for issuing the shares was to strengthen the finances but also to enable the organization to focus more on selling their current product. At the interview it was mentioned that one of the biggest changes in the organization was that they have learned to say no to customers who was demanding products that they could not offer. Previously they were more eager to find customers and therefore wasted a lot of time and money on trying to develop impossible solutions instead of selling the things they were good at. Another major change is the shift from direct relationships with food producers to relationships with packaging companies, partners and agents which entails a different position of the company in its network. It was also mentioned during the interview that these relationships together with relationships with agents and machine suppliers was something that Epsilon intends to focus more on in the future. This focus will enable several interfaces with potential end customers and the ability to reach the potential end customers through actors that visit them regularly and have the right contacts within the firms. Furthermore, Epsilon thinks that the Japanese and Australian markets suits their product very well and therefore they anticipate that they will find additional customers on those markets in addition to a few more in western Europe.

CASE ANALYSIS

The network drawings of the past, present and future from 2009 (left) and 2012 (right) are presented in Figure 1. The explanations of the abbreviations are presented in Table 1 which is a summary of the current counterparts of Epsilon and how the relationships with these counterparts are connected.

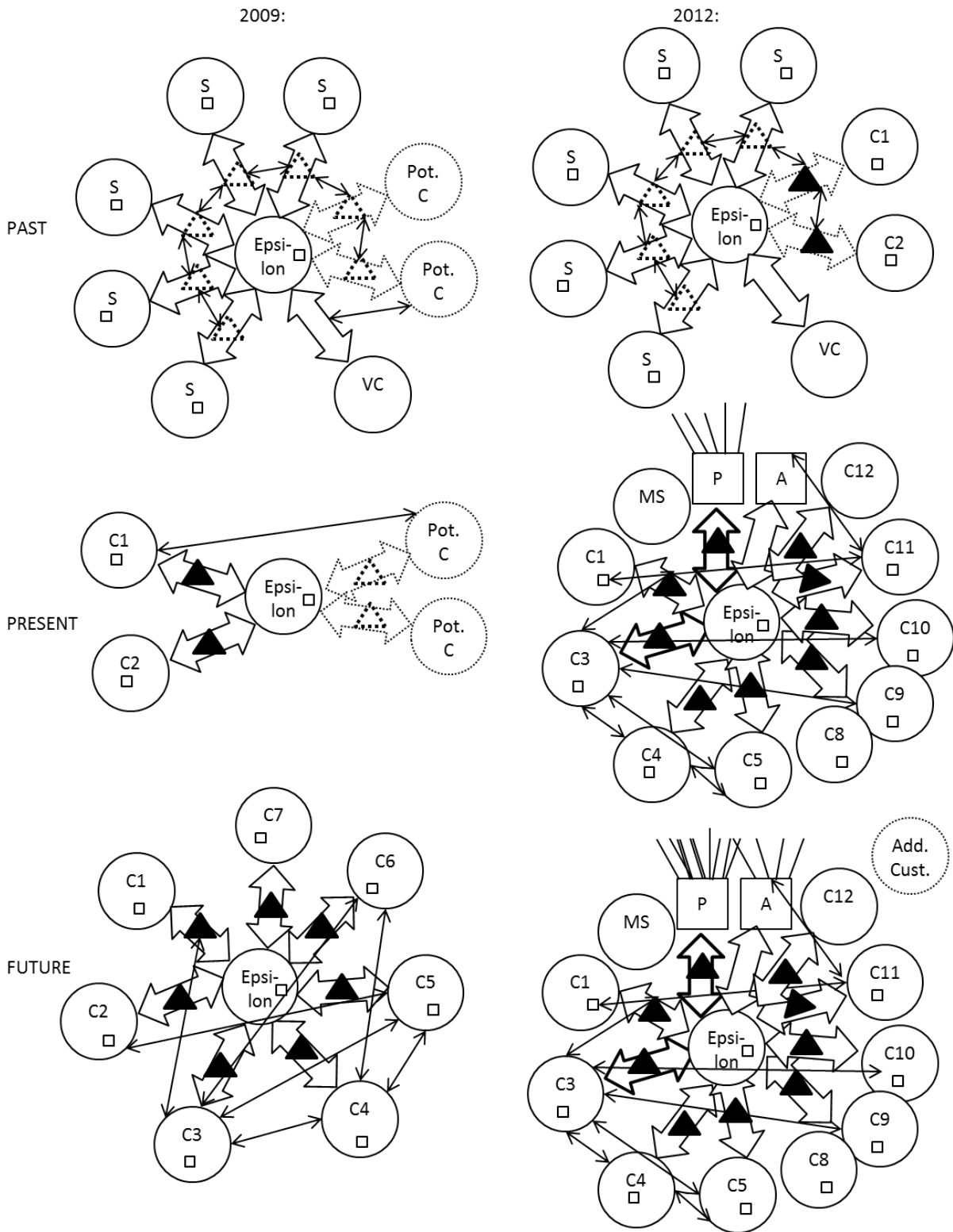


Figure 1: Network development of Epsilon

Table 1: Summary of the case analysis

Customers and partners (abbreviation)	Actor description	Key characteristics and connections to other relationships
First customer (C1)	Swedish high-quality food producer	Had connections with one of the two potential customers that Epsilon developed their product together with. Has good food and have invested in a larger production line but grows slowly.
Second customer (C2)	Swedish food producer	Had connections with one of the board members of Epsilon. Focused on potatoes. Has gone bankrupt.
Third customer (C3)	Large Norwegian food producer	The first customer that approached Epsilon. The tasty food of C1 was brought to initial C3 meetings. Currently, Epsilons most important customer.
Fourth customer (C4)	Large Finnish food producer	Approached Epsilon. Exchanged production information with C3.
Fifth customer (C5)	Dutch food producer	Had connections with C2. Was bought by a large German umbrella organization.
Sixth customer (C6)	Big American food company I	Approached Epsilon. Visited C3. The negotiations did not lead to business.
Seventh customer (C7)	Big American food company II	Approached Epsilon. Visited C4. The negotiations did not lead to business.
