

## **Development paths of regional business relationships:**

### **A study of customer-supplier relationships over time**

#### **Introduction**

Decisions on relationships have major strategic implications. Such decisions concern whether to enter into a relationship or not and once involved in a relationship, how much to invest in it in terms of time, money and trust (Blois, 1998). In practice, such choices cannot be based on full awareness of all available alternatives. Consequently, organisational action is performed within a subjectively enacted environment delimited by observation, attention and perception (Pfeffer and Salancik, 1978), which provides a cognitive basis for action that changes over time.

The enacted environment can be subdivided into the area within the network horizon of the focal actor (Snehota, 1990), where the horizon indicates the extension of the actor's cognitive awareness of the network (Anderson *et al.*, 1994), and the network context, that is the sub-set of actors, activities and resources within the horizon deemed to be of importance (Anderson *et al.*, 1994; Holmen and Pedersen, 2003; Snehota, 1990).

The development of new relationships or changes in established relationships also affect the network position of a company, i.e. how its identity is perceived in the network. Several studies have indicated that the network position exerts influence upon company behaviour and outcomes (e.g. Ebbers and Wijnberg, 2010; Ozcan and Eisenhardt, 2009; Powell *et al.*, 1996; Walker *et al.*, 1997; Zaheer and Bell, 2005). It is commonly claimed that companies with a more central position enjoy superior returns as they will have access to better information and opportunities than more peripheral actors (Gulati *et al.*, 2000; Håkansson and Ford, 2002). Firms' strategizing has consequently been described as "efforts of a company to influence its position in the network" (Gadde *et al.*, 2003, 358), since

opportunities and limitations are determined not only by internal factors but also by resources obtained in existing and potential relationships (Håkansson and Ford, 2002).

Regional strategic networks (RSNs) have become popular tools for public and private actors wishing to stimulate and accelerate inter-company collaboration within a certain geographical area. Reports are available on such network initiatives worldwide (Huggins, 2000; Neergaard, 2000; Porter, 1998a; Porter, 1998b; Rosenfeld, 1996; Welch *et al.*, 1996). RSNs are inspired by relationship-based effects on learning, knowledge development and increased sales reported from studies of long-term relationships in business networks (Håkansson and Snehota, 2002), cooperation in strategic networks (Jarillo, 1988) and successful cluster regions (Porter, 2000). RSNs are often funded by considerable amounts of public means. Still, there are surprisingly few systematic studies of their impact. There is thus a need for further research on RSNs (Huggins, 2000; Johanson and Lundberg, 2011; Neergaard, 2000; Nilsson and Nilsson, 1992; Rosenfeld, 1996). Better understanding of these processes and dimensions provides an improved basis for participants, organizers and funding officials when making decisions on participation in and assessments of RSNs.

The purpose of this paper is to describe and analyze how a regional set of business relationships of a small industrial firm evolved over time and how membership in an RSN affected its business relationships and its network horizon. The paper is organised as follows. First, the RSN concept is elaborated. Thereafter, likely company effects of RSN membership are presented, focusing on the concepts network horizon, business context, social relationships and business volume and growth. Next, this framework is applied to a case study of a company participating in a Swedish RSN. The paper ends with discussion and conclusions.

## Regional strategic networks

RSNs are created by companies, government agencies or other stakeholders and thus have a formal starting point (Gebert Persson *et al.*, 2011). In Jarillo's (1988) definition of strategic networks, there is a "hub company" actively organizing the network based on business relations. In RSNs, the hub function is performed by a project leader whose relations to the member companies normally do not involve business exchange. The RSN hub initiates and coordinates network activities and encourages the RSN members to act according to the goals stated, but it has no formal means to make the members comply. Participation is voluntary. In most cases only symbolic membership fees are charged.

In strategic alliances the members normally are interconnected by contractual links, whereas in RSNs the involvement of member companies only requires that they are at least connected to the hub. Connections to other member companies may exist already at the start but may also develop over time. Typically, at the beginning many member companies just have a few direct relationships with each other or even no relationships at all to other member companies. Whether or not membership actually turns out to be of strategic importance to a member cannot be assessed *ex ante* as strategies tend to be emergent rather than intended (Mintzberg and Waters, 1985).

## Company effects of RSN membership

From the point of view of a single RSN member, membership effects in relation to specific other parties can be categorised as (1) development of awareness of the other members and their characteristics, (2) inclusion of other members in the context considered relevant for action, (3) development of social relations, (4) development of business exchange, and (5) development of bridges to new information. These five types of development processes are not based on an assumption of linear development. Relationships may jump from an early stage to later stages without

passing through intermediate ones. The stages may also occur in other sequences. However, awareness is a precondition for all the following stages as it forms the condition for identifying opportunities to build social or business exchange. This is in line with social exchange theory (e.g. Blau, 1964) and previous descriptions of business relationship development (e.g. Larson, 1992; Larson and Starr, 1993). The need to assess and acquire resources for business activities motivates the manager to “initiate new connections that are opportunistically evaluated [...]. These ‘opportunistic ties’ can begin with either a social/affective or economic/instrumental orientation” (Larson and Starr, 1993, 6). Thus, initiation of business exchange may precede social exchange although this probably is less frequent. Moreover, different kinds of relationship development are likely to occur at about the same time among the involved RSN members. For some passive members, however, the development processes may produce no change at all.

