

**Perceiving Network Opportunities –
An Action Research Study of Strategizing in Business Networks**

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Abstract

This paper focuses on how managers use their understanding of their business network as a strategic tool in their decision making process. Recent research in the areas of network management and business relationships shows increasing interest in these issues, particularly on how managers relate perceptions about their business network to decision-making and network strategizing activities. Our study adopts an action research approach to understand managers' developing 'theories-in-use' regarding their business network environment, and how they can strategize in this environment. During interventions as part of the action research cycle, our sample of managers are introduced to concepts about how to grasp different business networks and strategizing activities, such as the *ARA model* (Håkansson and Snehota, 1995), different *networking* choices in terms of strategic actions to affect a firm's network position such as the *6C model* (Håkansson et al., 2009), and the *network picture* methodology (Henneberg et al., 2006; Henneberg et al., 2010; Mouzas et al., 2008). The use and adaptation of these concepts results in new managerial problems being articulated, which in turn initiate a new round of interventions which build on the previous experiences of the participating sample of managers. The action research methodology is employed as part of a longitudinal case study of the top management team of a Scandinavian food manufacturing company.

Keywords

Strategizing; Business Networks; Action Research; Network Pictures; Decision-making, Sense-making

1. Introduction

Companies need to make strategic decisions to survive and develop. Relational theory claims that these decisions are particularly concerned with the issue of how a firm should relate to other companies and actors, and respond to the actions of other actors. Such strategic decisions, which are related to the activity of *strategizing*, are of key importance as a company's success or failure is closely connected to the outcome of these measures. To facilitate strategic decision-making, there exist several theories and concepts seeking to help managers understand and make sense of the world beyond their organisational boundaries. For instance, in the strategy literature, SWOT-related analyses commonly suggest that a company should match its internal resources to its external environment (Ansoff and McDonnell, 1988; Menon et al., 1999), but its usability for strategic decision making has been questioned as it often results in general findings which are not used in the later stages of strategy (Hill and Westbrook, 1997). Porter's Five Forces (Porter, 1985) is another well established framework for identifying and describing the external environment, but has been argued that it fails to recognise the importance of interactions with counterparts and ignores 'complementors' (Brandenburger and Nalebuff, 1995); i.e. products or services which complement the offering of another company by adding value to mutual customers. Moreover, the Five Forces framework's narrow focus on threats and power positions may further downplay the fact that the core of strategy is the ability to build and maintain relationships. How a firm handles its relationships with others is in itself a core task (Lowendahl and Revang, 1998).

The marketing channel literature similarly argues that a company needs to respond to changes in its external environment to optimize its channel relationships (Christopher, 1992; Lebow, 1948; Mallen, 1977; Stern et al., 1989; Stern and Reve, 1980). This is further detailed in the industrial network approach (INA) which suggests that a company does not relate to a

faceless entity such as a marketing or channel environment, but it is interdependent with identifiable and unique counterparts, i.e. linked to others in a network of connected business relationships (Håkansson and Ford, 2001; Håkansson and Snehota, 1995). In such a network, an actor has a distinct network position based on its connected relationships. These relationships or dyads can be understood in terms of how the resources are tied together, how the activities are linked, and how the actors interact (Håkansson and Snehota, 1995). Strategic decision-making in terms of this approach is therefore concerned with strategizing choices regarding how to interact with, and mobilise as well as influence, other actors through connected relationships. As such, this will affect a company's network position, i.e. how it relates to others in the business network, which affects its performance, in terms of resource availability or sales opportunities (Håkansson et al., 2009; Johanson and Mattsson, 1992; Turnbull et al., 1996).

One way to understand how companies seek to manage in their network of relationships, i.e. how managers make strategizing decisions, and how these are implemented, is to understand their cognition and sense-making, which provides insights into the 'working theories' they use for making decisions. Of particular interest with regard to decisions about strategy in business networks is the concept of managers' network pictures. Network pictures are managers' theories-in-use, and have been introduced as one way of understanding how managers make sense of their network of connected relationships, i.e. their environment, how they perceive strategizing options, and how they evaluate these collectively. While several studies have developed an understanding of the structures and characteristics of network pictures, as well as the behavioural outcomes (Abrahamsen et al., 2012; Corsaro et al., 2011; Henneberg et al., 2009; Henneberg et al., 2006; Kragh and Andersen, 2009), the *managerial process*, i.e. the specifics about how managers use their understanding of the network, has remained somewhat unexplored. Therefore, this study will utilize an action research design to

understand in detail the processes behind how managers use different ways of making sense of complex business networks for strategizing decisions. Using network pictures, as well as other network and relational concepts associated with the INA, an intervention-based longitudinal study with top managers of a case company will explore the processes, learnings, applications, and adaptations with regard to strategizing in business networks. Thus, we as researchers deliberately intervene in the process at different points in time (by providing conceptual input, as well as suggestions for strategizing tools), and then observe the outcome of these interventions.

Our contribution is therefore to introduce network pictures (and associated INA concepts) as a strategy tool that may help managers in their decision making process. As such, we explore the use of network pictures in a novel setting, which is also a supplement to existing strategy management literature. Furthermore, to the best of our knowledge, this study represents the first action research within the INA tradition.

