

# EXPLORING AND EXPLOITING THROUGH HORIZONTAL CO-OPERATION – A LONGITUDINAL STUDY OF SMALL AND MEDIUM SIZED FURNITURE MANUFACTURERS

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## Abstract

While the concepts of exploration and exploitation (e/e) are strongly grounded in learning theory, the resource-based view of the firm and the discussion of dynamic capabilities, relatively few studies, however, explicitly examine the role of resources that can be accessed from external actors through strategic and business partnerships. In the same vein as business network research tradition, with its focus on relationships as the mechanisms to resource development and utilization, we believe that highlighting the role of external resources will enrich the understanding of an actor's possibilities to implement exploration and exploitation strategies, particularly in the case of small and medium-sized firms, which is our empirical focus.

This paper addresses the role of horizontal co-operation for resource development and use for e/e-strategies. A longitudinal, multiple case study of SMEs in the furniture industry reveals how horizontal co-operation projects and ventures provide possibilities to exploration and exploitation in different resource classes, and provide learning effects in the long run. The results also highlight the role of horizontal relationships for SMEs in helping develop market-related resources, such as brands and bonds to customers.

**Keywords:** exploration, exploitation, environmental change, horizontal co-operation, resources

Work in progress -paper

## INTRODUCTION

Today's business environment is characterized by turbulence, uncertainty and competitive pressures, which challenges traditional business models and pushes firms to strategic renewal in adapting to environmental change. Especially during the last decade, scholars have linked firm long term success and survival to the concept of organizational ambidexterity, which can be defined as an organization's ability to be aligned and efficient in its management of its existing business demands, while simultaneously being adaptive to changes in the environment. This can be achieved by balancing exploitation and exploration (e/e) activities. (Raisch & Birkinshaw, 2008; Raisch et al., 2009; Aspara et al., 2011; Jansen et al., 2006; O'Reilly & Tushman, 2004; Volberda et al., 2001) Exploitation refers to the use, refinement, and extension of a firm's current knowledge, resources, capabilities and relationships, while exploration implies the firm's search for, discovery of, and experimentation with new alternatives (March, 1991: 75, 81). In more practical terms, *exploitation strategies* manifest themselves as improvements of existing processes, products, customer relationships, distribution channels and markets. They are normally aimed at improving efficiency and quality, and they reduce variance in the firm's activities. *Exploration strategies* again imply experimentation with new alternatives regarding technologies, products, customers, distribution channels and markets. They aim at innovation and creation of new business opportunities, and normally increase variance in firms' activities. (March, 1991; Sirén et al. 2012; Jansen et al. 2006)

Exploitation strategies are needed in the short term to maintain competitiveness in current business and to create a cash flow to maintain the firm's routine activities, as well as to finance exploration. Due to the lower level of risk and better possibilities to relatively fast payback, there is a tendency to give preference to exploitative projects. The excessive use of exploitation at the cost of exploration, however, is risky, since it blocks out the development of new resources and capabilities, which are critical for survival and success in a changing environment in the long run. On the other hand, excessive exploration at the cost of exploitation is equally dangerous. It may lead to a situation where the firm invests merely in innovative projects, which never pay back, the new ideas remain undeveloped, and ultimately the firm fails to develop new competences and resources that future business can rely on, and form a basis for later exploration of exploitation. (March, 1991)

Mastering both strategies is essential for long term survival and success, yet difficult to reach, and it is common that firms fail when trying to make improvements in their existing businesses and at the same time developing new business (O'Reilly & Tushman, 2004; Volberda et al., 2001). One of the key reasons is the fact that these two strategies are i) based on different kinds of resources, competences, and processes, and ii) they compete for scarce resources. Thus, the extent to which a firm can implement explorative and exploitative activities, relates heavily on managerial abilities to lead different kinds of business logics and tensions on different organizational levels (Andriopoulos & Lewis, 2009), the firm's resources and capabilities, and firm's ability to develop them accordingly. Especially the roles of slack resources have been pointed out as a main requirement of ambidexterity. (Garcia et al. 2003; Sirén et al. 2012; Garcia et al. 2003; Cao et al. 2009)

The resource issue is especially critical for SMEs, as they are typically characterized by resource scarcity (McDermott & Prajogo, 2012, Raisch & Birkinshaw, 2008; Burbpitt & Valle, 2010; Yang & Li, 2011) and thus a reliance on resources accessed externally through relationships. Empirical research in the e/e-field is rather limited when it comes to SMEs, but proposes that it would be beneficial for them to concentrate in just one of the strategies, or in extreme cases, that *exploration* strategies are not even a real option for SMEs. The studies of Auh & Mengue (2005) and Cao et al. (2009) present a new view in this respect, showing empirically that at least well performing SMEs are able to conduct both strategies simultaneously. Recognizing the SMEs' internal resource limitations, which may inhibit their possibilities to explore and exploit, we pounce the idea of Lubatkin et al. (2006) who have stated that SMEs experience competitive pressures to jointly pursue exploration and exploitation. Within e/e-literature, Cao et al (2009) stress resource availability from external sources as one the key factors enabling SMEs to overcome their resource constraints, and also Purbitt & Valle (2010) recognize the possibility for the use of external resources, however, without empirical evidences.