*Development of awareness of previously unknown RSN members.* Even in a small business community there are companies which are unaware of the existence of some other companies in the community. By actively bringing together companies selected according to some suitable criterion, an RSN may disclose the existence of previously unknown potential partners by providing an arena for local business meetings.

*Inclusion of other members in the context considered relevant for action.* The notion of relevance is based on seeing business as a purposeful activity based on human cognition. Relevance is thus relative and subjective (Snehota, 1990). Formal presentations as well as informal interaction in RSN activities provide opportunities to learn more about the resources and goals of other member companies. When an opportunity to do business with a new company is identified, the company becomes included in the context considered relevant for action.

*Development of social relations.* In an RSN it is likely that network meetings allow some new personal relationships to develop and that existing ones are deepened. Such personal relationships facilitate the forming of business relationships as they lay a foundation for trust and reduce the perceived risk of possible business transactions (Larson, 1992). Both personal and company reputation, reported either from direct or indirect contacts, influence the probability of choosing a certain partner. By adding or developing relationships through membership in an RSN the company can become known in wider circles, which may improve its reputation and increase its attractiveness as a partner, thus facilitating the development of business relationships with companies inside or outside the RSN.

*Development of business relationships.* A company's business relationships can be arranged into different sets of portfolios, e.g., a customer portfolio, a supplier portfolio and an indirect portfolio (Zolkiewski and Turnbull, 2002). The strategic aspect of handling these portfolios involves the evaluation of each relationship, its costs and benefits, followed by an analysis of how the portfolio may be improved. Improvements may take the form of ending, modifying or adding relationships to other actors. Joining an RSN creates possibilities for such alterations as new relationships may replace earlier ones or be added to a portfolio, and existing relationships may be modified due to activities in arenas provided by the RSN.

*Development of bridges to new information.* Bridges to new information are often discussed in terms of the instrumental role of weak ties (Burt, 2004; Granovetter, 1973; Hansen, 1999). In Granovetter's terminology a bridge as is seen as a connection in a network "which provides the only path between two points". According to Hauser et al. (2007), such novel connections fulfill the role of "carriers of useful economic knowledge". Consequently, new social and business relationship play the double role of both creating opportunities for business exchange and providing bridges to previously inaccessible

parts of the relevant market network over which fresh and non-redundant information may flow (He and Fallah, 2009).

Indirect contacts give the company access to a business network with structural holes, i.e. a network with open-ended links or bridges to other contexts. Indirect contacts often constitute such weak ties that may provide accidental but relevant information (Burt, 2004; Granovetter, 1973), improve the timing of information and the amount of referrals in the market (Burt, 1992). Weak ties may be of particular value for explorative purposes and in times of change (Rowley *et al.*, 2000): “a large, diverse network is the best guarantee of having a contact present where useful information is aired” (Burt, 1992, 16). Informational benefits of indirect ties are also reported by Gulati (1995) who concludes that such ties have both a referral and a control function. An indirect tie or a relationship established in an RSN may thus pay off even long after the dissolution of the RSN.

The first four of these potential effects of RSN membership are suggested as a stage model to be used for the analysis of the available case data. The fifth membership effect, the development of bridges to a wider context, is addressed in the discussion section.

### The network horizon and the context considered relevant for strategic actions

A company acts within an enacted environment delimited by its network horizon. This horizon is company specific and influences perceptions, e.g. on competition intensity, substitution threats and buyer power (Giaglis and Fouskas, 2011; van Liere *et al.*, 2008). The location of the network horizon affects how the company acts in relation to customers, suppliers and competitors. However, only some of the actors within the horizon tend to be considered relevant by the focal company. The rest may have been included by coincidence or have lost their relevance (Anderson *et al.*, 1994; Holmen and Pedersen, 2003; Håkansson and Snehota, 1989).

Interaction with other RSN members may offer possibilities for a member company to identify new actors and thereby to extend its network horizon by including them within it. It may also be a means of deepening already established relationships, thus bringing companies into contact with hitherto unknown potentials and capabilities of other member companies. Such increased knowledge may transfer these companies into the context considered relevant for business. This implies that membership may affect the location of the network horizon but also the structure of the set of relationships within the current horizon of a company.