The paper starts with a discussion of how actors relate to their wider business environment, first from the perspective of different theoretical approaches, then by introducing the industrial network approach. Implications for strategizing in networks are discussed, and network pictures are introduced as one way of understanding strategic decision-making. The rationale for adopting an action research design is introduced, and the case company as well as the research process is described. Finally, we discuss our findings, both from an empirical point of view, and its implications for theory, before we propose some managerial implications and further research (As this is a work in progress paper, we briefly present the tentative empirical findings at this stage. The implications of our paper will be duly discussed in a subsequent competitive version).

2. The firm, the environment and the network

In the general marketing literature, such as the channel and supply chain management literature, there exists a long tradition of conceptualizing the business environment as something exogenous that companies have to account for and take into consideration. The business environment appears as external ‘market forces’, and actors have to respond to an ever-changing marketing environment and varying customer needs (Gaski, 1984; Pfeffer and Salancik, 1978; Quinn and Murray, 2005; Stern and Reve, 1980). For instance, Stern and Reve (1980) and Achrol et al. (1983) argue that the internal environment of a channel, i.e. the relationship between the actors, is influenced by the external economic environment: *“Both from the perspective of analytical expediency and theoretical generalization, it is reasonable to assume that there are important clusters of forces which seem to affect channel dyads differently. Theoretically, the environment pluralism of channel dyads can be handled by distinguishing the forces creating direct and indirect external dependencies for a dyad”* (Achrol et al., 1983, p. 57). Similarly, Stern et al. (1989) posit that *“two goals of marketing management are to ensure that the controllable changes are properly coordinated within the channel to ensure that the uncontrollable or environmental changes do not adversely impact the channel. Therefore, understanding what makes up the environment and how it affects channel management is particularly important”* (Stern et al., 1989, p. 27).

An alternative perspective about the business environment is provided by business network concepts, particularly those used by the International Marketing & Purchasing Group (IMP). In the IMP approach the concept of actors as being interdependent with other actors in relationships within a wider business network has been a main conceptual theme, contrasting with the more autonomous actors as represented in the general management and channel literature. From this perspective business relationships are not seen as a ‘marketing channel’, or a ‘supply chain’ or ‘value chain’ (i.e. a mechanistic distribution tool), but as a network or

web of interconnected relationships based on manifold interactions between different actors (Ford and Håkansson, 2006; Håkansson and Ford, 2001; Håkansson and Snehota, 1995). This perspective challenges the idea of the autonomous company making independent decisions about its strategy, i.e. the assumptions embedded in micro-economic theory and transaction cost economics as well as the resource-based view of the firm, or the resource-dependency theory (Pfeffer and Salancik, 1978). The network perspective according to the IMP also challenges the general marketing perspective that a company can select (a) market segment(s) and obtain a desired position in such segments based on some strategy decisions the firm has made and enacted. Hence, developing a product that will attract the attention of potential customers through market communication activities, determining a pricing policy based on forecasted demand, and deciding upon a marketing channel that most efficiently transfer the product from manufacturer to end users, are all activities which from the IMP perspective are not independently decided and implemented by individual firms. In contrast, the network approach sees the customer/supplier (more general, the interaction partner) as being an active part in the development of the relationships. The success of a company may be explained by its ability to develop and handle the interconnectedness and interdependent characteristics of its direct business relationships as well as its wider business network in which it is embedded. Håkansson and Snehota (2006) seminal article is titled “No business is an island.” This implies that a company is not an isolated unit in market but is linked to the larger environment by its interconnected relationships. As such, the network becomes both a prison which constrains, and an opportunity which enables, and it also provides the possible tools to exploit these opportunities, but these tools have to be used in connection (sometimes in competition) with other actors in the network. The possibilities for a single actor to develop its relationships depend on the wider structure of the network. Performance in (and of) one particular relationship is dependant on other relationships. Thus, the resource development

takes place between companies, i.e. in the business relationships, not within the companies. In this context efficiency is consequently dependent on external relationships; it is not an internal matter of organizing, but an external matter of strategizing (Håkansson and Snehota, 2006). Relationships are in themselves a resource for the creation of new relationships. This is the logic behind business networks and therefore, from this perspective, there exists no such thing as a ‘business environment’ understood as marketing channels. Rather, the IMP perspective looks at how a company is connected to its wider network through its interdependent business relationships. Interdependence may be studied in terms of how *activities* are linked together, how *resources* are utilised, and in terms of the strength of bonds between the relevant *actors*, also termed the ARA-model (Håkansson and Snehota, 1995). It is the interplay between these dimensions which is the driving force in a relationship: “*Activity links may limit or facilitate resource adaptations; resource ties may limit or favor the possibility of activity co-ordination and actor bonds may open up the possibility of developing activity links and resource ties*” (Ford et al., 2008, p. 14). Links, ties and bonds within one relationship are further connected to other relationships. Strategizing in this context is thus related to how a company can operate and position itself within this complex web of connected relationships.