While for instance the business network research tradition emphasizes that most of the resources and activities that the individual company relies on, are outside of the company's boundaries and control (Ford & Mouzas, 2008) and therefore require networking and relationships to be mobilized, the role of external resources as an enabler of exploration and exploitation strategies has not received explicit attention in e/e-literature. Exceptions to this are studies on inter-organizational alliances and acquisitions (c.f. Chen & Katila, 2008; Hoang and Rothaermel, 2009; Rothaermel & Alexandre, 2009). These, however, have been conducted in the context of large firms in highly dynamic, high tech industries, while the focus of our study is on SMEs in a traditional industry, where actors are likely to approach resourcing through collaboration and horizontal co-operation in a different manner. For example Segarra-Ciprés, Bou-Llusar & Roca-Puig (2012) demonstrated empirically that the most R&D intensive firms and sectors explore external sources of knowledge to a greater extent than those with are less R&D intensive. Moreover, the effectiveness in the use of joint ventures and in the hiring of R&D personnel is significantly higher in high technology intensive firms. Alliances with customers and competitors are more effective in low technology firms. There are suggestions that the knowledge search strategies used in in low technology sectors tend to focus on market related sources (customers and competitors). (Segarra-Ciprés et al., 2012). Additionally, the technological and industrial environment in which firms operate plays an important role in the way external technological knowledge is accessed. In conditions of rapid technological change, more flexible forms of organization such as technological alliances, are involved. (Segarra-Ciprés et al., 2012; Hagedoorn & Duysters, 2002, Rosenkopf & Schilling, 2007).

The dynamics of resource and capability exploration and exploitation as a response to changes in the external environment have been neglected in earlier e/e research (Simsek et al., 2009). As stated before, firms need to explore and exploit in order to manage in current and future business, and the external environment is considered as an important contingency factor, affecting the relationship between e/e strategies and performance. Even though there are studies that take into account the relationship between e/e, environmental factors and performance, they are based on a static approach, and do not reveal how external factors (discontinuous changes, new business opportunities or threats) stress, provoke or induce firms to explore and exploit, and how firms are able to balance the tension between exploration and exploitation. One of the main reasons for

this is that most studies have used a cross-sectional approach, which is not able to reveal the dynamism and clear dependence between explorative and exploitative resource development and environmental factors. Not surprisingly, the need for longitudinal and dynamic approaches has been called for (c.f. Raisch et al. 2009). Our study responds to this challenge by empirically examining exploration and exploitation in a longitudinal setting.

SMEs' collaborative resource development and deployment through exploration and exploitation as a way to respond to changes in a business environment forms the core of this study. We approach explorative and exploitative resource development from the product market strategy point of view, which has been considered as a key element of organizational adaptation in strategic management and marketing literatures, but neglected in e/e studies. According to this view, one of the key elements of a business's ability to successfully adapt to its environment, is through product market strategy decisions (c.f. Miles & Snow, 1978; Johnson et al 2003) designed to match available resources and capabilities with market environment in ways that allow the business's strategic goals to be achieved (Yarbrough, Morgan & Vorhies, 2011).

The purpose of the study is to analyze how firms, by collaboratively exploiting existing resources and capabilities and exploring new ones, adapt their product market strategies in response to the changes and challenges of the business environment. That is, what kind of explorative and exploitative activities they engage in, in developing their offerings and making decisions about customers as a response to changed environmental conditions, and what kind of external resource mobilization these activities require.

More precisely, we focus on the strategic motives for seeking and developing external resources and the forms of expression of horizontal co-operation. Finally, we analyze the outcomes and effects of horizontal co-operation over time.

## **THEORETICAL FOUNDATION: ENVIRONMENT, E/E-STRATEGIES AND RESOURCES**

Environmental conditions are generally agreed to significantly affect firms' strategic behavior and performance. From the business network point of view, it is asserted that strategizing cannot realistically be considered as being merely an individual company activity, given the complexity, interconnectedness and interdependence within the network in which the company operates. Instead, strategy in business networks is said to involve working with, against, through and in spite of others (Ford & Mouzas, 2008; Ford et al 2011). Changes in networks, from incremental ones such as adaptations within existing relationships to radical ones, such as sudden termination of relationships, can be seen as forces influencing the business network on a broader level (Dahlin & Havila, 2007). The individual firm, being embedded in a network, thus constantly reacts and adapts to changes in its environment.

Environmental factors are recognized as one of central aspects affecting firms' strategic behavior also in exploration and exploitation literature (Raisch & Birkinshaw 2008; Raisch ym., 2009; Jansen ym. 2006; Cao et al. 2009; Yang & Li, 2011). Their importance originates from the generally accepted view that the environmental conditions – typically measured through

environmental dynamism and environmental competitiveness and munificence – determines up to a certain extent which strategy leads to good performance under certain environmental conditions (e.g. Raisch & Birkinshaw, 2008: 394; Jansen et al. 2006: 1666; Cao et al. 2009; Yang & Li, 2011), and consequently, what kind of resources and competences development (explorative or exploitative) are needed. The empirical results, however, are inconclusive about what kind of e/e – strategies and their combinations lead to good performance under different conditions. One reason for that may lay on the fact that these studies treat environmental factors rather general level, and do not go into detail how the environmental factors affect the business and/or strategy of an individual firm.

Sirmon, Hitt & Ireland (2007) have stated that changes in industry structure, changing customer needs and preferences, fluctuation in market demand and rivalry and environmental shocks are factors that may make a firm's existing strategic position unprofitable, and also make it questionable whether the existing resources and capabilities contribute to success in a changed situation. We believe that especially these factors are the ones that create turbulence in SME-dominated low tech industries, where the small manufacturing firms are often highly dependent and in a weaker position in the relationships to their main customers, as well as dependent on the actions of other market actors. In traditional industries, technological leaps may not necessarily be the main driving forces for new resource development, whereas for example the inability to fulfill customer needs with existing products or the discontinuity of an important relationship may instead be significant triggers to experimentation with new resources, which simultaneously may imply also networking with new actors. In this study, we will empirically examine how firms engage in new, horizontal relationships in order to develop resources required in adapting their product market strategy to the changing network context. Product market strategy implies how the firm intends to reach its goals related to e.g. market position, new customers, increased sales to existing customers and the provision of customer satisfaction and value (Morgan et al 2003; Huges & Morgan, 2007; Kouropatis, Huges & Morgan, 2012)

The notion of explorative and exploitative learning, proposed by March (1991), can be seen as the foundation for the body of research that is increasingly being carried out on the topic of e/e and organizational ambidexterity within organization and management literature, especially related to phenomena such as organizational learning, technological innovation, organizational adaptation, strategic management, and organizational design. It has even been considered that organizational ambidexterity is in the process of developing into a new research paradigm within organizational theory (Raisch & Birkinshaw, 2008).