The horizon and context concepts are mainly used at an organisational level. However, the notion of a single company-specific horizon or context can be questioned. There may even be one for each individual in the company (Henneberg *et al.*, 2004). Anyhow, in small companies where the manager is also the owner or part owner it can be argued that this person's network horizon has such a strong impact on how the company is run that it can be considered to coincide with that of the company. Moreover, internal information exchange within a company can be expected to bring about a homogenization of the perceptions of the surrounding network.

## Method

A qualitative approach may offer data rich in detail and of a longitudinal character and is therefore recommended for network studies (Jack *et al.*, 2008; Yin, 1994). A case study approach was adopted since it has been proposed as a particularly strong research strategy for studying change in network level processes (Halinen and Törnroos, 2005; Heikkinen *et al.*, 2007). Qualitative assessments by the informant in the case study firm regarding the status of business relationships to other firms in an RSN were recorded and classified according to the analytical model used in the study. The obtained data were used to identify relationship development patterns.

Z-Group, an RSN in a peripheral region in Sweden, was chosen as the object of study. The RSN was set up in 1999 and was made up of manufacturing companies, most of them with less than 50 employees and none with more than 200. In 2004 an extensive interview study was made with the members of the RSN who by then had 32 member companies, and 30 had by then been members for more than a year.

By 2009 the number of members had grown to 52, and then a follow-up study was made with one of the member companies. The company that was selected for the case study had experienced significant membership effects regarding both social and business exchange within the RSN, which provided an opportunity to identify different kinds of membership effects and to map development paths of these effects. Thus, the firm was not selected in order to represent a typical RSN member but instead as a case with varied and rich experience.

The use of a single informant is a limitation of the case study (Bowman and Ambrosini, 1997; Nandakumar *et al.*, 2010). However, it has been argued that a CEO is likely to be familiar with strategic issues (Hambrick, 1981) and in the case of small companies, this should be even less of a problem. The personal perspective of the entrepreneur tends to dominate how small companies scan their external environment (Nooteboom, 1993).

## Operationalisations

The model of membership effects needs to be operationalized from the point of view of the specific company in the RSN which constitutes the case study. The fifth effect (bridges to new information) is not analysed directly, but as the business relationship dimension is split into two parts the number of factors remain five: awareness, contextual inclusion, social relationships, business volume, and

business growth. These effects are assessed from the point of view of the focal company with respect to the other 51 members of the RSN during the ten-year period 1999-2009.

In a local business community many companies are known to each other irrespective of whether they are members of business organisations such as an RSN. Current local business partners are of course known, and membership in an RSN thus implies that previous acquaintances meet again although in a new arena. But some of the other member companies in an RSN may be entirely new acquaintances that the focal company was not aware of previously. New members also join the RSN at later stages. Some members who do not participate very actively may remain unknown. Therefore, we classify the awareness effects as unknown, known to the focal company before it joined the RSN and known after joining.

Member companies that remain unknown can be expected to operate in other lines of business.

Companies that are known but not included in a business context of relevance for the focal company are defined as identified member companies that are not considered as possible business partners.

Companies that are included in the context considered relevant for action are seen as potential business partners although without current contacts. With regard to contextual inclusion we therefore distinguish between companies outside the business context, those companies that were seen as relevant already before membership and thus were part of the business context already at the time when the focal company joined the RSN, and finally those that got included in the focal company's business context after they became members.

Companies with existing contacts on a social level but without current business exchange may represent a stage preceding business exchange although that stage can be reached also without social exchange. In the same vein we here distinguish between companies with or without social

relationships to the focal company and in the latter case if these were established before or after joining the RSN.

The last two categories are made up of companies with ongoing business relationships with the focal company. This is specified as business volume and business growth. The business volume with the other RSN members reported by the manager of the focal company in 2009 is classified as none, marginal, minor and major. The classification none implies complete lack of business exchange. Marginal volumes denote sporadic business exchange amounting to 1 % or less of the total turnover. Minor volumes denote sporadic business exchange amounting to 2-10 % of the total turnover. Major volumes represent more than 10 % of the total turnover.

The development of the business exchange between the focal company and a specific member of Z-Group in the period 1999-2009 is classified as constant if it has not grown at all, marginal if volumes increased from none to marginal, as minor if there was an increase from none or marginal to minor, and an increase from none, marginal or minor to major was denoted as major increase. The operationalisations are summarized in Table 1.

<i>Membership effect for Company A</i>	<i>Status</i>	<i>Code</i>
Awareness	Unknown to Company A	0
	Known before joining the RSN	1
	Known after joining the RSN	2
Contextual inclusion	Not included in relevant business context	0
	Included before joining the RSN	1
	Included after joining the RSN	2
Social relationships	Absent	0
	Present before joining the RSN	1
	Present after joining the RSN	2
Business relationships: volume	None	0
	Marginal: less than 1 % of turnover	1
	Minor: 2-10 % of turnover	2
	Major: more than 10 % of turnover	3
Business relationships: growth	None: remaining constant at previous level	0
	Marginal: from none to marginal volume	1
	Minor: from none or marginal to minor volume	2
	Major: from none, marginal or minor to major volume	3

*Table 1.* Operationalisations and codes used in subsequent analysis.