3. Strategy and the IMP Approach

3.1. Strategizing in business networks

Strategic analysis is conventionally done with the ambition of understanding the ‘fit’ between a particular organization and the environment wherein the organization intends to compete by creating value for itself and certain stakeholders. Various tools and frameworks are used to conduct such analyses. Barney’s (1991) resource approach (linked to the resource-based view of the firm) and Porter’s (1985) value chain model (linked to the industry-based view of the

firm) represent resource and activity analyses and are two of the most widely used frameworks for internal analysis. Porter's (1980) Five Forces framework has reached popularity regarding industry (external) analysis. The conventional resource-based view of the firm (RBV) contends that resources within a firm which have specific characteristics provide the conditions for firm-level sustained competitive advantage (Barney, 1991) The RBV, commonly critiqued for being static, restricts its focus to firm-bound internal resource combinations viewed as the driver of competitive advantage for the single firm controlling these resources. These lines of work have received criticism from various angles. According to Håkansson and Snehota (2006, p. 258) "*research on business strategy has been concerned primarily to understand what makes a business organisation effective in its environment, and to explore the organisational processes required to enhance its effectiveness*". Strategy is seen as a process of "*adapting the pattern of activities performed by the organisation to the external environment*" (ditto). Three assumptions in the strategy literature generally are made about how environmental conditions influence companies (Håkansson and Snehota, 2006). First, the environment is a faceless, atomistic and beyond the influence or control of the organization. Hence, organizations must identify and exploit opportunities by adapting to the environment. Secondly, a firm must reallocate and adapt its internal resources to be efficient in an ever-changing competitive environment. Thirdly, management must interpret these changing environmental conditions and formulate and interpret new patterns of activities. However, if we regard the environment not as a faceless entity, but as identifiable parties and unique counterparts with distinct identities, then it becomes more relevant to analyse how a company handles interdependencies and interconnectedness in the larger context, how it tries to manage within existing and potential business relationships, and how it can thereby change its network position. In this context the network approach is less concerned with the competitive aspects of companies, and more concerned with how mutual interdependence

affects the actors. It is based on the resource interaction approach (Baraldi et al., 2012; Håkansson and Waluszewski, 2002) and builds on the earlier RBV-based work of Penrose (1959). However, the underlying logic of the resource interaction approach differs significantly from the RBV. The processes of resource interactions are more important than the resources per se. Moreover, this type of research approach expands the focus from the single firm or dyad to the level of inter-organizational networks. The main attention concerns the processes of resource combinations, re-combinations, and co-development of resources that happen through the interaction among organizations. Consequently, from the IMP perspective, resources are not given, but actors must develop a known use of a resource in order for it to render a service. The development of resources into combinations occurs interactively in business relationships, and it requires adaptation, co-specialization and learning over time (Håkansson & Snehota, 1995).

Within this approach, an actor's ability to act seems somewhat limited because of an infinite web of ties within the business network which leads some authors to perceive only limited importance for strategizing activities: "*Accordingly, to suggest strategies for action is problematic: The sheer unknowability of effects and outcomes in a network means that we may even conclude that the effectiveness of strategic business decisions over time is likely to be largely a matter of luck!*" (Ford and Mouzas, 2007, p. 8). Strategy, and strategizing, in the network approach thereby become an issue of handling the complexity of relational interdependence, moreover "*strategic action is defined as efforts of a firm to influence its position in the network of which it is part*" (Gadde et al., 2003, p. 358). Still, it is possible to say something about strategies, strategizing, and the interplay with the characteristics of business networks; recently, such issues have become a topic for further research within the IMP tradition (Baraldi et al., 2007).

In networking terms, strategizing is concerned with choices related to ‘how to network’, i.e. how to manage in business relationships and affect one’s network position. In these terms networking is seen as “*managers’ attempts to change and develop interactions and relationships with others*” (Håkansson et al., 2009, p. 195). These authors suggest three aspects of networking related to strategic choice. The first aspect of networking relates to choices within existing relationship, linked to opportunities and limitations in business networks (Håkansson and Ford, 2001). The second aspect is concerned with choices about position within the business network, and related to decisions how a company is simultaneously influencing and being influenced by its network. The third aspect is concerned with how to network, where a company is exerting control over and at the same time is being controlled by other actors. This is also referred to as the *6Cs of networking* (Håkansson et al., 2009): Conform or Confront relating to the first choice, Consolidate or Create relating to the second aspect, and Coerce and Concede relating to the third one. However, such networking decision are preceded by a specific understanding of the embedding network, i.e. by the ‘theories-in-use’ which managers form about the network, its characteristics, and therefore its options and rigidities. Such issues are discussed in terms of how actors make sense of the business network, i.e. how they form their *network pictures*.

3.2. Strategy, strategizing, and network pictures

Networking decisions, i.e. strategizing, must be seen in relation to the network pictures that actors have of their surrounding network. According to (Ford et al., 2002; Håkansson et al., 2009), these concept are related to each other within the *managing in networks*-model, consisting of three different dimensions: network pictures, networking activities, and network outcomes. These three dimensions are all inter-connected. Actors have their individual *network pictures* or perceptions of their network, based on their experience from previous

interactions, or based on expectations about the future. Network pictures may be common views and stereotypes related to certain types of network; they are the theories-in-use of managers (Cornelissen, 2002), subjectively explaining who should do what in the network, who is in control of the network, why certain outcomes come about in the network, etc. The network pictures concept suggests that an actor interacts with the network on the basis of his/her personal interpretation of the network or his reality (Abrahamsen et al., 2012; Henneberg et al., 2006; Henneberg et al., 2010; Mouzas et al., 2008). Network pictures are seen as a way of representing actors' knowledge of their network, or managers' network theories (Mattsson, 1984; Mattsson, 1987) helping them to make sense of their complex environment and to guide their decision making and managerial behaviour (Cornelissen, 2002; Welch and Wilkinson, 2002). Based on such sense-making about the network, certain *networking activities* are evaluated (i.e. strategizing options are chosen). As companies simultaneously confront/conform, consolidate/create or coerce/concede in different business relationships, based on their network picture considerations, these processes induce certain *network outcomes*, based on the (re)actions of other actors in the network. Such network outcomes can relate to a single actor, the dyad (business relationship), or the network.