As stated before, exploitation is the use, refinement, and extension of a firm's current knowledge, resources, capabilities and relationships, and exploration the search for, discovery of, and experimentation with new alternatives (March, 1991). These notions differ from each other in the sense that the former refers to the existing resources and knowledge the firm possesses in a certain moment, whereas the latter refers to the new resources and knowledge the firm develops or accesses. Having the option to define exploration as something that is new to the world, to the industry, or to the firm (Aspara et al. 2011), we choose to use the latter perspective, as our unit of analysis is the individual actor and it's co-operating activities. We define *new-to-the-firm* rather roughly, and following Popadiuk's (2012) argumentation, view an activity as exploitative when it is following a firm's existing, familiar path, and as explorative, when the firm is experimenting

with something new. In a similar manner as the operationalization was carried out in the study by Aspara et al (2011), exploration here refers to the extent of newness of the activities and requirements for new resources and knowledge when the firm is making product and market decisions to adapt to changes and challenges in its environment. Exploitation refers to the use and refinement of existing resources and knowledge that the focal firm already has.

Exploration and exploitation are commonly studied as representing pure strategic options, meaning that for example new product development is treated as explorative *or* exploitative. There seems to be a relatively clear opinion that pure forms do not commonly exist, and firms normally develop new resources and capabilities in one resource class, and leverage on existing resources in other resource classes (Raisch & Birkinshaw, 2008; Aspara et al. 2011). In other words, even when an innovative product is developed, it may be based on existing technologies and sold to existing customers. Hence, it depends on the level of abstraction and study frame, what is interpreted as exploration and exploitation.

Exploration and exploitation are activities through which actors activate, transform and utilize *resources* (c.f. the ARA model by Håkansson & Johansson, 1992). The concept of resources has been approached from different theoretical standpoints, including the resource based view (RBV), dynamic capabilities (DC), learning theory, as well as business network theory (March, 1991; Aspara et al. 2011; Popadiuk, 2012; Håkansson & Snehota 1995; Håkansson & Waluszewski 2002). While different researchers have categorized resource types and entities in varying ways, they commonly acknowledge that resources can come in for example tangible, intangible, social and technological forms. The nature of resources is seen as heterogeneous and embedded (Håkansson et al. 2009), implying that their value depends on how they are used, with which other resources they are combined. This also allows for resources to receive a different value and usefulness at different points in time, as the resource environment around the resource in question changes. Embeddedness, again, refers to resource investments being both a possibility and a restriction, as the use of a resource has implications for the use of other resources it is connected with. In the development processes related to resources, path-dependencies play a major role (March, 1991; Aspara et al. 2011; Popadiuk, 2012; Barney, 1991; Teece et al. 1997; Håkansson & Waluszewski 2002), affecting the way an actor is able to make decisions on how to explore or exploit resources.

We position our study in the e/e-field, where previous studies have strongly focused on the firm's *technological* resources (including the firm's knowledge of technology, process routines and products), while saying little about other types of resources, especially the market-related ones. For example customers are mainly reduced to serving as a tool for the exploitation of current technologies and products (Aspara et al. 2011). This view can be contrasted with the industrial network approach's view of business relationships as a distinct resource entity, alongside products, facilities and organizational units (Håkansson & Waluszewski, 2002) Recent e/e research has, however, also increasingly acknowledged the importance of resources related to customers and markets (Vorhies et al. 2011) as a resource domain relevant in its own right, in which both exploration and exploitation can be conducted (Aspara et al. 2011). Aspara et al. (2011) make a distinction between a) Technology resources (a firm's knowledge of products, processes, and technologies), b) Intellectual assets (a firm's knowledge of customers and markets and c) Relational assets: (market actor's knowledge of and bonds to firm and its brands,

including relationships, distribution channels, business networks etc.). In this study, we will follow this categorization and examine how exploration and exploitation manifests itself within these resource classes.

Being dominated by quantitative research approaches, e/e-studies have typically measured exploration and exploitation through investments made in different resource areas (e.g. production, new technology, new product development, new markets). These studies have, however largely neglected the interacted nature of development efforts and given little attention to the utilization of resources outside the focal firm, which again is highlighted by research within industrial marketing. Some empirical e/e-studies have, nevertheless, examined alliances and acquisitions in organic and inter-firm resource development. Chen & Katila (2008) have proposed that by outsourcing, firms can engage in both e/e-activities at the same time. Katila (2002), for example, has empirically demonstrated how new product innovators explore externally created knowledge, while simultaneously exploiting their internal knowledge. Alliances can for example be formed for the purpose of explorative new product development, whereas commercialization alliances can be used to enhance exploitation of (previous) product development. Acquisitions, in turn, can deepen existing resource bases in an exploitative way, or they can move the firm into to new, explorative areas that require substantially different resources. (Chen & Katila, 2008) However, these studies are conducted in the context of large firms, high tech industries, and/or complex products, i.e. contexts where the speed of technological innovation is high, and success often depends on the firms' ability to provide technologically advanced solutions. Larger firms also typically have more capital resources and power, which play a different role in external resource mobilization than in smaller firms. Moreover, Katila & Mang (2003) found out that in the context of high tech firms patent protection, high R&D intensity of the discoverer, partners' prior collaboration experience, and support infrastructures in the industry can speed up collaboration. We believe that in a traditional, SME-dominated industry the way the external resources are used and accessed, may be different. We can assume that traditional industries are not driven by technological leaps, but rather, that the high dependence on other market actors and asymmetrical relationships with customers (c.f. Humala, 2004), as well as the need to adapt to macro-level changes in the environment are more probable drivers that push SMEs to search for external resources for the explorative and exploitative purposes.

