STRATEGIZING WITH AND THROUGH OTHERS: 'THE PARTNERSHIP LOOP' OF IDENTITY CONSTRUCTION

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Those small software firms that have been established on subcontracting or customer-centred projects tend to be highly dependent on their typically large customer organizations. These often even symbiotic relationships offer security but also pose high risks to the operations of the software firm due to the dominance of one single client in its narrow customer relationship portfolio. Both the identity and the strategy of the firm may be dependent on this relationship, and re-defining the set boundaries and developing strategies thereof when the relationship changes, is a major strategic challenge to the small firms. A question arises: *How does the strategy of a small firm develop in relation to its customer relationship dynamics?*

The present study combines research on relationship dynamics with process and practice perspectives of strategy research to examine the entwinement of strategy and identity with network change. Through analysis of the concepts of organizational identities in networks, strategizing and boundary-drawing the study describes identity and strategic change of a firm as conditioned by its relationship development. The emergent process is illustrated and the concepts further developed through a longitudinal critical realist case study on a small software firm. Drawing on a mechanism-based explanation, we illustrate how identity is built on both the founding entrepreneur's boundary-drawing and the firm's network embeddedness. Furthermore, we examine the way the company constructs its identity throughout changes in the strategic practices guiding the firm development over its relationship building, maintenance and termination. Earlier research has covered network identity in stable and change conditions but the questions of its relatedness with strategizing and relationship dynamics have received less attention. This study contributes to the research on network strategy within IMP approach by adopting strategy-as-practice perspective and seeing strategy as something that people collectively do in dynamic relationship networks. As a result the study depicts a mechanism to explain strategy development and its dependence on identity within a network context.

Keywords: strategizing, network identity, boundary-drawing, generative mechanism

INTRODUCTION

Industrial network approach offers a challenging view on firms' strategic behavior as it is seen as interdependent and embedded in the wider industrial network dynamics (Mattsson, 1987; Axelsson & Easton, 1992; Håkansson & Snehota, 1989, 1995). As a result, the strategy process is inherently complex due to the interactive and ever-evolving nature of the relationships in which it takes place; thus, the strategy cannot be seen as independently developed and implemented within the firm (Håkansson & Ford, 2002: 137). This is true especially for those small software firms that have built their business on subcontracting and streamlined their activities with their bigger counterparts. As their business is based on 'renting heads' and managing cost-efficiency of their operations instead of investing in R&D and aiming at markets of their own, both their strategies and their identities are tightly connected to their partner organizations. What they do and for whom they do it is bound to have an effect on who they believe they are; and consequently, will affect the way experiences are interpreted and strategies developed. As our case example demonstrates, small subcontractors face a risk of being trapped inside a 'partnership loop', keeping their strategy development tied to their partners' strategies and eroding the basis of independent strategy.

The extant literature has covered different approaches to strategy and strategizing in network context, including strategy as cognition (e.g., Tikkanen & Halinen, 2003), position (Axelsson & Easton, 1992; Mattsson, 1987), and adaptation (Brennan & Turnbull, 1999; Canning & Brennan, 2004). Earlier research has also covered network identity in stable and change conditions, but the role of identity, an individual-level cognition of who the organization is ((Dutton, Dukerich & Harquail 1994; Harquail & King 2003; Haslan & Elleners 2005), in strategizing has received scarce attention in industrial marketing research. A mechanism-based approach encourages us to understand the different objects and conditions of strategy formation instead of choosing one phase of the process over another. Taking into consideration the nature of strategy as a cluster concept (Mintzberg et al., 1998), the Mintzbergian notion of strategy encourages us to see all the different forms of strategy co-existing and evolving in time, being part of an individual firm's development process. The challenge is to understand the whole process of strategy formation in a network context and the underlying relationship dynamics that intertwine with the firms' strategies. Organizational identities in networks play a key role in these dynamics – actors having a certain control over their own identity development, but an organization's identity development being subject to interplay between the features of the focal actor and the actor features of others (Huemer et al, 2013). Thus, the research question we aim to address here is as follows: *How does the strategy of a small firm develop in relation to its customer relationship dynamics*?

We use research on relationship dynamics and strategizing in network context to understand the dynamics of strategy formation of a firm in a network context. Methodologically, this study represents a critical realist case study, adopting a process research approach (e.g., Pettigrew, 1997; Langley, 1999) and building on mechanism-based explanation (Bhaskar, 1978; Sayer, 1992). Through in-depth study of the development of a software firm throughout its life cycle, we establish the relationship between organizational identity in networks and strategy within the process of strategy formation. In the end, we model the operation of organizational identities in strategizing as a social action-formation mechanism (see Coleman, 1986) of strategy formation in industrial markets.