This an activity perspective of strategizing in networks linked to the INA contrasts with traditional strategy concepts. In other words, there is a need for an approach that acknowledges that the strategic problem for the individual firm is to participate in the process of dynamic interactions, i.e. being seen as a viable participant in the networks that evolve (cf. Wilkinson and Young, 2002). Rather than pursuing 'victory' over others based on superior firm specific resources, activities or monopoly-like industry positions, "...*the scope of strategizing shifts to somehow making it together with customers and suppliers, distributors and development partners*" (Ford et al. 1998, p. 107). Making sense of and assessing interaction via network picturing, i.e. understanding one's own network picture as well as

those held by other actors, hold a vital part in this type of strategic analysis as “...*no manager has a complete view of the network and each has to interact with others to try to learn from them or to convince them about their view*” (Håkansson et al., 2009, p. 194). In this respect, a company’s ability to strategize depends on its ability or inability to shape other companies commitment and belonging to the network, i.e. helping ‘Them’ in imagining a ‘networked Us’ (Huemer et al., 2004).

There is however little research undertaken to explore how managers use network pictures to assess their strategic options, the practices around how they learn in business networks and adapt network pictures, and how they decide on strategizing activities. Of particular interest is the dynamic nature of these processes: First, with regard to issues around temporality, i.e. how these strategizing decisions and feedback loops come about over time; and secondly, how groups of managers together make sense of the environment, and how their network pictures affect each other. To understand these issues further, our research is based on a specific case study and utilizes an action research framework to address ‘mode 2’ research questions, which have conceptual knowledge development as well as managerial problem-solving as their aim. This research approach highlights the managerial relevance of the research outcomes, and the problem-solving involvement by the participating researchers (Gibbons et al., 1994; Van Aken, 2005).

4. Research Design and Methodology

4.1. Research questions

The research project is aimed at addressing two interconnected research questions, which are related to the issue of strategizing in business networks. In particular, the research questions we focus on are 1) how do managers express and utilize their network pictures and associated INA concepts, and 2) how do network pictures and associated INA concepts translate into

managerial analyses and networking options? Aligned with these research questions, which are mainly aimed at generating academic knowledge, are certain research aims fostering the performance of the case company, in line with ‘mode 2’ research. These research aims were addressed using an action research framework and embedded in the process, but are not given *a priori* like the academic research questions.

4.2. Case study company characteristics

In 2011 we conducted a case study in which marketing and top-level executives of a large industrial corporation in Norway’s food industry participated. The focal company, Hundstad Fabrikker A/S¹, is a leading Norwegian manufacturer of goods and equipment for the food industry. Annual turnover for 2010 was over a billion NOK. The company has a rich tradition. It was founded over a hundred years ago, and today is the market leader worldwide in its chosen field. It has three factories and three sales offices located in Norway totaling 200 employees. In addition, it has sales offices in the UK, Ireland, Australia and Japan. Hundstad has two major competitors in Norway, and between them these three competitors have an 80% market share. On the customer side the picture of a concentrated market is very much the same; 20% of the industrial customers represent 80% of Hundstad’s turnover, the two biggest customers being Scanco and Luxor. The industry is highly innovative, and Hundstad tries continuously to come up with new product solutions to stay ahead of their competitors and create value for their customers. The products are mainly divided in two categories; bulk and

¹ The name of the company (as well as of competitors and other actors in the network) was changed due to confidentiality reasons.

superior. Bulk items represent good quality products, but they are low on innovation, include few customer adaptations and low profit margins. This product range represents the majority of sales for Hundstad. The superior product range is more innovative and is based on tailoring product characteristics to specifications of customer need; this is often done in close contact with the customer's R&D departments. Profit margins for these products are higher, and an important task for the sales force of Hundstad is to try to convince their customers to move their demand from bulk items to superior items.

Even though the overall industry is typically characterized by few sellers and buyers (which would normally result in strong relational ties between actors in the network), bulk sales are characterized by more transaction-based interactions where the industry customers shop around based on price. At the same time, the customer companies want to have several suppliers to choose between, so annual rounds of industry negotiation ensure that one supplier never achieves a dominant position. The superior products are more relationship-based as a large degree of adaptation between the parties is necessary to create such offerings. Hundstad's main marketing and sales strategy is therefore to move their customers over to these types of relationships which in their view act as a barrier to competition, represent higher profits, and enable continuous learning and adaptations with key customers.

4.3. Action research design

We choose to utilize an action research framework for our case study analysis, as this approach may be suitable for marketing research (Perry and Gummesson, 2004). Action research “... aims to contribute to the practical concerns of people in an immediate problematic situation and to the goals of social science by joint collaboration within a mutually acceptable ethical framework.” (Rapoport, 1970, p. 499). This choice was driven by the characteristics of the research questions and the notion of *mode 2 research*, which relates