Membership in the RSN entails that many previously unknown member companies of the RSN lose their anonymity at the first network meetings when the members are introduced to each other. On this basis, social relationships may develop leading to potentially valuable exchange of information, increased referral opportunities, access to extended resources and new business opportunities. If business opportunities are identified, the company will be included in the context considered relevant for action. There is, however, a certain inertia in business relationships that counteracts the replacement of business partners since relationships demand investments in time and money (Håkansson and Snehota, 1994). These investments may be lost if the relationship is ended. However, relationships may be added without breaking up previous relationships since new business deals may arise as consequences of new business opportunities or from a decision to outsource: "[i]nstead of producing oneself, one may be able to teach others how to produce and persuade them to do so" (Langlois and Robertson, 1995, 34).

If the relationships are deepened as a result of increased mutual knowledge when the parties take active part in activities arranged by the RSN, business exchange may be initiated, and other relations of the new business partners may serve as conduits or bridges to previously inaccessible information.

Relationships may however be harmed if conflict arises in the RSN or if experience gained by membership results in transfer of attention and resources from one relationship to another. As the company manager's time is limited, the amount dedicated to RSN activities reduces the time available for handling external relationships. Consequently, active participation may be detrimental to previous relationships with companies internal or external to the RSN.

Consequently, the membership effects specified here do not form a deterministic chain of events in a development process. Stages can be skipped, and the order reversed. But much of the logic of public support to RSNs concerns assumptions of such gradual deepening of relationships leading up to actual business change. Mapping a specific case as the present one presents a basis for assessing the relevance of relevance of this logic.

### The regional strategic network Z-Group

Z-Group was founded in 1999 and was still operating in 2009 after a prolongation of the public funds allotted to it. It was set up in order to increase sales and stimulate knowledge development in small companies located in a vast but sparsely populated region in Sweden. A company manager had taken the initiative to form the RSN together with an employee in a local government agency working with regional industry development issues. An invitation to join Z-Group was sent out to all manufacturing companies in the region. For funding reasons, the region was defined by its administrative borders.

About 30 companies decided to become members. Some joined Z-Group later but as some other companies left it the number of participants remained rather stable. Later on the number of members in the RSN increased, and in 2009 it encompassed 52 member companies. When the interview study was conducted they had all been members at least for a year but many remained as members from the start in 1999. The composition of the RSN was heterogeneous in terms of size, technology and cooperative experience of the member companies and even more so after the inclusion of additional members at later stages. The geographical distance between outlying members was several hundred kilometres although most of them were located in the central parts of the region.

Z-Group was mainly financed by government funds and funding from the regional development funds of the European Union but also by small annual membership fees. A project leader without business relationships to any member company acted as the network hub, initiating and coordinating network

activities. The main network activities were participation in trade fairs, business courses and member meetings where network activities were discussed and planned.

### Company A and membership effects

Company A is the focal company of the case study. As an engineering shop with 15 employees located in a small town in the central part of the region, it had most of its customers and suppliers outside the region. It mainly operated as a subcontractor but cooperated closely with its major customers by adapting production processes and product design. The company had two owners, and the one selected as informant normally represented the company at the meetings with the RSN. The company's main motive for joining Z-Group was to get marketing assistance, for instance through joint participation in trade fairs, and to achieve competence development at reduced cost through participation in joint training programmes.

Table 2 presents the membership effects reported by Company A in 2009.

	Company	Awareness	Contextual inclusion	Social relationships	Business volume	Business growth
Original members still active in 2009	O1	1	1	1	1	0
	O2	1	1	1	1	0
	O3	1	1	1	2	2
	O4	1	1	1	2	2
	O5	1	1	0	0	0
	O6	1	2	2	3	3
	O7	1	2	2	2	2
	O8	1	2	2	2	2
	O9	1	2	2	2	2
	O10	1	2	2	2	2
	O11	1	2	2	0	0
	O12	1	2	2	0	0
	O13	1	0	0	0	0
	O14	1	0	0	0	0
	O15	1	0	0	0	0
	O16	2	2	2	3	3
	O17	2	2	2	2	2
	O18	2	2	2	2	2
	O19	2	0	0	0	0
	O20	2	0	0	0	0
	O21	2	0	0	0	0
	O22	0	0	0	0	0
New members active in 2009	N23	1	1	1	1	0
	N24	1	1	0	2	2
	N25	1	2	2	2	2
	N26	1	2	0	2	2
	N27	1	2	0	2	2
	N28	1	2	2	0	0
	N29	1	2	2	0	0
	N30	1	0	2	0	0
	N31	1	0	0	0	0
	N32	1	0	0	0	0
	N33	1	0	0	0	0
	N34	1	0	0	0	0
	N35	1	0	0	0	0
	N36	1	0	0	0	0
	N37	1	0	0	0	0
	N38	1	0	0	0	0
	N39	2	2	0	0	0
	N40	2	0	0	0	0
	N41	2	0	0	0	0
	N42	2	0	0	0	0
N43-N51	0	0	0	0	0	
Total	51					

*Legend* See Table 1: Operationalisations. Growth refers to 1999-2009, volume to 2009.