The contribution of the present study arises, first, from the conceptualization of the action-formation mechanism of network-embedded strategy formation. It connects the organizational cognition, represented by organizational network identity, and action, represented by strategic actions taken. Second, the strategy formation is embedded in the network in multiple ways and this intertwinement of organizational identity and network relationship dynamics throughout the process of strategy formation is explained through the different conflicting demands that arise from this dynamics. We define the contradiction between the simultaneous demand of dependence and independence of identity and the consideration of the firm's own and the partner's outsourcing needs within the strategy development as those conditions on which the co-existing and development of identity and strategy take place. And third, we characterize the complex interplay of development of organizational identity in networks and strategic action as intermediated by the activity of network leveraging.

The paper is organized as follows. In Section 2, the conceptual framework of the study is built. In Section 3 the critical realist case study as a research strategy, process methodology and the idea of mechanism-based explanation are discussed and the empirical research design is presented. In Section 4, we present the results of the data analysis and the identified action-formation mechanism of strategy formation. Section 5 presents a discussion of the results, and Section 6 concludes with a brief summary of our contributions and suggestions for future research.

RELATIONSHIP AND NETWORK DYNAMICS OF STRATEGIZING: SHIFTING IDENTITIES AND BOUNDARIES

Long-term relationships are a typical characteristic of international industrial markets (Johanson & Mattsson 1987, p. 46) and are embedded in wider forms of organizing such as industrial business networks. Business networks consist of organizations and are about interactions and exchanges between customers and suppliers and other actors (Hadjikhani & Thilenius 2009). In organizing of business operations in networks intertwine levels of dyadic relationships, relationship portfolios, firms-in-networks and industries-as-networks (Möller & Halinen 1999).

Håkansson and Snehota (1989) claim that "no business is an island", thus emphasizing the importance of relations within different actors in a network. The ability of building and maintaining relationships with network participants forms the core of strategy in network context (Håkansson & Ford, 2002). The IMP approach to strategy is concerned with "the way in which a firm achieves exchange effectiveness in relation to other firms in the surrounding network – that is, how a firm initiates and reacts to changes in the network in such a way that the firm keeps on being valuable to the network" (Holmen & Pedersen, 2003:409). Considering firm`s performance and effectiveness, it is not only a firm`s performance and its interaction with direct partners that is evaluated but also the relations of direct partners with third parties (Håkansson & Snehota, 1989). Network relationships influence the nature and results of a firm`s operating along with potential sources of effectiveness (Wilkinson & Young, 2002).

The process of strategy in networks

Strategy also in network context holds two sides: those management activities the objective of which is to cause changes (deliberate), and those that are reactions to the changes in the relationships (emergent) (Håkansson & Snehota, 1995; Mintzberg et al., 1998). Thus, the

intertwinedness of organization and the network of relationships works in both ways: strategic choices affect the relationships, but the relationships also influence the firm's strategic choices (e.g., Håkansson & Ford, 2002; Håkansson, Gadde & Snehota, 2003). Extant literature on strategy in networks has covered different types of network strategizing that can be seen to reflect the different "faces of strategy", or three of the Mintzberg's 5 P's: strategy as perspective, position, and pattern (Harrison & Prenkert, 2009; Mintzberg et al., 1998).

Cognitive strategizing relates to the wider discussion of cognitive aspects of networking activity. Concepts such as network theory (Johanson & Mattsson, 1992), network horizon (Anderson et al., 1994), and network pictures (Henneberg et al., 2006; Leek & Mason, 2009; Ramos & Ford, 2010; Ramos et al., 2012) have been coined to define the different ways actors perceive their surrounding networks, and especially the latter has been connected to the strategizing activity (Ford et al., 2003; Laari-Salmela et al., 2015). *Positioning* refers to the relative location of the firm in the network and maintaining or changing that position (Axelsson & Easton, 1992). The possibilities to do this are dependent on the current position as well as the other actors and their positions. This interrelatedness results in network paradoxes (Håkansson & Ford, 2002) such as influencing, and being influenced by, others, and identifying and establishing an appropriate level of involvement in relationships with partners. And *adaptations* refer to forming of strategy as a pattern. Due to the intertwinedness of the actors in networks, the interactions shape both parties on an everyday level. As the network paradoxes state, strategizing is not only about influencing others, but also about being influenced – hence, the firms inevitably also go through adaptations continuously as they maintain their positions in the network. Especially a key partner may have a significant influence on the strategizing through this process of adapting (e.g., Brennan & Turnbull, 1999; Canning & Brennan, 2004).