to the managerial relevance of the research outcomes, and the problem-solving involvement by the participating researchers (Gibbons et al., 1994; Van Aken, 2005). Furthermore, the overlap between action research methods and uncovering theories-in-use by managers has been noted before (Beverland and Lindgreen, 2010). As such, a *participatory action research* (PAR) was deemed most appropriate to develop practical knowledge and improve organizational learning (Reason and Bradbury, 2001). Participatory action research is based on cycles of intervention, action, and reflection by the participating researchers as well as the managers in the case company (Murray and Ozanne, 1991; Ozanne and Saatcioglu, 2008; Reason, 2006). However, PAR is not only about improving practical issues, i.e. organizational performance but concerns itself also with evaluating certain theories in a specific setting (Reason and Bradbury, 2001). In the case of our research, we test certain strategizing concepts related to the Industrial Network Approach. Underlying action research is an interpretivist ontology, i.e. knowledge is contextual and socially co-created. Therefore, managerial solutions are negotiated in value-laden environment (Ozanne and Saatcioglu, 2008; see for arguments linking action research to pragmatism and realism McKernan, (2006) and Reason, 2006). Epistemologically, both researchers and managers are implicated in the knowledge-creation process, and the resulting accounts are collaborative results of such processes (Reason and Bradbury 2001). This inevitably means linking academic conceptual models with the managerial theories-in-use (Ozanne and Saatcioglu 2008). In our research design, we use the practice of ‘academic interventions’ to introduce concepts related to the INA, but then privilege ‘local expertise’, i.e. the managerial theories-in-use, to change and adapt these concepts in the context of specific strategizing issues faced by the case company. Heron (1996, p. 41) called this the “*primacy of the practical*”. This process is followed in a cyclical way, with interventions, use and adaptation, implementation, and reflection phases resulting in further interventions, and so on (Susman and Evered, 1978), a process often

referred to as the *action research spiral*. This cyclical process ensures that managerial activities ('actions') have been instigated, as "*learning occurs when understanding, insight and explanation are connected with action*" (Argyris, 2003, p. 1179)

To ensure the validity of our PAR process, we use the five (interconnected) criteria commonly employed to test the quality of action research (Anderson et al., 1994; Reason, 2006; Reason and Bradbury, 2001): *Outcome validity* refers the fact that a managerial problem has been solved as part of the PAR. *Democratic validity* assesses if all relevant stakeholders participate fully in the research process. Whether ongoing learning and development is fostered relates to the *process validity*, while *catalytic validity* is the extent to which collaborators are invigorated by the learning processes, also going beyond the research aims themselves. Finally, *dialogical validity* refers to peer-related check-and-balance systems regarding interpretations made during the PAR (Reason and Bradbury 2001; Ozanne and Saatcioglu 2008; Wilson, 2004).

4.3.1. First intervention phase

The first invention (kick-off intervention) was made with the case company in November 2011. The senior management team, consisting of 20 people representing marketing, sales, product development, and finance were invited to a two-day workshop. This was part of an ongoing executive management program by a university. Here, the participants were introduced to a range of business subjects such as marketing, team leadership, business economics and project management. The workshop was part of the marketing module. The case intervention made the participants familiar with the general theoretical assumptions of the IMP, particularly the Industrial Network Approach and more specifically the interaction model (Håkansson, 1982), the ARA-model (Håkansson and Snehota, 1995), and the 6 C-

model (Håkansson and Ford, 2001; Håkansson et al., 2009). A particular focus was given to the network pictures concept.

During the workshop, the participants were divided into three groups. These groups represented the sales regions where the participants had their main customers. Each group was then asked to pick a particular relationship with a customer company that they wanted to target, i.e. improve through particular strategizing decisions. The relationship could either be a particularly troublesome one, or a relationship that was part of the upcoming annual negotiation rounds and which therefore needed particular attention. The participants were then asked to describe this relationship in terms of the ARA-model. Using this relationship and the ARA-model analysis as basis for their analyses, the groups were asked to draw the relevant connected relationships to this focal relationship. Particularly interesting were those relationships that could help strengthen the focal relationship by interplay between the actor bonds, resource ties and activity links across these connected relationships. Furthermore, hindering relationships were also singled out as relevant. Finally, the groups were asked to picture what their focal relationship and the connected relationships would ideally look like in three years time. Additional to this analysis, they were asked to use the 6C model to devise network strategies to attain this desired state (see table 1).

<p>Main theoretical perspectives introduced:</p> <ul style="list-style-type: none"> • The Interaction Approach • The ARA model • The 6 Cs model
<p>Main tools used to conduct exercise:</p> <ul style="list-style-type: none"> • Network picture of focal relationship • Network picture of connected relationships • Network picture of ideal future network (in 3 years time) • Assessing strategic possibilities in terms of the 6Cs

Table 1: Kick-off Intervention Content

After this workshop, the participants were asked to bring these analyses and new perspectives back to their daily working environment, and ‘put theory into practice’. They were not

restricted in terms of how to use these perspectives and tools, and were encouraged to adapt them to their specific task and context. Thus, after the first intervention we wanted to understand how managers used (and changed) the concepts and tools, how they embedded them in their managerial practices and routines, and what new insights they created in terms of finding strategizing options. Furthermore, the resulting networking activities were captured which these managers and Hundstad had tried to implement to help them in addressing their strategic marketing challenges.