Our study fills a gap in the existing e/e-literature with regard to the use of external resources accessed through horizontal networking. Our aim is not to deeply explore the co-operation process itself, but to understand how SMEs *use* co-operation and horizontal networking in order to explore new product and market opportunities and better exploit the resource investments that have already been made, as a mechanism to adapt to the changing and, at times, turbulent business environment they are operating in.

## **RESEARCH METHOD**

For this research purpose, we have chosen a comparative, multiple case study approach. The benefit of a multiple case study is that results are grounded in varied empirical evidence, which strengthens analytical generalization and theory building. It applies a replication logic, in which each case serves as distinct experiment helping to confirm or disconfirm the findings drawn from the other cases. (Eisenhardt & Graebner 2007: 30; Yin, 1994; Siggelkow, 2007: 460)

To select the cases, we have followed a theoretical sampling protocol (Eisenhardt 1989, Yin, 1994, and Eisenhardt & Graebner 2007: 27) where cases are chosen to illuminate and extend the relationship and logic among constructs. First, all selected cases have participated in horizontal co-operation within the study period, and the data is rich enough to analyze the circumstances and the outcome of them. Secondly, even though the firms are similar enough for comparative and replication purposes (classified as SMEs and furniture producers), they represent enough heterogeneity.

Our empirical context is the Finnish furniture industry, which serves our purpose to examine a low-tech industry, having undergone significant changes and challenges its economic conditions and industry structure within the last decades. Such a context reveals mechanisms of how firms have managed through this turbulence and the use of longitudinal data enables real-time snapshots into different points in time (1986, 1990, 1993, 1995, 200, 2005 and 2013 forthcoming), with different environmental conditions.

Our main data is interview data, complemented with archival data in the form of e.g. accounting information and industry reports. Both authors also have industry knowledge from other research projects, providing additional background understanding of the described events.

The data consists of 36 interviews (6 per firm), and includes both real-time and retrospective data. In every interview round the informant (owner-manager) has been the same person. The interviews were based on a semi-structured questionnaire with many open ended questions. The questionnaires contained the same basic themes in all interview rounds, but with some variation related to environmental circumstances (e.g. in the time of economic recession questions related to recession were included). The interviews in 2005 were personal interviews, while the others were done as telephone interviews. The 2005 round also included a critical incident technique in addition to the interviews, which was useful to assess the strategic importance of the co-operation activities.

The analysis was carried out as within-case analysis and comparative analysis, searching for cross-case patterns. A detailed within-case analysis is considered very important, allowing the unique patterns of each case to emerge before the pattern generalization across cases. (Eisenhardt 1989: 540). Our within-case analysis includes case-study write-ups and longitudinal charts as proposed by Eisenhardt (1989: 540). First, the data was organized on longitudinal charts in order form a rough view of the firm's development within its business context during the investigation period. With the help of this chart, a preliminary version of a case description was drafted. The chart was especially helpful in order to locate the firm activities to the time they had occurred as well as to understand the contextual factors (firm internal and environmental) surrounding and shaping them. Moreover, it helped us to generate understanding about the multiple factors affecting firm behavior, and to figure out possible causalities between decisions, actions and relationships, which became evident after several years of their occurrence. More elaborated versions of the chart and case description were developed through several iterations between original data, case description and the chart.

Lead by the research objectives, theoretical framework and the analysis mentioned above, we developed an analytical framework in order to first analyze each case individually, and secondly, to conduct a comparative analysis. The analytical framework consists of the following steps: 1) *The identification of co-operative activities on the horizontal level*. This step serves as a starting point for the analysis, aiming at identifying the co-operation patterns and their content (what and with whom). 2) *The context and drivers for co-operation*. This step takes into account the contextual factors (external and internal to firm) surrounding the firms at the moment of co-operation. It analyses the external turbulence (especially related to demand fluctuation, rivalry, customer needs, structural changes within the industry) the firms face, which affects its situation in its existing product market domain, the issues which motivate firms to explore and exploit collaboratively, and what they expect to achieve by doing that. 3) *Exploitative and explorative resource use and development*. In this step we analyze to which extent co-operation includes exploitative and/or explorative resource use and development. Of particular importance is to understand the relationship between environmental turbulence and explorative and exploitative resource development. Typically, in the quantitative studies exploitation has been measured as investments or improvements of existing technology, processes, and products and markets, whereas exploration is measured as investments in innovative or new technology, products, and markets. Based on our longitudinal data, we analyze exploitation and exploration against the firms' history, utilizing the notion of "newness to the firm" (c.f. Aspara et al., 2011). 4) *Economic and strategic outcomes of co-operation and explorative and exploitative resource use and development in the short and long term perspective*. In this final step we analyze the outcomes of collaborative exploration and exploitation. As the results of exploration usually become realized only after a period of time, involving a process of learning, we pay special attention to the expected long term effects of exploration.

Based on the analytical framework we (both authors separately) analyzed each cases, and discusses discussed our interpretations, which later allowed us to conduct comparative analysis. In the cross-case comparisons (see appendix 1), we looked for similarities and differences in the co-operation patterns identified in each case.

## EMPIRICAL ANALYSIS

When examining the horizontal co-operation efforts and the resource combining and utilization issues related to them in the six case firms, we were able to identify three distinct co-operation patterns: a) resource aggregation pattern, b) a strategic resource development pattern, based on resource complementarities and adaptation, and c) an ad hoc co-operation pattern. These co-operation patterns occurred in different times and under different kinds of environmental conditions, and included both exploitative and explorative resource use and development. However, especially the *depth* and *quality* of resource exploration as well as the strategic intensity of the co-operation patterns were found to differ at different points in time. Next, we shall examine the co-operation patterns in more detail.