*Table 2.* Membership effects for Company A on awareness, contextual inclusion, social relationships, business volume and business growth.

As indicated in Table 2, 22 of the original member firms remained as members of Z-Group in 2009, which means that about two thirds of the original 30 members were still involved. Although at times some conflicts arose among members in the RSN, for instance concerning priorities among network activities, no relationships were reported by Company A, or any other member, to have been negatively affected by the membership whereas positive effects were reported by many members including Company A.

By June 2009 Z-Group had grown to encompass 52 members (including the focal firm Company A) cooperating on marketing, procurement and training issues. Some members had left the network but other companies had joined. Because of the increased number of participants, there was only one annual meeting for all members; the other activities were carried out in sub-groups, for instance in the form of joint participation at trade shows or in courses and training programmes. The manager of Company A viewed this development positively as it had become easier to reach good procurement terms and to find participants for various courses and training programmes.

He had been aware of 31 of the members already before they became members of Z-Group (members O1-O15 and N23-N38; O indicating original members and N new members joining the RSN at a later stage). This is indicated in Table 2 by code 1 in the awareness column. Later on he had become aware of another 10 companies as a result of his Z-Group membership (members O16-O21 in the original group and members N39-N42 amongst those who joined later). As a result, his network horizon had expanded to encompass 10 new actors. He found the occasions for informal talk very valuable and gave as an example a trade fair arranged by Z-Group: "It was a failure as a trade fair but great as an occasion for small talk among the members. It was very interesting to talk to the others. Some of them I had not even heard of before". However, some companies were members in Z-Group in name only; they wanted to keep in touch if something interesting would turn up but were not prepared to put any

time and effort into network activities. Consequently, there were 10 members that the manager was still unaware of (member O22 from the original membership cohort and members N43-N51 that had joined after 2004; indicated by code 0 in Table 2). He had heard them mentioned and seen their names but knew nothing of them.

Five companies in the original group of members (members O1-O5) and two of the newcomers (members N23 and N24) had been included in the context considered relevant for business right from the start of their membership in Z-Group. However, as a result of his participation in Z-Group activities he had learnt more about most other members and the context had expanded due to the inclusion of 16 additional members (members O6-O12 and O16-O18 in the original group and members N25-N29 and N39 from the group which had joined later; indicated by code 2 in the contextual inclusion column). In sum, 23 of the 51 members companies (45%) were at the time included in the context considered relevant for business. He had been aware of all but four of these companies already before entering Z-Group but taking part in Z-Group activities had brought potential business interaction into the picture.

A similar development had taken place in terms of social relationships. The manager of Company A had had social relationships with the representatives of five other members already when they joined Z-Group (members O1-O4 in the original group and member N23 among the newcomers; indicated by code 1 in the social relationships column) but meeting and talking at Z-Group activities had resulted in 10 new social relationships in the original group (members O6-O12 and members O16-O18) and four additional ones among the members that had joined later (members N25 and N28-N30). However, if he would meet representatives of other companies than these he would merely have “nodded and said hello without expecting a conversation”.

The manager appreciated opportunities for informal talk since he found it informative and helpful for running the business: “You learn from how they did it. You can discuss banking terms or suppliers and that is very valuable. You can make a lot of money on that as well, even if it’s not business”. He felt that the information he received during these talks had affected his way of acting and thus had an impact on this way of thinking about his business. The talks had furthermore affected him personally: “On a personal level it has been a relief to see that you are not the only one facing all these kinds of problems”. This further illustrates the bonds between personal aspects and business aspects, especially in cases like this when the manager also is the business owner.

Comparing the contextual inclusion and social relationships columns in Table 2 we find that inclusion in the context considered relevant for business in all but four cases (members O5, N24, N26, N27 and N39) was associated with a presence of social relationships. In the other direction, presence of social relationships was in all but one case (member N30) associated with inclusion in the context considered relevant for action. This exception was explained by the respondent by stating that his business was “so far apart from ours”. This correspondence points at the role of individual managers in business development. The social and personal aspects of communication play an important role in human interaction and are rarely kept apart from business discussions. Furthermore, getting to know someone on a personal level may lend support to a trusting relationship also on a business level. Personal qualifications in human interaction, often referred to as social competence, is thus an important resource in business development.