Harrison & Prenkert (2009) refer to this processual nature of strategy by stating that cognitive and positioning strategizing are being related more to the deliberate strategic actions, whereas the third category, adaptation within relationships, is more about the consequences of more mundane actions in relationships which only later on have proven to be strategic – hence, the emergent part of strategy. They defined strategy as *"the pattern of a company's choices that are significant for its economic performance over time, and that it becomes committed to"* (Ford et al., 1998: 64). However, here we wish to gain an even more embedded view of strategy by revealing the underlying patterns of a firm's activities and the mechanism that produces it. We wish to avoid being focused on decisions as causal triggers for a particular course of action (Chia, 1994). As being about strategic choices, decision-making naturally becomes a part of strategizing activities. However, when adopting a mechanism-based explanation, the decisions are not seen as causal triggers, but events are produced by generative mechanisms as a whole. We see the logic behind the strategic activities as the most core part of the firm's strategy; the immanent logic emerging through practice constitutes strategy (Chia & MacKay, 2007). Hence, strategy is deeply rooted in the firm's culture and understanding of itself as an actor – the organizational identity. Hence, we build the framework of the firm's strategizing around the concept of organizational identity in networks (Huemer, 2013) and the related processes of identification and boundary-drawing. We discuss these concepts next.

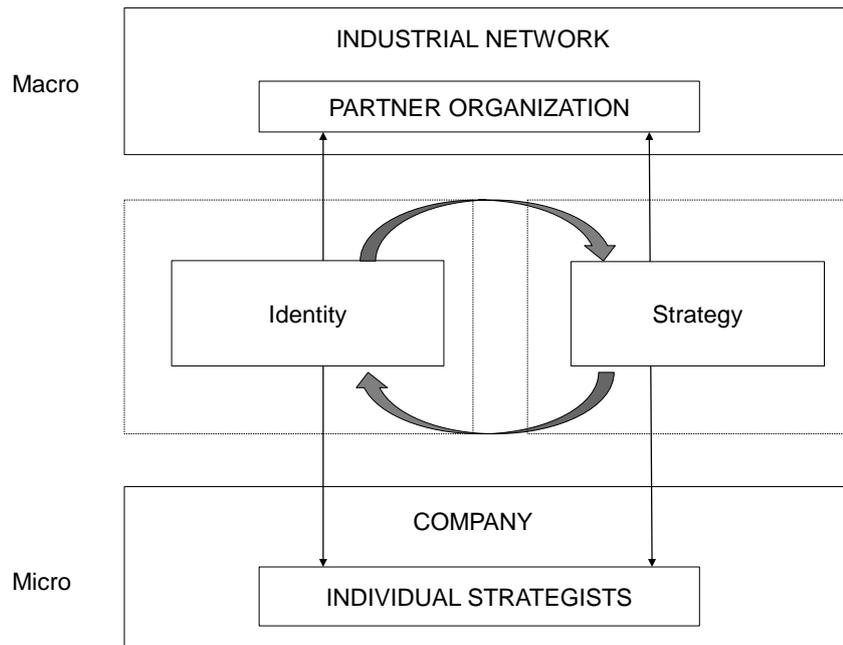**Identity in the process of strategy formation**

Within the organization studies, identity has been connected to strategy mainly through decision-making (Ashforth & Mael, 1996; Dutton & Dukerich, 1991; Reger et al., 1994). The

firm's identity, the sense of 'who the organization is' (Dutton, Dukerich, & Harquail, 1994; Harquail & King, 2003; Haslan & Elleners, 2005) guides the way experiences are interpreted and understood, and how strategies are developed, chosen and evaluated (Huemer, 2004). Identity assimilates those strategic choices that have been made early on in the company's history and forms the core of the firm's future strategies as well.

Due to the relationship dynamics, however, identity does not relate only to the conscious and deliberate decision-making, but to the whole process of strategy formation. As much as the identity influences the choices, also the identity is being influenced by the actions taken and the interaction taking place in the relationships. Network identity refers to that identity the firm obtains by its relationship to other actors (Huemer, 2004; Anderson, Håkansson & Johanson, 1994; Håkansson & Snehota, 1995; Johanson & Mattsson, 1992). As old relationships are broken and new ones built, network identity may change (Anderson et al., 1994). Hence, Huemer (2013) presents the notion of *organizational identities in networks*, highlighting the relationship dynamics and their effects on the firm's internal features. Adopting both inside-out and outside-in approaches, they see identities depending on these internal features and their successful control, and the internal features of others and their successful influence.