**The resource aggregation pattern** manifested itself in the form of co-operative activities that bundled together existing resources (such as existing products) of several actors into a larger

entity, and took the form of publicly supported export rings and other export projects such as setting up a trading house and a retail store with joint manufacturer efforts. This pattern is characterized by exploitation of existing technological resources (mainly production technology and products) and exploration of new markets.

These co-operation ventures were timed in the early to mid-1990's, in a situation when the domestic economy was in a severe depression, which strongly affected the furniture sector in the form of decreased demand. A simultaneous development in the macroeconomic environment was the liberation of trade within the European Economic Area in 1992 and Finland's membership in the European Union 1995. This, on one hand, exposed the domestic manufacturers to increasing international competition, but at the same time, also offered new possibilities to enter international markets. At this time, all but one of the case firms reported being economically pressured due to the dropping sales and terminated business relationships, e.g. as a result of customer bankruptcies. Also the remaining relationships were often characterized by uncertainty and economic pressures to lower prices, at the expense of profitability. What made the situation extremely complicated for the firms was the fact the previous decade had been "the booming decade" for the furniture industry, and the continually growing demand had induced firms to invest heavily on efficient production facilities and the new economic situation implied a dramatic decline.

In this situation, exporting was by most case firms seen as a significant avenue to attempt to compensate for the loss of sales on the domestic market. These firms, however, did not possess much or any previous knowledge and resources regarding exporting, and the public sector development incentives directed at supporting exports and internationalization offered great opportunities to get access to resources needed to access export markets. Thus, the driving forces for these forms of co-operation were both a necessitating financial pressure to seek new markets, as well as the pull of new market opportunities and collective action, including the availability of such external resources (e.g. exporting or target market intelligence), that were required, but which the firms did not possess (or have the willingness or capacity to develop) themselves. The public support came both in the form of funding, as well as project activities, including publicly provided resources such as customer contacts, promotion and export expertise.

Participating in these publicly supported export rings and export projects implied that the manufacturers could overcome the typical SME problems of resource limitations. Existing resources from several manufacturers were combined, allowing the firms to access new markets with shared costs and risks, and with sufficient critical mass. Through this kind of an aggregated offering, the firms expected to be interesting, credible and competitive in the eyes of big, export customers. Publicly provided funding and/or expertise further added to the resource constellation, providing contributions that were lacking in the firms that took part in the collaborations.

Other examples of collaboration forms included joint export efforts to reach Eastern European markets. Case firm C was involved in both setting up a trading house in St. Petersburg, as well as a retail store in Warsaw, jointly owned by a number of manufacturers. This implied the exploitation of existing technology and products and exploration of new market intelligence and distribution channels. Case firm D, in turn, sought resource aggregation advantages for sub-

supplying to project customers. In their case, their market position as a project supplier (for e.g. hotel furnishing projects), rather than a manufacturer of final consumer products, kept them less critically affected by the ongoing economic turbulence. Instead, the “pull” of the ongoing “internationalization buzz” in the industry, worked as the primary driver to seek horizontal co-operation forms to ensure a sufficient scale of the operations.

In our interpretation, these co-operation forms could be characterized as an aggregation of existing resources, implying that the potential use for e/e-activities lay foremost on the exploitation side in the form of production and capacity utilization, albeit for new markets. However, as the market intelligence and export organizing resources were external, we see this being more a question of risk taking than actual explorative use or deliberate development of market-related resources on the level of each participating actor.

The outcomes of co-operation in the first wave of horizontal co-operation activities varied from case firm and venture to another, particularly regarding the economic results. Some significant deals were achieved to completely new target markets, but on a more general level, the informants considered the projects disappointing to their concrete results. Additionally, the benefits were conceived as being unequally divided between the participants, leading to disagreement and conflict. As the set of products offered were merely a bundle of existing products from different firms; some of these ended up selling well, some not. Hence, some were able to gain economic results and an exploitation of their production and capacity resources from this collective market entry, while for other participants, it created costs but no returns.

Even though the economic outcomes of the first wave of horizontal co-operation were for most case firms rather limited in relation to their expectations, there are significant learning effects that are identifiable as another type of outcome. The informants said to have learned lessons about new markets and the competitiveness of their products in relation to others. Also new knowledge about quality requirements was received. Firm C’s managing director told that:

*“...we went to see what kind of quality they wanted and said to each other that, of course we can manage to do that quality. We had no idea that they [existing products] weren’t good enough for them.”*

For some of the firms, such as case A, these insights and experiences inspired and triggered the firm to developing and investing in export activities also on their own, which, seen in a longer time perspective, led to play an important role for the firm. Contrastingly, these initial export experiences led in some instances also to rejective outcomes; gaining a certain impression, upon which the firm based its market-decisions. To quote the managing director of case firm B:

*“We tried the German market, but we got the feeling that it’s not worth a try .... We couldn’t really find the right products and the price level was not really what we could manage. And then, those chains were so big, that, like, can we deal with such big chains, are we still too small [despite co-operation]”*

*“And England we tried as well with an export ring, but that was another wasted trip, it didn’t really work out at all. Well, it was such a conservative country that it just didn’t... And we couldn’t find any suitable contact persons there, I mean agents or distribution networks ..... so it was difficult that way.”*

Apart from the lessons learned about markets, marketing and exporting, participating in these collaborative ventures also provided clear learning effects about the forms and processes of networking and co-operation in itself. In this sense, it provided possibilities for *explorative* strategies, when it comes to the way activities were organized. Particularly the failed co-operation arrangements helped the firms recognize the risks and pitfalls, as well as critical factors (such as the right constellation of participants with compatible products and the right expertise to manage the “net” and the customer interface) for successful co-operation. So, despite the fact that many of the co-operations failed and were short-lived, the negative experiences did not necessarily deter the firms from entering new types of co-operation projects later on, particularly if they were organized differently. Or as the managing director from case firm B, said about daring to participate in new export rings after ones that did not yield any return: “*Well, we have always had to try, and hope for something*”. Case A’s managing director, on the other hand stated that “*The experiences of the export rings are such that at least we will not participate in anything like that anymore*”. However also in this firm’s case, several other (but different) forms of horizontal co-operation were to follow. Case firm C’s manager pondered co-operation as a necessity, but with its own challenges, in the following way:

*“small ones die if they don’t network, and if that works out, they may survive. It’s a lifeline, but it requires a strong enough marketer, someone who draws it all together ... When it [business] doesn’t start rolling and more money is needed, no one has that money to put in. It always stumbles upon its smallness, just like the marketing of one’s own firm.”*

**Secondly, a strategic resource development pattern, based on resource complementarities and adaptation** was identified, manifesting itself in more formal co-operation modes such as establishment of joint ventures and the development of joint collections. Compared to the previous resource aggregation type of co-operation, this pattern consists of exploitation and exploration of technology resources as well as exploration of market related resources, such as relational assets and brands. Additionally, this pattern included remarkable economic and time related investments, and clear strategic intent to improve and change the firm’s position in its product market domain through new resource development.

Already in the 1990’s, case firms C, D, E and F sought forms of co-operation that stretched beyond the mere aggregation of existing resources and involved a more explorative strategy of connecting complementary and adapted resources to achieve new products for new markets. For these firms, the initial driving forces to co-operate in this manner were similar as in the resource aggregation pattern depicted above, such as domestic market problems combined with an export market pull. However, these firms sought a co-operation that was based on complementary resources and specialized contributions to a joint collection. Case firm E was involved in several such collaborations, but the most long-lived one, still operating today, is a joint venture formed by five firms, including case companies C, D, E and F.

The horizontal co-operation ventures of firms A and B developed in the same direction as that of the other cases, from year 2000 onwards. At this time, the environmental context had changed in the way that domestic demand had picked up after the recession years, while many firms experienced problems on export markets due to for instance currency issues. Focus, for both individual firms and co-operating nets was thus increasingly directed back at the domestic

market. Nevertheless, the domestic retail sector had become much more concentrated and powerful, placing small and medium sized manufacturers in an even more asymmetrical relationship towards them as before, increasingly exposed to competitive pressures. In this situation, the co-operative ventures that the case firms engaged in, became increasingly strategic and explorative, i.e. involving activities that were new to the firm. To meet the changed environmental conditions, the firms thus responded not only with bundled resources, but complementary and more adapted ones. Also the use of external designers in the product development process increased.

Even if it is difficult to claim that in a traditional, low tech industry like furniture, new products would in themselves be all that innovative (compared to innovations in fields such as IT or biotech), we could see that the way in which new product development processes were organized required working and co-operating in a new-to-the-firm manner, thus representing explorative resource use. The new product development process, with a new, joint collection as a goal, as an interaction between the contributions and interests of several manufacturers, external designers and in some processes also customers, was requiring the firms to work in a different manner than previously and adapt their resources into what was jointly offered to customers. These ventures could be said to be explorative also regarding market-based resources in the form of brands and bonds (c.f. Aspara et al., 2011). These joint collections received their own brand names and identities to function as a new interface towards customers. The manufacturers maintained their other products, and corporate and other product brands in other business relationships; sometimes these products, images and markets or segments targeted, actually deviated quite remarkably from what was carried out under the co-operative venture's brand. Exploration regarding the market-based resources are identifiable also in the activities of the joint venture, that case firms C-F own, since it has survived as a long-term phenomenon (since 1993 to date), contrary to the other co-operations. The joint venture has explored new target markets, relationships and even business sectors (consumer products vs. projects).

Neither as the resource aggregation based co-operation, did this more strategic resource development based co-operation result in major economic success stories. However, the ventures contributed in some cases to creation of other business relationships and for some case firms enabled them to serve certain market segments without having to take on a marketing role, with its responsibilities related to branding, customer acquisition and management, but rather, focus on one's core competence as a sub-supplier. It is possible that the co-operations reinforced the firm's strategic understanding of what position was desirable for them within the supply network, as they through the co-operation processes learned about the resource requirements involved. Another interesting observation of the latter stages of co-operation is the increased long term commitment to these ventures. Even though the economic returns from participating in the joint venture have been modest for firms C-F, the firms have not exited the net. While a certain degree of lock-in may explain this, it could be speculated if the venture is seen as serving a purpose or having potential for carrying out such explorative activities that the individual actors will not necessarily engage in on their own?

Also a third, more atypical form of co-operation was found in the empirical material. We term this **ad hoc – co-operation**, since it is less strategic in nature, and based on agile responses to suddenly arising business opportunities. One such example was a temporary manufacturer co-

operation to jointly respond to a tender from the Swedish Red Cross, to provide furniture for a refugee camp. This co-operation was exploitative when it came to product and production resources, but exploitative particularly regarding the process of getting organized.

## **DISCUSSION AND CONCLUSIONS**

The purpose of this paper was to analyze how the resources gained through horizontal co-operation help firms to conduct exploration and exploitation strategies in changing business environments. Our focus was on the strategic drivers for seeking external resources and developing them in interaction, the forms of expression of horizontal co-operation, and their outcomes and effects of over time.

In sum, co-operation patterns allowed the firms to implement both exploration and exploitation activities, providing opportunities to e.g. access new markets with existing products, as well as utilize novel business opportunities. Especially in the explorative projects, the sharing of existing and development of new, marketing-related resources stands out as a significant motive for co-operation. However, the co-operative ventures turned in most cases out to be only relatively short-lived projects, failing to meet all their expectations. Nevertheless, they helped the firms create business in difficult times and additionally, resulted in learning effects and internal resource utilization that is identifiable in a longer time perspective.