4.3.2. Second intervention phase

In March 2012 we conducted two follow-up workshops with managers that had participated in the first intervention phase. These two workshops had different characteristics. The first workshop had the form of a group discussion, where the researchers took an active part in the agenda. At the start of the group discussion the participants were given a short summary of the main concepts that had been introduced to in the previous intervention session in November. They were then asked to report and describe if and how they had worked with these perspectives and tools, and if so what insight they had gained and what actions they had taken. In the second workshop, the researcher played the role as a participant observer where the researcher observed the managers discussions around how they had used the concepts, and what insights they had gained. Table 2 provides the structure of the second intervention:

<p>Short repetition of main concepts from the first intervention</p> <ul style="list-style-type: none"> • The Interaction Approach • The ARA model • The 6 Cs model
<p>Key questions for group interview:</p> <ul style="list-style-type: none"> • Report and description of how group has worked with these perspectives and tools • Insights gained and actions they had taken

Table 2: Second Intervention Content

5. Analysis and Findings

This section presents the findings from the two interventions. As this research project is ongoing, these findings are tentative and will be enhanced through further intervention loops.

5.1. *How have the managers used the tools?*

Clearly, the group has used the theory and tool extensively in their daily management practice. They have analysed Hundstad's relationships with its two main customers, and have created network pictures (interestingly, they refer to network pictures as "relationship maps") of how these main relationships are connected to other relationships. This has been mainly an internal exercise, but in some cases they have included their customers in the development of the maps. As one respondent reports: *"We have drawn maps of two particular relationships with Scanco, one of our biggest customers. In this particular relationship it is difficult to keep track of who the most important actors influencing Scanco's buying decisions are"*. Then they included the customer in the exercise: *"We used the relationship map to identify Scanco's organization and identify their key people. Then we took this exercise with us to the customer's organization, and asked them about who were influencing whom. Not directly, but we tried to verify our picture and come up with people we needed to have a relationship with. So we are starting to see some results now. We have had three different meetings with people at Scanco to find out who is influencing the buying decision. This is a complex process, and we are not finished."*

They have also used network pictures to map their relationship with Luxor: *"We have had a similar process mapping our key relationships with our other main customer. We have experienced varied results. One of our management team has taken it very seriously. He has created a good relationship map of his region and has made some action points. Our challenge is that our sales people represent different regions, and they have different*

motivation. It is also different being in a workshop and being in real life. And we have had a hectic schedule.” Here the respondent points to several reasons why they see this process as difficult. In his terms, one needs to be dedicated to using this tool as this clearly contrasts with other strategy tools they are familiar with. Another respondent picks up this issue: “But at the same time it is not easy. I like the clear and concise strategy tools, such as the SWOT analysis. But this type of analysis gives me added value, and we can apply it in combination with the SWOT. When we for instance have our Key Account Management analysis, we get a lot of information that we can be used in mapping our relationship.”

5.2. What insights have the managers gained?

Creating and recreating network pictures as well as the associated concepts have apparently helped them to broaden their horizon and see a bigger picture. But this is also a complex process: *“In the first relationship type concerning Scanco, this was not easy to do it because it soon gets very complex. It is easy to start off with the relationships you have, and pick out the names. But when you start to look at the suppliers of that company, and other suppliers, it rapidly gets from a very small to a very huge picture. But it's a good exercise. You see all the connections, and even some connections that you are not aware of. This was an internal discussion that started during the first workshop, but we have also discussed some of these issues with Scanco. This has been a good process.”* These exercises have helped the managers to better understand their customers and their internal processes: *“So now we understand Scanco’s organisation and their decision-making process better. Last week we had a breakthrough. We had struggled for a long time to find the right people to approach at Scanco. In our meeting we were able to establish just that, and we could approach these people and make a case for our superior items. Our information has helped us targeting the main people in the Scanco’s organization which is responsible for developing new items”.*

This has also helped Hundstad to give more precise information about the usage of their products to the right people at Scanco, and correct evident misunderstandings about product performance: *“Scanco has previously used our products wrongly, and have often complained to us about lack of product quality. When we have tried to approach them with information about how to better use our products to make their production more efficient, we have not had access to the right people. But now we have”*.

The network pictures have further helped Hundstad in identifying more distant actors in the network which also have an impact on their customer relationships: *“For the other relationship with Scanco, the product development case, we have become aware of other actors that may be influential to our relationship, such as industry standard agencies, government organisations, NGOs, etc. We have asked us who can join the project, what are the consequences if they do and how can we manage the process.”* They also discuss how these more distant relationships are related: *“Can we sell our superior feed to other customers once we have developed it for Scanco?”* In this case they discuss how the development of one key customer relationship will have an impact on other customer relationships. This has given them new perspectives on their network: *“As a team we have broadened our horizon and we have challenged any pre-made assumptions.”*

These exercises have also given Hundstad a better overview of their ties to Luxor, the other main customer, and this has given them new insights. *“We have made a relationship map for Luxor on a worldwide basis, and realized that we don't have relations to the key decision-makers. We are revising our sales organization based on this key insight. In January we met with the management team of our biggest customer, and we had high level discussion with them about their plans for the future”*. They also describe that: *“We have had meetings with Luxor's CEO and CFO, and have discovered that they know very little about the value that our items create for them. We came to notice that these two had considerable respect for*

the CEO of Scanco, the one who said that he would not buy our superior items. We were challenged to explain to Luxor why they should buy these items from us in the first place, and we could voice our arguments and convince them. We were also invited along to their end-customers, NGOs and relevant authorities, and had the possibility to explain the value that our items create for Luxor's end products to these actors. This is some achievement! Now we are invited along as their preferred supplier. All this is part of our relationship building. We have a good relationship with Luxor in the first place, but everything can be improved. We have mapped our key relationships with Luxor, and built it from a small picture to a bigger picture."