Eighth customer (C8)	American packaging company	Approached Epsilon. Size and scope with a better fit with Epsilon compared to the two big food companies.
Ninth customer (C9)	Australian food producer	Contact mediated by one of the machine suppliers of Epsilon. Visited C3 before signing the contract.
Tenth customer (C10)	Belgian sea-food producer	Epsilon displayed their products at a trade fair together with one of their machine suppliers. C10 entered their booth and formed a relationship with Epsilon. Visited C3 before signing the contract.
Eleventh customer (C11)	English start-up focusing on Indian food	Contact mediated by Epsilons English agent. Bought C1s first production line.
Twelfth customer (C12)	Swedish niche food producer	Approached Epsilon.
Suppliers (S)	Suppliers of troughs, valves, equipment for filling, and heating tunnel.	Important for the development of the Epsilon product. Epsilon tries to strengthen the relationships. So far, only the machine suppliers have mediated contacts to potential customers.
Machine suppliers (MS)	Suppliers of machinery to the production lines of Epsilon	Have been suppliers to Epsilon from the beginning. One of them mediated the C9 contact and another was involved on the forming of the C10 contact.
Partner (P)	A big Japanese printing firm.	Contact mediated by Innovation Sweden. P sells the Epsilon product to customers in Japan and Korea.
Agents (A)	Agents in England, Poland and Spain.	The agent in Spain used to work at Epsilon. So far, only the agent in England has mediated a customer.

In Figure 1 comparisons can be made diagonally. Both the past and the present of 2009 are included in the drawing of the past of 2012. However, the drawing of the past of 2012 does

not include as much detail as the past and present of 2009 combined. In contrast, the drawing of the past 2012 is a reflection of the past from the perspective of 2012 and then for instance the potential customers that never became real customers did not seem as important anymore.

If the future that was predicted in 2009 had materialized, the drawing of the future in 2009 would resemble the drawing of the present in 2012. As can be seen in Figure 1, this is not the case. In 2009 Epsilon predicted that they would grow by using the current resources by finding one key food-customer in each country and by mediating contacts between the customers in order to satisfy their need of information regarding production. Instead, in 2012 the agents, partners and machine suppliers have provided Epsilon with contacts with new customers.

Now, Epsilon no longer predicts that their future will only be about finding key customers but instead about finding key mediators that can provide potential customers. The relationship with the Japanese partner and the possibility of using C3 as a reference customer are seen as vital components for the future plans of Epsilon.