In one case a business relationship had developed from non-existing to marginal (member N23) due to interaction in Z-group. Furthermore, in three cases there had been an increase from marginal to minor in business relationships that were ongoing at the start of the RSN (members O3, O4 and N24). As an example, a business relationship with Company O4 had increased from a marginal to a minor share of

the total turnover through its participation in the RSN and in one of its training programmes dealing with production issues. The manager claimed that his company could not have afforded participation in such a programme if it had not been subsidized by Z-Group. By taking part in the programme the participants from the two companies developed social relations and a common frame of reference that could be used for further business interaction and cooperation. Although the companies were located within walking distance from each other, it was only after taking part in the training programme that employees started to visit each other to discuss common tasks and problems. The respondent explained: “We both used to go all by ourselves but now we exchange experiences and discuss alternative solutions”.

Company A’s business exchange had developed with 14 companies after it joined Z-Group. With 12 members (members O3-O4, O7-O10, O17-O18, N24-N27) this growth is classified as minor, but in two cases major development had taken place (members O6 and O16).

Company A had been able to establish a new business relationship with Company O16, a company that A had not even been aware of before the start of the RSN. O16 was an expansive company that quickly became quite an important customer. As O16 expanded its business, Company A initially delivered in parallel with the original supplier which was located outside the region. As O16 continued to expand, Company A was allotted the majority of the extra supplies needed and regarded the creation of a business relationship as a consequence of the common membership with Company O16 in the RSN: “It has a lot to do with Z-Group: you meet and talk and tell each other about what you are doing”.

A starting point was when O16 took part in the same RSN training programme as Company A whose manager meant that getting along with O16 was facilitated by the common experience and knowledge

developed in the training programme: “We are beginning to speak the same language”. By 2009, the business exchange with O16 amounted to 25 % of the turnover of Company A. In addition, Company A had become aware of other companies, external to the RSN, through O16, which thus fulfilled the function of acting as a bridge to parts of the relevant business context that were previously unknown to Company A.

When Company A in 2009 experienced a liquidity crisis as a consequence of the global financial downturn, O16 bought Company A: The new customer thus got a fundamentally new role as both owner and customer. This was quite a dramatic occurrence within the rapidly expanding business relationship framed by the regional strategic network Z-Group.

In addition, Company A had developed a business relationship with Company O6), another supplier of Company O16. The respondent was slightly acquainted with the manager of O6 already before joining Z-Group as they were located in the same village. However, he explained, there used to be a non-cooperative attitude among the local entrepreneurs: nobody wanted to give anyone else advantages or a chance to make more money. But as a result of discussions during courses arranged by Z-group, the managers of Company A, O4 and O6 changed their mind and began to cooperate. Both Company A and Company O6 had increased their sales to O4 by offering systems solutions together. Additionally, Company A had become a sub-supplier of O6 connecting it to one of O6’s other customers. In total, this had led to an increase in turnover by more than 10%.

In all but three of the 11 cases with increased, business exchange the expansion was associated with social relationships. This fits in with social exchange theory (e.g. Blau, 1964) and the arguments in previous descriptions of business relationship development (e.g. Larson, 1992; Larson and Starr, 1993)

according to which development of social relationship often goes hand-in-hand with business development.

In total, Company A had business exchange of some extent with 12 of the remaining 22 members of the original setting compared to 3 out of these 22 before joining the RSN. This illustrates the impact of the extension of the network horizon and the context considered relevant for action upon management decisions and business interaction. It furthermore illustrates that RSN membership can have an impact on network horizons and contexts considered relevant for business and thereby in the long run on the relationship portfolios (Zolkiewski and Turnbull, 2002) of new members. However, only 5 business relationships had developed with the 29 members that joined at a later stage. This lends support to the notion of relationship development as long-term process and indicates that the RSN member composition affects the likelihood of creating new relationships, since many of the new members represented business that the respondent considered as unrelated to his own.

### Development paths

The various combinations of previously existing relationship states and new appearing ones after Company A's entry into Z-Group can be construed as different development paths in business relationships. The development paths that can be observed in the empirical data can be characterized as six different patterns which we call status quo, the old and slow, reassessed potential, RSN success, business community, and no-go. The development of the 51 members of Z-Group (Company A being the 52<sup>nd</sup>) is being regrouped according to these patterns in Table 3.