Hundstad has also gained a new perspective on how they network with people from the customer organisations. For instance, an annual customer "get-together" seminar took a new format this year: *"In February we went away to a sunny destination with 110 people representing our all our customers. There were people with different functions and levels; from top management to the production line. Together this represented an interesting network, and a good opportunity to mix and meet. We have done this for 15 years, but this time I realized that this was a good opportunity to interact with my network. On a 24 hours basis".* This improved Hundstad's ties to their customers: *"And it was productive; we deepened our relationships, and actually signed some new contracts. Earlier we have mainly held this seminar for the lower-level management and the production people. But this year we decided to include our top management, and invite top people from the customer side. And it was very successful!"* This has given Hundstad a competitive advantage in their view: *"This is unique to us. We had group exercised and played beach-volley together. We bonded with them, said that we are proud to be in this industry together. Next time we are thinking of doing network picture exercise with the customers as part of the seminar."* Hundstad also believes that sharing network pictures may be a good way to discuss an upcoming issue with Scanco.

Recently, this customer has threatened to start production of their own items by vertical integration: *“We need to have a dialog with them about their sincerity of this move. Now we think it is mainly a tactical move, but we are not sure. Sharing our network pictures with Scanco could be one way of approaching them. This could be a good framework for discussion. ‘How do you see the world?’ ‘We see it like this’. Scanco believe that we have higher margins that we actually have. Opening up to them will make them see our cost structures, and defer them from setting up their own production.”* The respondents say that in the future they will use this as a procedure in how to get information about their customers: *“And we will revisit our customer and further broaden our perspectives about the network and get information about the key players.”*

To sum up, we see that Hundstad has found both theory and tools applicable to their strategic discussion about how to handle their customer relationships. Using network pictures to map their connected relationships, they have gained a broader perspective on how their direct relationships are influenced by other actors. It is also interesting to notice that the respondents have used network pictures to map relationships to key people in the organisation as a way to identify the decision makers. They have not used the ARA model to map resource ties and activity structures. Rather, they have looked mainly at the actor bond dimension of the network. It is also notable that Hundstad has brought the customers into this exercise. This has given them the opportunity to verify their network picture, and also as way to discuss the current challenges to the relationship, and how these can be solved mutually. Clearly, there needs to be a large degree of trust for this to be possible. It also appears that the respondents are using key elements of interaction theory when they discuss how to approach their customers. As one of the respondents noted, he now sees the traditional “beach and sun” seminar from a new perspective.

6. Discussion: Some tentative observations

We will structure our discussion around the two research questions we previously have introduced: 1) How do managers express and utilize their network pictures, 2) how do network picture translate into managerial analyses and network options.

6.1. How do managers express and utilize their network pictures?

We see that Hundstad has found both theory and tools applicable to their strategic discussion about how to handle their customer relationships. Using network pictures to map their connected relationships, they have gained a broader perspective on how their relationships are influenced. It is also interesting to notice that the respondents have used network pictures to map relationships to key people in the organisation as a way to identify the decision makers. They have not used the ARA model to map resource ties and activity structures. Rather, they have looked mainly at the actor bond dimension of the network.

It is also notable to see that Hundstad has brought the customers into this exercise. This has given them the opportunity to verify their network picture, and also as way to discuss the current challenges to the relationship, and how these can be solved mutually. Clearly, there needs to be a large degree of trust for this to be possible. It also appears that the respondents are using key elements of interaction theory when they discuss how to approach their customers. As one of the respondents noted, he now sees the traditional “beach and sun” seminar from a new perspective.

Some of the respondents have also shared network pictures with their customers, and this has given them the ability to recreate their own perceptions of the network. This exercise has also helped them to get better information about the network, and help them to create a more complete network picture. This is also a good example of how a company can shape a

common understanding of a network. In this case, Hundstad has helped their customers understanding a ‘networked Us’, in Huemer et al’s (2002) terms.

6.2. How do network picture translate into managerial analyses and network options?

Mapping their key relationships and connected relationships has apparently enabled these managers to see connections which they have not been aware of previously, and they have regarded this as a useful exercise. They are now better able to understand their customers’ internal decision-making processes, and they are in a position to correct misunderstandings about product quality which previously has restricted usage of Hundstad’s products in their customers’ production process. They have also become aware of more distant actors, which means that they have broadened their network picture and their scope of the network.

Having gained a broader network picture which includes decision-makers and influencers, Hundstad’s team has been able to decide on ways to interact with these connected actors. This has resulted in an improved resource structure where the resource interfaces are more aligned. This again has had consequences for other resource interfaces, and knowledge created in one relationship may be transferred to connected relationships. In this case, Hundstad are discussing ways to use their resources that have been developed for particular customers, available for their other customers.

Another interesting observation is that the management team has been more aware of how they interacting with their customers, and also their customers’ customers. Meeting and discussing common issues around their relationship with Luxor in the first place has enabled Hundstad to follow Luxor’s customer to its end customer, and interact with this customer directly. This has created a new resource interface in terms of knowledge transfer between Hundstad and Luxor’s customer, i.e. a new network connection. The management team also has plans of using network pictures in their future discussions with their customers. They see

it as a good way of resolving upcoming issues, particularly the threat by Scanco to establish its own production line. By confronting Scanco's network picture, the managers may get additional information about the seriousness of this threat.

