

NETWORKING IN AN ORGANIZED NETWORK: A CASE STUDY OF A SMALL PROFESSIONAL SERVICE FIRM

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Abstract

This paper focuses on the importance of networking processes of small professional companies in the context of an international Professional Service Network. The research objective of the paper is to show how a small consulting/accounting firm gets involved in such formal organized membership, carries out networking activities and to analyze the effects of these networking processes on its competitiveness.

Networking has been intensively investigated in SMEs context as a natural way to cope with their competitive environment. However, in most of the studies the concept of networking remains ambiguous and vaguely linked to the ability of the owner-entrepreneur or manager to invest her/his time and efforts in developing and maintaining relationships that may be used for different business purposes. Furthermore, in these researches the business network level perspective is missing. A more comprehensive view of networking in SMEs context could be offered by the IMP approach to business networks. In particular the concept of *network competence*, i.e. the company's ability to manage their network of relationships, can be of help to investigate more effectively the nature of networking in SMEs context.

Keywords: Networking, Networks, Small Professional Services Firms, Relationships

Work-in-progress paper

INTRODUCTION

This paper focuses on the importance of networking processes of small professional companies in the context of an institutionalized professional services network, i.e. an organized network with codified and formalized rules and procedures for its members. The objective of the paper is to show how a small consulting/accounting firm - acting within the boundaries of such organized membership - carries out networking activities and to analyse the effects of these networking processes on its competitiveness (Ritter and Gemunden, 2003; Ritter, 1999).

The reason to conduct the study is twofold. Firstly, there is a wide consensus in marketing and management literature that networks and networking processes play a major role for small and medium sized firms, allowing them to overcome their structural scarcity of resources in relation to their multiple strategic objectives (Danis *et al.*, 2010; O'Donnell, 2004); however, only limited attention is placed on the analysis of the participation of smaller firms to formalized networks or organized collective projects, such as consortia, institutionalized membership, multilateral alliances (Musso *et al.*, 2012; Schoonjans *et al.*, 2011; Ghauri *et al.*, 2003). It could be argued that SMEs might display a renewed interest in these tools – often ended in failure in the past – in the light of the highly competitive scenario emerged in the recent years. Secondly, managerial studies in professional service sector are mostly focused on big players, and only scarce attention is addressed to smaller professional firms and their attempt to increase profitability and competitiveness through the exploitation of networks they are involved in (Boehe, 2011; Koza and Lewin, 1999; Jones *et al.*, 1998; Aharoni, 1996).

The work is based on a longitudinal in-depth single case study (Yin, 2003; Dubois and Gadde, 2002) of “Studio Pragma”, a small accounting/consulting firm located in Fano a small town in the centre of Italy.

The paper is organized in five sections. In section two the background of the paper is presented. Section three addresses the objective of the paper and the methodology adopted to achieve this objective. Section four is dedicated to the case study of “Studio Pragma”. In section five the analysis of the results is presented. The last section draws final reflections.

NETWORKS AND NETWORKING IN SMALL FIRMS

Various researches both in marketing management and in organization literature have shown that companies rely on a huge variety of inter-organizational business relationships with other actors that heavily influence their performance and ability to pursue different company's objectives. Moreover many company's relationships are strictly interconnected to each other forming complex networks the company is involved in (Hakansson *et al.*, 2009; Lin, 1999; Mattsson, 1995; Burt, 1992; Johanson, 1989).

A firm's network can be an important source of competitive advantage (Dyer and Singh, 1998) and is considered to be an important asset that enhances the acquisition of resources and knowledge essential for companies' development and innovativeness (Ritter and Gemunden, 2003).