Identity as a concept overlaps with the one of *boundary*. Boundary defines the identity of a firm and dictates who are, and who are not, members of the organization (Huemer et al., 2013). There can be mental, social, and physical boundaries identified, and creating, moving, or consolidating these boundaries denotes organizational change (Hernes, 2004). Some boundaries may be relatively stable whereas others are more prone to change. The process through which "*actors simultaneously imagine, visualize, and experience identities depending on the boundaries that are drawn, the meanings that are understood, and the set of relationships that are acted upon*" (Huemer et al., 2004: 64) is about organization's *identification* with actors in its surrounding network. Boundaries thus act as a starting point for identification and refer to the mental, social or physical 'outlines' that the organization has drawn around itself (Hernes, 2004; Huemer et al., 2004). Drawing boundaries denotes strategic choices a firm makes and "*affects firm's identification of other actors as well as its possible identification with them*" (Huemer et al., 2004).

Thus, we model the identity and strategy of a firm to be entwined and interacted through the processes of boundary-drawing and identification, as shown in Figure 1 below. These evolve in the interaction dynamics in the relationship between the firm and its key partner organization, other relationship and the network as a whole.

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                    INDUSTRIAL NETWORK
  Macro
                    PARTNER ORGANIZATION


              Identity              Strategy



                       COMPANY
  Micro
                    INDIVIDUAL STRATEGISTS
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Figure 1. Relationship and network dynamics of strategy: shifting identities and boundaries.

METHODOLOGY

The present study was conducted as a processual single-case study (Mohr, 1982; Pettigrew, 1990, 1997; Langley, 1999). It searches for a mechanism-based explanation typical of critical realist case studies, in an attempt to examine the contextuality and processuality of organizational identities in strategizing within networks. Strategy formation in a network context is depicted through its action-formation mechanism (Mayntz, 2004; Tsoukas & Knudsen, 2006). Critical realist case studies are explanatory in nature (Morais, 2011). They are suited to intensive research where the interest is to understand how some causal process functions in a particular case (Sayer, 1992). Mechanism consists of entities of this causal process that produces the effect of interest (Anderson et al., 2006; Hedström & Ylikoski, 2010; Pajunen, 2008). The approach is retroductive: even though the mechanisms are dependent on the contextual conditions, critical realist research allows for transfactual generalization in the real domain of reality (Elger, 1989; Bhaskar, 1989; Morais, 2011). The method of theorizing is contextualized explanation (Welch, Piekkari, Plakoyiannaki & Paavilainen-Mäntymäki, 2011).

Data collection

The data collection took place as part of a larger research project on IT business. The project started in 2005 and the first interviews were conducted within the project in 2006. The small software company in question we have been following ever since, and the interaction has covered not only the formal research interviews, but also different kinds of co-operating activities.

In total, 7 interviews have been conducted with three key persons in different phases of the company life cycle. In the first phase, before the acquisition by the local telephone company, the firm was run by the founder-CEO and COO. Later on, the new managing director took over, founder-CEO retired and COO gained a position in the parent organization. The first

round of interviews was done in 2006 and covered themes 'business start-up', 'managing the business', 'renewal of business' and 'biography'. The second round in 2008 focused on 'strategy formation'. This theme was deepened in a follow-up interview on 'strategizing practices' in 2010. The interviews were recorded and transcribed. The empirical data consists also of informal interviews and discussions (with the managers as well as employees and partners of the firm), participative observations in different occasions, and other collaboration activities. Since 2013 the case firm has acted as a teaching case on three university courses. For that purpose further interviews have been conducted both by the primary researcher and the students in their projects. This data has been used to track the development of the firm at regular intervals. The students have also developed their own analyses of the strategic practices of the firm as course assignments, and they have been used as a pre-analysis of the data to provide ideas based on which the actual analysis has been made.

Table 1. Empirical data of the case study.