Our results support the idea of Aspara et al. (2011) that firms' projects seldom present pure exploration or exploitation, but include both aspects in different resource classes. While the process co-operating was in itself highly explorative for the case firms, each co-operative venture included elements of exploration and exploitation regarding different resources. Exploitation orientation was linked particularly to technology, whereas exploration was common with regard to market-related resources. The developments related to production facilities were kept as in-house processes, and the use of external production facilities mainly occurred in the form of resource bundling, rather than adaptation, in order to reach economies of scale. However, the significance of external resource contribution and interactive development was evident in product development (mainly exploitative, but developing in an increasingly explorative direction in the course of time) and market-related resource development (mainly explorative). This is in accordance with the idea of firms concentrating on their core competencies (in this industry, efficient production), and exploring new opportunities outside the core with a reasonable level of risk. The context of SMEs in a production-oriented low tech industry, in contrast to the empirical settings of much of previous studies, also highlights the role of particularly market resources being developed interactively, while technological development was more of an internal development issue for the firms.

Empirically, two different kinds of main co-operation patterns, which included use and development of external resources in varying ways, could be identified. A strong exploitation of production facilities and capacities was the prevailing orientation during the whole investigation period. However, due to environmental changes and industry developments, the need for new kinds of resources and skills (market-related) rose, leading to a situation where the existing core competences, resources and skills alone were not sufficient. The new skills and resources (market-related assets) were largely undeveloped within the firms, which led to exploration, both

inside the firms, but even more importantly, by connecting to external resources and/or joint development efforts with other firms. In the first wave of horizontal co-operation, the environmental conditions pushed firms towards resource aggregation, which included mainly exploitation of existing technology resources (existing products and production facilities), and exploring jointly market intelligence (new markets and market knowledge) or interacting with external actors possessing these market resources. In the second wave again, the environmental conditions pushed firms toward a more strategic type of resource building and use, where the technology resources were increasingly adapted (even though mainly exploitative), and which included more substantial market intelligence exploration. The most significant difference from the first wave, was however the development of relational assets (brands and bonds), that were new to the firms.

We believe that the reasons for the search for external resources were twofold. Firstly, the firms tried to overcome the “evident” resource restriction typical to SMEs: lack of export and marketing knowledge, small size, which limits possibilities to attract large scale customers, lack of capital for branding etc. Secondly, strategic decision making and risk taking behavior tended to favor a “past success logic”, hence, exploitation. Production orientation is a very dominating characteristic in the Finnish furniture sector, and it has been a successful strategy over the decades. Thus, investments and risk taking with regard to production development is very common, whereas marketing related development and risk taking had a minor or non-existing role in this context. Thus, these new resources and skills were not at top on the investment and importance list, and were explored by sharing economic risk and resources with other firms, rather than developed internally. Establishing co-operation relationships with other actors who take on the marketing and customer-interface role in the network, was something that the manufacturers actually sought, being more contended in a position as a sub-supplier, than a brand-maker.

A critical issue in making use of horizontal co-operation is the knowledge how to make it useful also for more strategic purposes. Our longitudinal empirical material provides indications of a learning loop between the first and second wave of co-operation patterns. The most obvious knowledge creation (learning) occurred regarding the conditions and prerequisites of successful operations, co-operation modes and processes. The first wave of co-operation (resource aggregation) was aimed at economies of scale and resource access, whereas the second wave dealt with increasingly strategic resource development, including adaptation and complementarity. While the first wave implied mainly resource bundling and “shooting towards targets”, the second wave included strategic aims, intensity, coordination, and connectedness. However, this does not mean that resource bundling would only have been of limited usefulness. It offered a possibility to experiment, with shared costs and risks, thus enabling the exploration of new markets while exploiting the existing products and production facilities, and provided lessons in market-intelligence, sometimes even triggering further internationalization activities. Importantly, the resource aggregation efforts enabled learning, which was crucial for the development of the second wave of co-operations. Additionally, our data included examples of ad hoc co-operations where firms formed totally exploitative alliances in order to win certain business projects.

We have earlier in this paper referred to the shortcomings of previous e/e studies in lacking a long-term perspective. Through the use of longitudinal data, we have been able to firstly,

illustrate how the realization of the outcome (economic, strategic, and learning) of co-operation patterns requires several years and how the value and usefulness of resources can change over time. For example it took nearly a decade until the first wave of co-operation patterns evolved into more developed, second wave. Secondly, one of the basic assumptions in the e/e-field is that firms need to develop new resources and capabilities in order to be able to adapt to the conditions of a changing environment. The longitudinal approach allowed us to see how environmental forces (first the economic recession, later structural market changes) provoked the need for new kinds of resources and skills, and the difficulty of the firms to respond to these needs. Thirdly, longitudinal data is valuable from a validity point of view when creating an understanding and making interpretations about what actually is exploration (what is really new for the firm) versus exploitation (what is already existing and familiar), as activities seldom are purely one or the other. A longitudinal setting thus provides a broader understanding of the context of the firm. Finally, our study was conducted in a traditional industry where environmental changes take place sometimes latently and with a slow pace. It took time and experimentation until the firms started to invest in and build new kinds of resources in a changed situation. Moreover, the industry recipes are surprisingly strong and long lasting, and firms may keep following them even if the business is not doing well. Thus, the orientation towards exploitation and the challenges regard to exploration is not just the question of resource issues and risk taking, but linked to path-dependent processes.