This is particularly true for small and medium sized companies (SMEs). There are evidences that smaller firms are often engaged in networks of relationships that allow them overcoming their structural scarcity of resources by exploiting and mobilizing competences outside the boundaries of their small organizations (O'Donnell, 2004; Gilmore *et al.*, 2001). In particular, networks are considered important tools for SMEs to cope with rapidly changing and challenging markets requiring innovative competences and skills. Marketing

and management literature highlights that *networking* in particular is a key aspect of the modality of smaller firms to effectively relate to their environment. This process is often linked to the figure of entrepreneur: Carson and colleagues (1995) define networking in small business as the activity in which the owner/entrepreneur builds and manages personal relationships with particular individuals in his near context. In general, even if not explicitly associated to the figure of owner/entrepreneur, networking in SMEs context refers primarily to personal involvement in relationships and to the extent to which managers focus their efforts on building and maintaining contacts that may be helpful for obtaining information, leads, advices or other resources for surviving or developing in turbulent environments (Danis et al., 2010; Gilmore et al., 2006).

In this stream of research, great attention has been addressed to the role of networking in marketing activities of small firms (Gilmore et al., 2006; O'Donnell, 2004). More recently few authors emphasize the role of networking in the process of growth of small firms (Schoonjans et al., 2011) or as leverage in periods of crisis (Danis et al., 2010). Some studies highlight the prominent role of networking for SMEs also in professional services sector in sustaining their competitive advantage (Silversides, 2001; Bagchi-Sen and Kuechler, 2000).

However, in these studies the concept of networking remains ambiguous and vaguely linked to the ability of the owner-entrepreneur or manager to invest her/his time and efforts in developing and maintaining relationships that may be used for different business purposes.

Furthermore, in these researches the business network level perspective is missing. In particular it can be noticed that scarce attention is placed on the analysis of the participation of smaller firms to formalized networks or organized collective projects, such as consortia, institutionalized membership, multilateral alliances (Musso et al., 2012; Schoonjans et al., 2011; Ghauri et al., 2003). It has been argued how, from one side, marketing and management literature on SMEs lacks of consistency in relation to the concept of networking that needs to be better investigated; from the other side how it has failed to recognize that network and networking are in fact very different constructs (O'Donnell, 2004).

We agree on the fact that literature on small firms largely deals with networking processes but not sufficiently with the network view of the markets, especially, but not only, when SMEs are involved in some forms of organized networks. In our perspective a more comprehensive view of networking in SMEs context could be offered by the IMP approach (Ford and Hakansson, 2006; Hakansson et al., 2009). In this respect IMP view of business networks, relying on activities, resources, and actors layers, proposes a better understanding of networking ability also in SMEs context: the networking ability can be related to a firm's ability to improve its overall position in the network (with regard to activities and resources) and its ability to handle individual relationships (Hakansson and Snehota, 1995). This theme has been further investigated by some scholars in business networks stream of research and these studies led to the development of the concept of *network competence* that can be defined as the company's ability to manage their network of relationships effectively (Mitrega et al., 2012; Ritter, 1999; Ritter and Gemunden, 2003). It is important to underline that in this perspective the networking company is the company that, given desirable functions, interconnectedness and accompanied risks of relationships, considers its whole network and copes with the situation in which it is dependent on other companies in developing and using relationships (Ritter, 1999).

In this respect, this study aims at investigating the case of a small professional firm operating in a small town in the centre of Italy that started a developing process of its business by joining a formalized Professional Service Network and trying to cope with the situation by balancing between "formal" and "informal" network of relationships to increase its competitiveness.

RESEARCH OBJECTIVES AND METHODOLOGY

This paper focuses on the importance of networking processes of small professional companies in the context of an international Professional Service Network. The research objective of the paper is to show how a small consulting/accounting firm gets involved in such formal organized membership, carries out networking activities and to analyze the effects of these networking processes on its competitiveness.

The choice of the professional service firm to conduct the empirical analysis is due to two main reasons. Firstly, PSF are used to rely on a wide range of partners to provide complementary professional services and strongly interact with customers (Chang *et al.*, 1998). This is particularly relevant in PSFs' internationalization processes, where complexity of foreign markets pushes them to involve local actors in the entry process and in further expansion paths (Boehe, 2011; Freeman and Sandwell, 2008; Freeman *et al.*, 2007). Such networks could evolve as formalized and well-articulated structures, as in the case of professional networks for accounting services, providing professional support and business opportunities for member firms -large and small companies- operating internationally (Koza and Lewin, 1999). Secondly, PSFs are used to adopt networking processes to interact and strengthen relationships with both partners and customers. This approach is mainly pursued by small professional firms in order to sustain their competitive advantage (Silversides, 2001; Bagchi-Sen and Kuechler, 2000).