Interviews	Date	Duration	Pages
EB/MK Business Start-up 1/2 (LTA_1a_180406)	18.4.2006	1:41:55	31
EB/MK Business Start-up 2/2 (LTA_1b_180406)	18.4.2006	1:39:00	28
EB/MK Managing the business 1/3 (LTJ_1a_270406)	27.4.2006	1:25:36	25
EB/MK Managing the business 2/3 (LTJ_1b_270406)	27.4.2006	1:41:39	7
EB/MK Managing the business 3/3 (LTJ_1c_270406)	27.4.2006	0:26:58	28
EB/MK Biography 1-2/4 (HH_1a ja 1b_160506)	16.5.2006	1:47:11	29
EB/MK Biography 3-4/4 (HH_1c ja 1d_160506)	16.5.2006	0:29:07	8
EB/MK Renewal of business (YU_1a ja 1b_020506)	2.5.2006	1:16:40	22
EB/MK Renewal of business (YU_1c_020506)	2.5.2006	0:32:23	10
EB/MK Strategy formation (SM_220508)	28.5.2008	1:28:09	37
EB/ES Strategy formation (SM_060608)	5.6.2008	1:04:13	31
EB/KR Strategic practices (SP_101222_osa1 ja osa2)	20.12.2010	1:07:45	
Course case study co-operation			
EB/KR Future directions, ACP interview	21.1.2013		
EB/KR Future directions, ACP interview	22.1.2014		
EB/KR Future directions, ACP interview	21.11.2014		
Other material			
Other interviews (videos for course purposes; informal talks with employees in different occasions)	2006-2014		
Observations (joint seminars and workshops; joint events)	2006-2010		
Secondary material (company website and sales material, news excerpts)	2006-2015		

Data analysis

The data gathered is longitudinal in nature, and during the first round of analysis, critical events were identified from the data. These are the events that the interviewees themselves considered important for the company development, or they proved to be important strategy-wise for the direction for the company when analyzed in retrospect. During the second round

of interviews, the accuracy of the interpretations made and the relative importance of the identified events was discussed with the informants and modified according to the discussion. The interviews on strategy formation were also to add detail on the defined critical events and aiming at revealing events taking place "in-between" the critical events.

After the second round of interviews, with the help of QSR NVivo software we coded the data through two categories: one arranging the material around the events, and the other building on the thematic analysis. The thematic analysis started with the broad, theoretically defined codes of organizational identity and strategizing. In the in-depth analysis, the data were reorganized according to seven objects: strategy, boundary-drawing, identity, identification, leveraging, contradiction of dependence and contradiction of capabilities. The connections between these objects were then analyzed in light of the processual case description written. As a result, we were able to model the action-formation mechanism of strategy formation of a small firm in network context.

Table 1. Critical events in the case firm development process.

Year	Network level	Firm level
2000	IT hype: business opportunity through existing relationship	Founding Beta
2002	IT sector in turmoil, partnership with Gamma ends suddenly	Getting new customers through founder's social and business network
		Search for stability via customers from different industries
2003	Recovering industry	Co-operation projects, partnering with Delta
		Strategic aim in own production development
2008	New recession period in sight, work load diminishes	Selling the company to a partnering organization, Epsilon
2009	Recession period, IT industry suffering from massive lay-offs	KR from Epsilon as the new managing director goes through co-operative negotiations and lay-offs
		Defining three main business areas, future in SaaS
2012	Local network leaning towards data center business	Partnering with IBM
	Cloud services as a market growing	Data center services as the new main business area, software development still tried to be maintained
2015	Strategic partners IBM, Omega and Microsoft in data center business, Epsilon's strategic focus in this area	Merging with Omega, another subsidiary of Epsilon. The name of the company will be Omega.

RESULTS

Beta Ltd is a company founded in 2000 and located in a small Scandinavian town. The company is built on subcontracting, and it is currently specialized in software development and data center services for the needs of its partnership network. Company also offers digital media and Internet services including web conferencing services and websites. Throughout its life cycle, the company has heavily relied on partnerships in their strategizing. The company was founded on a business opportunity that presented itself through the founder's social network. Ever since, the solution to each dysfunctional strategy has always been a search for

solutions from the founder's personal or business network. This has, on the other hand, made the company extremely flexible and resilient, but on the other hand, vulnerable in the sense that its identity has been built around these core partnerships. First, we describe the company life cycle through the major critical events. Then, in the light of the framework, we analyze the way Beta's identity is connected to its strategizing, and how it has changed throughout its life cycle. Finally, we present the 'partnership loop' as an empirical example of the identity-formation mechanism of this small software firm.