So far we have little information to say anything specific about how networking activities have been fed back to managerial network pictures. What we do know is that the managers have re-created their network pictures after discussing them with customers, so there have been at least some examples of this type of feedback loop. More important is the evident organizational learning that has taken place as a consequence of this exercise. There ready-made assumptions about their customers have been challenged, as one respondent put is. It is also interesting to notice how some of the managers approached the annual customer seminar with a different attitude. Previously this was seen as a get-together for shop-floor customer representatives. Now, this venue was extended to include people from the entire organisation that enabled networking on a large scale. Clearly, the respondents had gained a network perspective on how to handle their customer relationships.

Perhaps the most interesting finding here is that Hundstad has changed the model for its sales organisation. This process has been ongoing for some time, and this decision is not related directly to the outcome of this exercise. Nevertheless, the sales managers came to realize that their current organisational structure did not reflect the insights they gained when creating a broader network picture. Hundstad has traditionally organized its marketing and sales activities by relationships with a Key Account Manager (KAM) being responsible for each customer. Having looked at how these relationships were connected, they now realized that they needed to organize their marketing activities in a way that reflected this complexity. Hence, they have decided to move away from a KAM sales organisation to a model where regional managers are responsible for all relationships in one region. They hope that this new structure will enable them to deal with the complexity of all the connected relationships in a

region. In a sense they have moved from a relational perspective to a network perspective in their dealings with their customers.

7. Conclusion

Our paper has been concerned with how managers understand their surrounding network, and what strategic actions they take based on this understanding. To do this, we have adopted an action research methodology where we have introduced a group of managers to several theoretical concepts aimed at broadening their understanding of industrial networks, and we have stepwise assessed how they have put this theory into practice. One obvious concern that can be raised about our research design is that it may seem deterministic in the sense that we have deliberately given them the concepts that we later report on. As such, action research is not value free. We take an active part in constructing the phenomena we later want to investigate.

However, our discussion have indicated that taking a network perspective on the external 'environment' may help a company in understanding the mutuality or reciprocity that business relationships depend upon. Several of the statements presented above suggest that these concepts have helped our managers to better understand how their activities are tied to the customer's activities, and that their connected relationships are mutually interdependent. Moreover, our findings suggest that network pictures provide a powerful tool in this exercise, as it helps managers to structure their knowledge or their surrounding network and helps them see the various strategic network options that can be undertaken. Our discussion has also suggested that network pictures may be re-interpreted by aligning them with customer's (i.e. interaction partners') network pictures. In this respect, creating network pictures becomes a continuous interplay between cognition and action.

However, our discussion also indicates that creating network pictures soon becomes a very complex exercise as any company has numerous interfaces and connected relationships. There is clearly a need to develop a methodology or a tool that makes this process more manageable where one moves from a ‘broad’ to a ‘narrow’ perspective and aids the decision-making process. We therefore suggest the following methodology as one way of aiding this process (see figure 1). This is now being used as part of a further intervention with the case company.

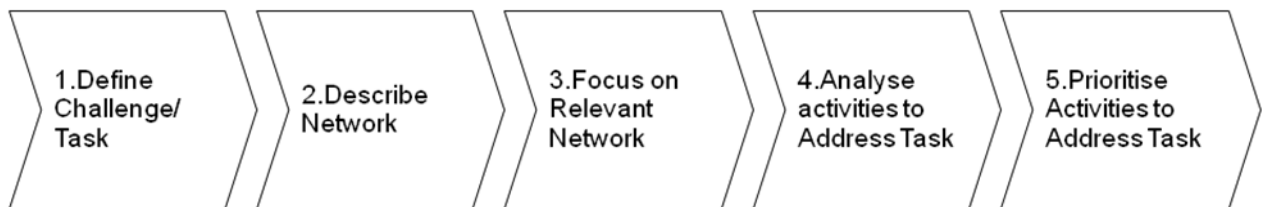


Figure 1: Overview of Process Tool for Focusing Strategic Activities

1. Define Key Challenge/Task

- This stage starts with defining crucial challenge, commonly agreed by the management group. A possible task is to start with a key relationship that needs to be addressed. This could for instance be around current negotiations with key customer(s).
- Use “Relationship Audit” (Ford et al., 2011) to understand key issues. An important task here is to ask yourself how your relationship partner would see the same issues
- **Outcome of this stage: Defined Relationship Challenge**

2. Describe Network

- This stage starts with drawing a Network Picture relating to the challenge (e.g. a crucial business relationship). Use ARA to detail Network Picture.

- Then this key relationship can be expanded to include the various interdependencies affecting this key relationship(s) (i.e. what/who affects the challenge in what ways?)
- **Outcome of this stage: Network Picture**

3. Focus on Relevant Network

- Analysing this Network Picture regarding the importance of different actors, resources, activities for the crucial challenge.
- Care should be taken to understand criteria for ‘importance’, and could be based on the “Relationship Audit”.
- The most important actors, resources, activities and actors can then be prioritised, and the un-important can be eliminated
- **Outcome: Focused Network Picture**

4. Analyse activities to Address Task

- Derive possible activities to affect critical challenge
- Use an understanding of the focussed network picture to check that you address all direct and indirect relationships with partners, and that all ARA aspects are covered
- **Outcome: Longlist of possible activities to address challenge**

5. Prioritise Activities to Address Task

- Define criteria to prioritise activities, e.g. impact on task; ease of implementation
- Apply prioritisation criteria to the longlist of activities
- **Outcome: Shortlist of prioritised activities to address challenge**

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