The work is based on a longitudinal in-depth single case study (Yin, 2003; Dubois and Gadde, 2002) of "Studio Pragma", a small accounting/consulting firm located in Fano a small town in the centre of Italy. The small firm joined an International Professional Service Network in accounting/auditing services (MGI) and started an intense process of networking to increase its competitiveness both at local and international level. In particular, Studio Pragma (SP) has been chosen as a representative case of a small professional services firm trying to overcome the limitations of its size and location, through the progressive and active involvement in a formalized network of small and medium professional firms in order to develop its business.

Thus far two interviews have been conducted into the company with a senior partner actively involved in the MGI network. Another interview has been performed with the MGI European Executive Director together with the same senior partner in SP. These three interviews have been complemented by other secondary sources: company's web-site and documents, MGI network's web-site, documents and reports.

SP has three senior partners and eleven employees. It is active in four main business services areas: tax and accounting services and assistance, financial planning, international business development legal assistance. The firm comprises competences in accounting, legal services and business/financial planning. A common skill among all employees is the knowledge of English language. Currently the main customer targets are represented by 1) Italian SMEs operating locally and in foreign markets; 2) foreign companies engaged in business activities in Italy. Since 2004 this company has been pursuing the development of its business by joining MGI.

THE CASE OF STUDIO PRAGMA

This section provides the empirical analysis concerning the selected case-study SP. It is organized around the evolution of SP involvement in international networks, with a main focus on its behavior within MGI network in the last ten years.

STARTING PARTICIPATION TO INTERNATIONAL NETWORKS

Studio Pragma is established in 1987 as a small professional firm aiming to provide accounting and auditing services in Fano, a small town in the centre of Italy and close to industrial districts of the Marche region. In 1994 a new senior partner – former university mate of the founder - joins the firm and actively launches new consulting and support services for companies engaged in foreign markets in terms of export activities and investment projects. The new senior partner becomes the Head of the International Department and brings its knowledge and previous experience in planning and managing international investment projects in large multinational companies. Thus SP evolves as a professional firm active in two main business areas - accounting and consulting services – headed by the two senior partners.

Since the beginning the head of the international department is aware of the benefits of joining international networks to overcome the small size of its professional firm and gain increased access to international business opportunities. He strongly believes that the management of international business projects requires local support from capable professional staff with full knowledge of the business context. SP joins the BRE (Bureau de Rapprochement des Entreprises) network supported by the European Community to promote business exchange among firms. The main criteria to select prospective members is the availability of professional staff with international capabilities, and SP matches this requirement thank to the new senior partner. Furthermore SP joins also BC-NET (Business Cooperation Network) – another European Community program – composed by more than 400 “business consultant” (development agencies, chambers of commerce, consulting companies) active in Europe and outside the European Community. The main goal of this program is supporting SMEs to find business partners for commercial and technological cooperation. The main advantage of BC-Net when compared to BRE is its diffusion in developing countries where European companies are eager to invest and develop sales activities. SP actively participates to BC-Net meetings and activities and manages to organize and implement investment projects in Ukraine, Uzbekistan, Kazakistan and Turkey. The project developed in Ukraine allows SP to gain recognition and trust by local business associations in Italy with regard to international business projects.

THE FIRST PHASE IN MGI NETWORK (2004-2009): “WAIT AND SEE” APPROACH

SP actively participates in BRE and BC-NET networks, however feels the need to search for other international networks providing adequate professional skills in accounting and auditing, therefore in line with its own core competences. The opportunity is taken when the head of SP International Department becomes aware of the MGI network, during a meeting with a senior partner of an accounting firm from Tuscany already member of this association and head of the “Latin” area. SP is invited and accepts to join MGI in 2004.