Development path	Company	Awareness	Contextual inclusion	Social relationships	Business volume	Business growth
Status quo	O1	1	1	1	1	0
	O2	1	1	1	1	0
	N24	1	1	0	2	0
Old and slow	O3	1	1	1	2	2
	O4	1	1	1	2	2
	N23	1	1	1	1	1
Reassessed potential	O6	1	2	2	3	3
	O7	1	2	2	2	2
	O8	1	2	2	2	2
	O9	1	2	2	2	2
	O10	1	2	2	2	2
	N25	1	2	2	2	2
	N26	1	2	0	2	2
	N27	1	2	0	2	2
RSN success	O16	2	2	2	3	3
	O17	2	2	2	2	2
	O18	2	2	2	2	2
Business community	O11	1	2	2	0	0
	O12	1	2	2	0	0
	N28	1	2	2	0	0
	N29	1	2	2	0	0
	N30	1	0	2	0	0
No-go	O5	1	1	0	0	0
	O13	1	0	0	0	0
	O14	1	0	0	0	0
	O15	1	0	0	0	0
	N31	1	0	0	0	0
	N32	1	0	0	0	0
	N33	1	0	0	0	0
	N34	1	0	0	0	0
	N35	1	0	0	0	0
	N36	1	0	0	0	0
	N37	1	0	0	0	0
	N38	1	0	0	0	0
	O19	2	0	0	0	0
	O20	2	0	0	0	0
	O21	2	0	0	0	0
	N39	2	2	0	0	0
	N40	2	0	0	0	0
	N41	2	0	0	0	0
	N42	2	0	0	0	0
	O22	0	0	0	0	0
N43-N51	0	0	0	0	0	
Total	51					

*Legend* See Table 1: Operationalisations, Growth refers to 1999-2009, volume to 2009

*Table 3.* Development paths of RSN members with respect to their relationships to Company A.

*Status quo path.* Some companies were already business partners to Company A before it joined Z-Group. They knew each other, were included in the relevant business context, had social relationships and did some business although at a low level. For companies O1, O 2, and N24 the business exchange remained at this low level. The respondent explained that they were suppliers but that their business interaction concerned products of minor importance that Company A seldom needed.

*The path of the old and slow* is represented by Company A's relationship to member O3, O4, and N23. There was some business exchange already before Company A joined Z-Group, but it increased. Of special interest is company O4 which is described above. Although the actors knew each other before, the RSN provided a forum where they could get better acquainted and find common ground for increased business. The subsidies provided by the RSN was explicitly quoted as a condition for taking part in the RSN activities which were deemed to be too expensive if full price for courses and training had had to be paid. This represents a case where public funds actually have an effect on the behaviour of small firms.

*The path of reassessed potential.* Eight relationships – five original members (members O6-O10) and three new ones (members N25-N27) – represent firms known to Company A before its membership but not considered as relevant business partners and also out of the social context. At the same time as Company A started meeting representatives from these companies at sessions organised by Z-Group it realized that they were potential business partners, i.e., they became included in the relevant business context. Social relationships were established in all cases except two and business exchange was initiated. An interesting case is O6, where the social contacts between representatives of the firms changed their attitudes in a way that made them realize a business potential that also was actualized.

*The path of RSN success.* Three relationships (members O16-O18) represent total success of the idea of RSNs as an arena for making it possible for companies to find new partners in a regional setting. These companies were unknown to Company A before they became members of Z-Group, but concurrent with the activities in the RSN, Company A realized that they were potential business partners, established social relationships with them and started to do business. A remarkable case is O16 which before A's membership in Z-Group was not even seen as a potential business partner but then grew to a major customer and eventually saved Company A by buying it when it was faced with financial problems.

*The business community path.* In five cases, members N11-N12 from the original set of members and members O28-O30 amongst the new ones, social relationships were established although no business exchange was initiated. In one case there was no potential for business (member O30) due to incompatibility in the lines of business of the firms, and in the other cases other business opportunities were deemed more relevant. Still, a sense of belonging to the same regional business community was created through the development of social relationships and information was often exchanged.

*The no-go path.* Out of the 51 other members of Z-Group, 21 remained outside Company A's circle of social or business partners. In all cases but one (member N39) they were not seen as relevant business partners, but still 7 of them had been lifted above A's horizon as A had become aware of them through its memberships in Z-Group.

## Discussion

The region in which Z-group operated is vast but sparsely populated, and the manager of Company A was aware of 31 of the 51 other members from the start. However, as a result of network interaction, quite a few new companies became known to Company A, i.e., the location of its network horizon was

moved outwards. It expanded as Company A became aware of 10 new companies. We named this development *the business community path* as it increased the business community that the respondent related to.

The impact of the RSN membership on the context governing strategic action was even more pronounced as 16 new actors were included. In addition, the strength of relationships changed as 12 new business relationship developed, in particular with O6 and O16. Three other business relationships expanded considerably, in particular the one with O4. In most cases the development followed the *path of reassessed potential* as new information changed previous assessments. In three other cases, it could even be classified as a *path of RSN success* as previously unknown companies had become business partners. Z-Group membership had thus had a major impact on both the turnover and the relationship portfolio (Zolkiewski and Turnbull, 2002) of Company A. However, we do not claim that there is a causal relationship, only a temporal association. We cannot know what the development of Company A would have been if it had not joined the RSN.