The strategizing as networking has changed over time. Initially the network consisted of suppliers and potential customers with the purpose of developing the product. When the development of the product was 'finished' the new focus was to sell the product. Epsilon targeted food producers and soon found out that companies with good recipes sell more food packages and consequently buy more valves for their packages from Epsilon. Since C1 makes really good food they became an important first reference customer. When Epsilon was approaching their limit regarding marketing resources, Epsilon started to mediate contacts between their customers since their customers often knew more about production related issues and only competed regarding recipes and in different geographical markets. Especially C3 became an important reference customer due to their size and sophisticated production lines. When Epsilon received additional funding and started to go to trade shows they came into contact with their Japanese partner. Epsilon considers its Japanese partner as a good way to find many additional customers. Similarly, the machine suppliers with their unique access to important persons within the potential customers and Epsilon's agents mediate customer contacts. These actors are more knowledgeable regarding when the potential customers may find Epsilon's technology useful and simultaneously Epsilon becomes more knowledgeable about what kind of customer demands they are able to meet with their current product. These two factors together with the opportunity to bring potential customers to the C3 production have enabled Epsilon to shorten the negotiation process between the first contact to signed contract for the last couple of customers. This means that there has been a shift from focusing on finding *customers* with good recipes towards finding *mediators* that put Epsilon in contact with 'the right' customers at 'the right' point in time. In short, the strategizing of networking for Epsilon has developed through a set of 'stages'. First, there was a focus on product development in a situation wherein Epsilon did not have many counterparts. They were consequently trying to make the most of every contact with potential customers. Then there was a stage wherein they focused on getting in contact with potential customers by mediation between customers to develop the use and production contexts of the product application. And as a third stage they have put the focus on developing the company's business network by

developing relationships with some key counterparts who can mediate contacts between the company and potential customers. In parallel to these developments, the company's partners have also taken on some of the roles that the company had to take care of itself in the early days, not least system integration. This enables the company to concentrate on its product and thus by limiting the scope of its market offering, as part of larger packaging systems, expanding its business and network.

CONCLUDING DISCUSSION: STRATEGIZING AS NETWORKING

The aim of the paper is to identify patterns in the network development of a new venture. In the paper we have identified a set of phases that Epsilon has gone through from identifying the 'right' suppliers to developing their product, finding customers, developing relationships with reference customers, and of connecting customers to finding mediators to the right customers at the right time. Both regarding the suppliers and the customers Epsilon has gone from seeking broadly until a critical mass of working relationships have been identified and then Epsilon has shifted towards developing their current relationships further in order to utilize them towards finding additional customers.

The opportunity for new ventures to manoeuvre within their network has been described both as difficult because of the structural imprinting (Milanov and Fernhaber, 2009) as well as something that is possible to do in order to develop a high performing customer portfolio (Ozcan and Eisenhardt, 2009). Our findings from Epsilon to some degree agree with them both. It is perceived as difficult to find new customers and Epsilon therefore focuses on developing the relationships they already have in line with the structural imprinting ideas. However, as can be seen in the example of Epsilon, there seems to be a lot of possibilities to develop in an innovative way both *within* and *between* current relationships.

Hence, the analysis of Epsilon's strategizing and networking suggests that managers of new ventures may focus on the opportunities inherent in developing their relationship further, both within and between their current relationships. In the process, the roles of the different customers may change in terms of which customer is the most important and in what ways they may be seen as potentially important in developing relationships to other parties.

In the case study presented and discussed in this paper we have seen how the strategizing has shifted from an initial focus on '*what to sell?*' into '*whom to sell to?*', and then into '*who knows the ones to sell to?*'. By working together and through others the company is now able to expand their customer base and to work more efficiently to close each deal. They have built and become part of a network of different parties that together may develop their abilities to expand their complementary businesses. However, this is what the company perceives at this point in time. In time they may change their view on how to strategize in view of its current relationships and network:

“... business interaction at any point in time can only be understood as influenced by previous interactions and by actors’ interpretations of these together with their intentions and expectations of future interactions.” (Furlan and Huemer, 2008:1).

In line with other scholars we suggest that strategizing is clearly an interactive activity. By networking, companies develop their positions in their business network. This ‘business network’ can however be perceived in different ways and the emphasis on strategizing based on business network conceptions may also differ and change over time.

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