MGI is established in United Kingdom in 1947 by British chartered accountants Midgley Snelling, initially as Midsnell Group International. Since then MGI expands globally involving independent tax, accounting and consulting independent firms. Currently MGI has 160 member firms worldwide (see Table 1). Its governance system is based on a supervisory board - the International Committee – covering all eight geographical areas managed by their own regional committees and an Executive Committee composed by the Chief Executive and the regional Chief Executive. MGI is competing with the Big Four in accounting services and other 30 international professional networks in audit and accounting. While the Big Four focus on large global companies, MGI is part of a group of associations/networks targeting

small and medium firms operating locally and internationally through the offering of customized services and close interaction. Member firms are small in size and detain a strong position in their respective local markets.

Table 1. Ranking Accounting Networks and Associations (2010)

Rank	Network	Total income (US\$m)	Number of firms	Number of countries	Number of partners
1	PricewaterhouseCoopers	26.171	-	151	8.552
2	Deloitte	26.100	55	140	9.555
3	Ernst & Young	21.440	-	140	8.715
4	KPMG	20.110	145	145	7.953
5	BDO	5.145	95	115	4.098
6	Geneva Group Intl	4.052	-	79	1.795
7	RSM Intl	3.876	85	77	3.150
8	Grant Thornton Intl	3.592	95	100	2.654
9	Praxity	3.272	109	84	2.401
10	Baker Tilly Intl	3.130	147	114	2.813
27	MGI	455	159	80	697

Source: MGI

When SP joins MGI, the network is organized around four “language-based areas (English, German, French and Spanish). SP becomes a member of the “Latin Circle”, whose official language is French. Each member can involve other MGI members in order to obtain qualified local services for its customers active in foreign markets. This cross-referral system allows each member to increase the range of services offered to its customers and to benefit from additional business opportunities provided by “incoming” clients located abroad. Moreover, MGI network organized events and seminars to promote reciprocal knowledge and cultural/professional exchanges among its members. Network activities are managed by an “area-based” system of transnational committees and working groups composed by national representatives.

SP joins MGI without taking into consideration other international professional networks. In the early phase SP adopts a “passive” attitude, attending scheduled meeting associations and strictly following the position held by the Italian National Representative in MGI.

One main result achieved in the first period is the establishment of a close relationship with a Dutch customer and professional assistance provided to various foreign customers engaged in activities in Italy.

THE SECOND PHASE (2009-2013): PURSUING “ACTIVE” MEMBERSHIP

In 2009 SP changes its behavior within the MGI network, following a more proactive approach both internationally and locally. SP shows increasing commitment towards MGI activities, attending various meetings and establishing closer contacts with fellow members in charge of institutional tasks within MGI. One main event is the attendance – as the only representative of the Latin area - of the North-American Circle in Washington in 2009, where SP develops closer relationships with US MGI members and manages to provide accounting services to an American customer and a cross-referral for an Italian colleague in Milan. The active behavior by SP is recognized within MGI network and the Head of the International Department becomes the Deputy Coordinator of the Latin Circle.

The new attitude by SP is combined with the organizational upgrading of MGI network. In 2009 MGI shifts from being managed on the basis of voluntary effort of member

firms' professionals to involving full-time paid managers acting as executive coordinators. Moreover, since 2010 the English language becomes MGI official language. This change facilitates further internal communication and organization and attendance of official meetings. Since the beginning the new rules on language further facilitate SP networking effort across the whole MGI network.

In addition, to strengthening its role in MGI international network, SP feels the need to upgrade MGI position within the Italian market for international accounting services. SP proposes to other Italian MGI members – with offices in Pisa and Milan - to collaborate in order to open an office in Rome, in the light of the limited coverage of the Italian market by MGI. Rome is perceived as a key location to attract new foreign customers active in Centre and South Italy. However, other Italian MGI members do not accept the proposal and thus SP decides to implement its plan in an autonomous way, setting up a new office in Rome in cooperation with a local audit firm, after gaining permission and full backing by MGI European Coordinator and Executive Director.