The extended horizon increased the opportunities available to Company A as the resource base accessible through cooperation with other companies increased. Furthermore, the number of weak ties increased as new social and business relationships created indirect contacts to companies outside the RSN. This gave Company A access to new information sources (Burt, 2004; Granovetter, 1973) with expected effects such as better timing of information bigger number of referrals in the market (Burt, 1992).

There was a strong connection between the presence of social relationships and inclusion in the context considered relevant for business. Out of the 25 cases which included social relationships all but one were included in the relevant business context. This implies that learning about a company

means learning about people in that company – and vice versa. There was furthermore a strong connection between the presence of social relationships and business exchange: out of the relationships involving 25 social interaction 2 represented major business volumes, 9 minor volumes and 3 marginal volumes, and only 3 minor business relationships operated without social relationships. This is in accordance with the observation that trust and commitment developed in social relationships facilitate a development of business exchange (Larson, 1992).

Evaluations of RSNs tend to focus on tangible effects and measurable figures like sales (Rosenfeld, 1996). The importance of personal interaction for the development of trust and business relationships may not always be fully known neither to evaluators nor to the hubs and members of these networks. Therefore, RSN activities do not always provide sufficient opportunities for the development of personal relations. The importance of such non-economic informal personal relationships should however not be underestimated: “although less visible, in the end it may well become the most important outcome” (Welch *et al.*, 1996, 473). Embeddedness serves as a signal of a company’s reliability and therefore adds to its attractiveness as a partner (Ahuja, 2000).

For the manager of Company A, this experience of cooperation outside business relationships was a novelty. He used to take pride in handling problems and knowledge development on his own, an attitude stressing independence and displaying lack of trust in other companies, which may have been augmented by a lack of cooperative experience. During the interview, however, he stressed the importance and value of being able to share experiences with fellow managers in the RSN. Membership in an RSN may thus for such managers mark the beginning of a new view on the strategic benefits of cooperative action.

Through economies of scale or by funds received from the European Union or local government agencies, RSNs like Z-Group are able to offer participation in trade fairs and training programmes at reduced price. This increases the attractiveness of attending such activities. The members are then able to pursue business goals and at the same time develop personal relationships to other members. Such mixtures of benefits may be necessary to create a sufficient level of interest for active participation in these kinds of RSNs as there is always an opportunity cost of participation. The size and value of potential positive and negative effects are hard to estimate in advance.

The value of RSNs has been disputed and few full-scale evaluations have been undertaken. The RSNs are very varied both in structure and content. The time factor makes long-term effects hard to observe, effects that can be directly attributed to membership in an RSN are hard to specify, and changes may be difficult to catch in hard figures according to prevailing accounting practices. It is therefore important to find relevant criteria for separating success from failure (Welch *et al.*, 1996). If an inventory of achievements is to be made, visible activities like business deals, joint participation in training programmes or trade shows may initially come to mind. However, Z-Group and Company A exemplify a number of possible development paths from awareness and inclusion in the network horizon, via inclusion in the context considered relevant for action and development of social relationships as important effects, implying possibilities for future business exchange but, in the case of social relationships, also in itself in the form of an increased number of weak ties of potential value (Granovetter, 1973). The relational effects changed the network horizon of Company A and thus created new strategic circumstances. In addition, there were personal effects as managers' views and experiences were affected. These kinds of effects may be of particular importance for small companies, in particular in areas with few other companies around. Intangible effects should therefore not be overlooked in formal evaluations.

However, even if the RSN membership resulted in substantial gains for Company A, only a minority of the member companies had similar success stories to tell. This seems to be a common drawback of this kind of inter-company network arrangements (Huggins, 2001) and calls for further research on RSN processes and outcomes.

## Conclusions

This paper describes and analyzes how membership in a regional strategic network (RSN) affected a company, focusing on its network horizons, contexts considered relevant for business, social relationships, and business relationships. The chosen example, Company A, included several other companies in its network horizon and network context, developed new social relationships but also some minor and two major business exchange relationships with other member companies. This is not a typical case but it contributes to delineating the potential impact of arenas for interaction by illustrating several possible development paths connected to RSN membership. RSNs offer new arenas for interaction which may lead to increased awareness of local companies, development of new relationships and a deepening of already ongoing relationships.

A more pronounced focus upon interaction would have an effect on how these networks should be run as the provision of arenas for interaction then becomes a major task for network hubs. The level of inter-company interaction in RSNs is often characterized by fairly low frequency and low intensity (Huggins, 2001). RSN hubs have a crucial role to play as catalysts and facilitators of interaction and cooperation among member companies. Understanding why certain business relationships follow development paths leading to increased business exchange whereas others remain in limbo is an important issue both for research and practice.

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