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## APPENDIX 1: CASE SUMMARIES

	Case A	Case B	Case C	Case D	Case E	Case F
<p><b>BACKGROUND DESCRIPTION</b> Business size variation during the study period and Business orientation</p>	<p>Employees: 16-40 Turnover: FIM 7 – EUR 4 million</p> <p>Domestic market No significant previous manufacturer co-operation, but use of external expertise</p>	<p>Employees: 16-24 Turnover: FIM 7,7 – EUR 2,3 million</p> <p>Dependence and vulnerability in customer relationships</p>	<p>Employees: 16-31 Turnover: FIM 4 – EUR 1,5 million</p> <p>No significant previous co-operation Domestic operations Seeking strategic direction</p>	<p>Employees: 50-62 Turnover: FIM 7,3 – EUR 2,7 million</p> <p>Experienced exporter and project supplier</p>	<p>Employees: 21-30 Turnover: FIM 3,2-9 million</p> <p>Co-operation history since 70's, thereby specialized production role re: other manufacturers</p>	<p>Employees: 60-96 Turnover: FIM 24-37 million</p> <p>Experienced project exporter Economically weaker starting point</p>
<p><b>TURBULENCE</b> 1990's</p> <p>2000's</p>	<p>Collapsed demand Retailer bankruptcies / financial difficulty &amp; uncertainty</p> <p>Currency problems (RUB)</p>	<p>Economic pressure, decreased sales</p> <p>Chain dominance, declined retailer relationship Currency problems (RUB)</p>	<p>Domestic market problems</p>	<p>Tightening competition More “pull” to export and get new projects Not very critically affected</p>	<p>Tightening competition</p> <p>Not critically affected</p> <p>Changes in consumer preferences (affecting product)</p>	<p>Losses due to customer bankruptcies Declined demand</p> <p>Currency problems (SEK) Secondary effects of Ikea's decisions</p>
<p><b>DRIVERS TO CO-OPERATION</b></p> <p>Wave 1</p> <p>Wave 2</p>	<p>Financial pressure and need for new sales</p> <p>Availability of external marketing and export expertise and contacts</p> <p>Desire to grow and diversify from dependence on bestseller product, possibilities with participating in a</p>	<p>Cost sharing using public support</p> <p>Capitalizing on successful product for high profile retailer, to avoid dependence</p>	<p>Need for resources to accommodate to changes, joint development efforts</p> <p>Opportunity recognition (Ru) to compensate domestic decline</p>	<p>Need for economies of scale for projects</p>	<p>Seeking complementarity, new markets Seeking relationships that enable position as sub-supplier</p>	<p>Need for new sales Pull of export markets</p> <p>Possibilities in resource complementarity</p>

	Case A	Case B	Case C	Case D	Case E	Case F
	collection	on price-sensitive products				
SIGNIFICANT FORMS OF CO-OPERATION	-Furniture Project -Export rings -Initially domestic, later internationalizing co-operative	- Export ring  - Initially domestic, later internationalizing co-operative  complementary collection of new products by external designer for high-end domestic retailer, the case firm as the driving force	-Export rings Trading house in Russia -Retail store in Warsaw in co-operation with other manufacturers -Joint venture with complementary collection for new markets	Hotels and similar projects  Joint venture with complementary collection for new markets	Dyadic co-operation with complementary products  Triad with joint collection for export  Joint venture with complementary collection for new markets	Joint venture with complementary collection for new markets  Ad hoc projects
Wave 1						
Wave 2	complementary export collection with Italian designer					
RESOURCE QUESTIONS	Economies of scale, cost sharing and later complementarity through co-operation  Public support for networking  In later stages, bigger investments in horizontal activities External designers and marketing middlemen  Connecting to the <i>right</i> resources	Public support for exports  Shared resourcing for costs, customer acquisition  Product complementarity External designer Joint collection building for higher end of market	Contact making, risk/cost sharing, public resourcing, external and developing export knowledge  complementarity and external resourcing (design) through shared investments in joint resources, e.g. brand and customer relationships, network and product management “outsourced” through co-op.	Willingness to leave network management (organizing, collection development, customer interfaces) to be handled by other actors	Partnering for marketing resources and complementary interface towards customers, also in new markets	Externally sought marketing, export, design, project management and financial resources
OUTCOMES	Export sales within project and later on its	Lessons learned about export markets, joint	Learning, leading to strategic behavior	Limited success economically and	Product development efforts as a door-	Varied economic benefits

	Case A	Case B	Case C	Case D	Case E	Case F
	<p>own</p> <p>Stimulated own export efforts (and resourcing)</p> <p>Knowledge of prerequisites of successful types and processes of co-operation</p> <p>Repeated co-op. efforts despite failed trials</p>	<p>marketing co-operation and the prerequisites for co-operation</p> <p>Realizing importance of LR orientation</p> <p>Economic results, compensation for lost domestic sales</p>	<p>(from uncommitted “testing” towards committed/more locked-in forms of co-op. and understanding of critical factors (e.g. control)</p> <p>Economic losses</p> <p>Enabling desired role as a subcontractor (changed position in supply network)</p>	<p>strategically</p>	<p>opener for other customer rel.ships</p> <p>Financial contribution of some projects</p> <p>Understanding of co-operation process, its prerequisites, Joint venture economically slim</p>	<p>Failed to meet marketing expectations</p>
E & E	<p>Further development and exploitation of successful product</p> <p>Export market exploration, in later stages also exploration in products and joint activity models</p>	<p>Exploitation of existing competencies on explorative markets and business forms, new types of customers and segments, requiring more external resources</p>	<p>Production, product exploitation, exploration re: operation mode, markets</p> <p>In joint venture exploration also with product, segments, brand</p>	<p>Exploitation by achieving serial production</p> <p>Exploration re: markets, venture forms, complementarities</p>	<p>Production exploitation, market, operation form and product development exploration</p>	<p>Capacity exploration, market-related and operation form exploration</p>
ADDITIONAL NOTES	<p>Experienced conflictful and failed co-operation – yet not discouraged to try it again later</p>	<p>Learning re: long term commitment to co-op ventures</p>	<p>Development from exploitative “trial and error” forms of co-op to spontaneous and committed relationship type of ventures</p>			<p>Openness and commitment in co-operation,</p>