The institutional position and the strong commitment to MGI activities allow SP to establish useful contacts with MGI members in Europe and United States. Over time SP develops informal closer relationships with about 15 MGI members in Europe, Israel and US, which are perceived as a group of “best friends” sharing competences and reciprocal trust. SP is able to contact them directly for any request and to receive feedback in maximum 24 hours. SP started assisting customers from UK, United States, Cyprus and Israel and plays an active role of cross-referral for its Italian customers having business plans abroad. In 2010 the Head of International Department in SP becomes the Coordinator of the Mediterranean Circle and the Vice-president of the European Committee of Coordinators.

The new profile within MGI pursued by SP is useful to strengthen its national and local networks. Membership and institutional role in MGI helps SP to become partner of Invitalia, the national government agency for attracting foreign direct investment, and to establish closer relations with ICE, the national government agency for the promotion of foreign trade. Such relationships provide benefits to MGI in terms of enlarging the customer portfolio. Cooperation with ICE allows SP to gain a new client in Algeria. In 2012 MGI US executives meet in Rome with Invitalia and ICE, thanks to support by SP, starting discussion about projects involving US companies interested in the Italian market.

Overall, even though well positioned within the MGI network, SP has difficulties in gaining foreign customers because of structural problems affecting the Italian business environment, such as high taxes and “red tape” for managing economic activities. Both factors have an impact on foreign SMEs' perception of costs and risks of running businesses in Italy, in the light of their limited organizational and financial resources.

SP attempts to exploit MGI brand and reputation also with regard to potential new local customers in Italy. Local Courts contact SP in legal cases and disputes involving foreign assets detained by local Italian companies: for example, SP involves its MGI correspondent based in Danzica in the bankruptcy case of a local shipbuilding firm controlling business activities in Poland. Moreover, SP launches a promotional campaign among foreign-invested subsidiaries located in the centre and South of Italy, trying to exploit its international profile through MGI membership.

SP attempts also to involve other local accounting firms in offering integrated services; however thus far local competitors do not cooperate fearing losing customers to the advantage of SP, which provides both “traditional” accounting services and foreign trade and investment support services. Anyhow SP in recent years is keen on mapping out national and local competitors and their services and promotional activities, with a main focus on the Centre and South of Italy. Data are collected on accounting firms belonging to other international professional networks or providing international business support services to

Italian companies. This market research effort shows that in this geographic area SP can experience limited competition, when compared to the Northern Italy, and increasing potential business opportunities.

Changes in strategy and higher degree of commitment within the MGI network, pushes SP to upgrade its own organization. SP starts “personnel exchanges” with MGI professional firms in the Netherlands, Ukraine and UK. This initiative helps SP to gain a deeper understanding of its MGI partner firms and of their approach towards their local customers. Moreover at the end of 2012 a young graduate is hired to strengthen the International Department and increase the language capabilities detained by SP. Increasing the level of internal competences is accompanied by relevant organizational changes. In 2011 SP involves an external consulting firm to address the growing organizational complexity due to wide range of services provided by SP. The reorganization plan is implemented in order to group resources and activities around the main service areas provided by SP, to increase efficiency in managing customers and to gain higher control in project management processes. Furthermore SP changes in a substantial way its communication approach adopting an MGI-style website, in order to fully exploit its brand and reputation. This choice is in line with the recent effort by MGI in diffusing best practices – through reports, handbooks and seminars - in marketing activities implemented by all member firms.

SP pursues this new market orientation also in current initiatives. In a recent international meeting with its 15 “best friends” SP proposes to create a common database on the top customers of each professional firm, in order to promote bilateral or multilateral contacts and collaborations among customers to start new projects on a product or functional basis. The already existing trust-based “alliance” among this group of MGI professional firms members could play a relevant role in providing guarantees and technical support to define and implement new business ideas.

DISCUSSION OF RESULTS

Preliminary empirical analysis shows that since the beginning SP perceived MGI network as a relevant resource in order to increase business opportunities in the area of international projects. In the first phase relationships with MGI partners have been started mainly to provide assistance to Italian SMEs operating abroad. Over time SP increasingly perceived MGI as “the strategic network”, in the light of its previous experience as member in other international networks and of the learning process gained in the first phase with MGI. For SP, MGI became “the strategic asset” to develop its international profile for both Italian/local and foreign customers. One main factor supporting this process is the parallel upgrading of the organizational configuration of the MGI network, allowing member firms to benefit from more effective and efficient policies and projects. SP attitude towards its own organized network suggests that in the current competitive scenario small firms could display a stronger commitment towards multilateral formal alliances and networks to overcome their limits in terms of size and competences.

The perception of the strategic role of MGI network has been accompanied by SP active role within network activities and working groups, thus establishing close relationships with other selected MGI partners based on trust and common customer approach. SP displayed an increasing networking effort mixing formal and informal aspects in the light of the new institutional positions gained by SP within the MGI Network. SP behavior within an organized network shows that networking is not only a matter of personal relationships or contacts but is also related to actively pursuing formal roles to further broaden the network vision and exploit interdependencies among relationships (Mitrega *et al.*, 2012; Ritter, 1999).

The emerging pattern highlights the combination of formal and informal governance rules concerning member companies. On the one hand the growing role of SP has been conditioned by formal procedures and organizational configuration within the Italian, regional and European sub-networks. It could be argued that such networking within an organized context could have both positive and negative effects on member companies' strategic horizon. On the other hand SP interactions with other MGI members and increasing knowledge of international business processes resulted in the emergence of an informal "inner circle" of MGI members where SP played a leading role.

SP committed networking effort in MGI had an impact on its competitiveness on various levels. Firstly, it has led to design and implement organizational upgrading in order to cope with MGI requirements in terms of customer management and participation to MGI network activities. Secondly, MGI initiatives helped SP to improve marketing competences both in terms of adoption of more appropriate marketing techniques for the offering of professional services and of development of a stronger market orientation. Moreover, the increasing use of MGI brand in marketing activities had a positive effect of SP reputation in national and local market settings. Thirdly, participation in MGI allowed SP to gain new foreign and local customers, even though this process thus far has not fully met company's expectations. However, it should be highlighted that MGI membership allowed SP to start providing services for a new market segment ("incoming" demand) very difficult to tap into for small firms without stable presence in foreign markets. Finally, on a more strategic dimension, participation in MGI helped SP to gain a network competence (Ritter, 1999) in terms of ability to balance MGI organized network and other formal and informal networks at the international and local level.

PRELIMINARY FINAL REMARKS

This paper provides stimulating preliminary insights in relation to the relevance of networking within an organized network, highlighting the perspective of the single member firm, thus complementing existing research on international networks (Koza and Lewin, 1999). SP is an interesting case of a firm actively combining resources through formal and informal relationships, within and crossover the organized network, whose interdependence shapes its strengthening of customer portfolio and search of market opportunities. In particular, the case-study shows how a small firm could strengthen its international profile and competitiveness adopting i) an active role – in terms of strategic orientation and level of resource commitment - within existing organized networks; ii) a selective approach in terms of organizational and competence upgrading to support such process. In this respect, preliminary findings show that the role, the development and performance of a company depend on its ability to cope with relationships and on its capacity to increase network competence and networking ability (Ritter and Gemunden, 2003; Ritter, 1999). Therefore preliminary findings confirm the importance of networking as highlighted by SMEs literature (O'Donnell, 2004), while at the same time support the IMP perspective focusing on both the relationship and network levels (Hakansson *et al.*, 2009; Hakansson and Snehota, 1995). The main contribution of the paper, to be further developed and deepened in future research, is the call for analyzing the role of organized networks and for assessing how member firms' networking activities are implemented within such context.

This paper is a work-in-progress and therefore further empirical analysis and conceptual development is needed. The SP case-study will be explored in more detail with regards to various dimensions. Firstly, MGI formal governance rules need to be investigated more in depth: selection criteria for memberships, type of affiliation, formal procedures for

cross-referral, decision-making processes, formal responsibilities linked to institutional positions. Secondly, SP interactions and relationships within and outside the MGI network should be examined carefully, focusing on relationships with MGI management team, MGI “best friends” and foreign and local customers.

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