The start-up with subcontractor identity and following identity crisis

Beta was established by the founder-manager MK in 2000 with a group of people that he took with him from their former employer. A business opportunity had presented itself in the form of Gamma group, through the personal relationships of MK. As at the time of the start-up markets were craving for software developers, it was possible for the firm to base its operation totally on the relationship with Gamma. Beta worked as a subcontractor, developing software for the purposes of the customer, and during the first steps of the company, Gamma employed the Beta people one hundred per cent. Gamma was also co-financing the company, they had planned the business of Beta together, and there was also a plan that Gamma might buy the company after the subcontracting business with them would have grown enough.

So the beginning of the business was quite secured, leaning on a single, strong client and future acquisition plans. The idea was also to acquire other customers in order to secure the operation of Beta during business fluctuations in Gamma's business network. Similarly through MK's personal relationships other customers were acquired: large companies with which projects can be made or that buy software development as subcontracting. An ideal situation would be that the different customers' work would back each other up: when some customers have no work to give, the other ones might have a different situation. The strategy was to get started with subcontracting and project business and then gradually start to develop own software products, but no clear vision yet existed of what kind of products those could be. Even internationalization had been in mind in the beginning.

In the aftermath of the IT hype, around the year 2002, radical changes were taking place in the software industry worldwide. The business of Gamma started to fade, due to which also the purchasing of subcontracting from Beta diminished gradually and finally ended totally. In the end, the end of business with Gamma came quite suddenly. The large company did not inform small contractors of its internal affairs, and even though one of Gamma's executives sat at the board of Beta, the situation seemed to come as a surprise to him as well, resulting to his resigning from the board.

At that time, Beta had almost twenty employees working for Gamma's assignments, and when the business with Gamma started to fade, it was practically on MK's responsibility to find new customers to keep the employees employed and busy. The situation required rapid reaction: finding new customers from the field and re-alignment. Naturally this was not an easy task to do during the decline of the markets. The location in one of the rural parts of the country did not make the task any easier, since the majority of customers located in capital area.

Although the situation was not easy, Beta did also have other customers in different fields other than tele operator and mobile phone business, which gave some stability in the turmoil of IT business. At the same time, new possibilities were searched for, and own product development was seen to be one option. A project related to wireless communication in roadworks site control with a technical research centre, already during the same summer built a basis for the product platform to be developed.

New identity development: a project partner

New business had to be developed to replace the gap left by the decline of Gamma's subcontracting. Beta started to think about its own products more actively, and, for example, through existing customer relationships an idea about wireless information transfer was born and that technology could form the basis for the products. One of the customers at that time was a large tractor manufacturer, for which Beta had made different kinds of projects. Through this relationship an idea was developed about a system for in-vehicle computers.

The company decided to develop a product platform type of solution, onto which it would be possible to develop solutions for different fields and customers. The project gained public funding and for a year and a half Beta built a core product onto the platform. This development has continued with different kind of solutions relating to wireless communication and in-vehicle computers.

Co-operation with a local in-vehicle computer manufacturer Delta has had a central role in developing the product platform. MK had known Delta's managing director through different kinds of local events and networks already before any kind of thought of co-operation existed. After discussions in various IT events, they started also to think about possible co-operation. Beta and Delta worked together already during the aforementioned project in 2002-2003 and after that, when one of Delta's main customers asked them to include a taximeter in their system, Beta started a joint product development with Delta around this system.

In the beginning, the idea was to develop the product platform and to standardise it in a way that could result into a product that also other similar customers or software companies could use in the same way. The platform has been improved, and the development of own solutions has been begun, but the original idea about the standardisation has not realised yet. Even though the idea of the product came through the existing customers, the purpose was not to build products competing with the customers' products. Instead, Beta was looking for gaps on the market that the customers were not aiming at and into which Beta could fit in with its products.

The product range in the field of wireless communication and in-vehicle computers seemed reasonable since this field offered a possibility to build productised software that can be used in different applications for different customers in different devices. The limitation was made to include only the so-called professional users meaning the field of in-vehicle computers, and for instance mobile phones were excluded. There are not many hardware manufacturers in this field, and since one of the manufacturers is a local company operating internationally, with which the company had already existing relationships, the choice seemed reasonable enough.

After the taximeter project, in discussions with Delta an idea was brought up that the two companies could start developing a system for parcelled freight onto the Beta's platform. A project around the product-to-become was kicked off. The project spawned also further development projects, and the development work continued until the end of the year 2008. Beta and Delta jointly developed the software to work solely in Delta's terminal, and therefore Beta was not able to use that software in other environments. However, in its own product development work Beta was able to develop a PDA client to meet also different kinds of needs in the customer end.

In the beginning of the product development the idea was that the projects and subcontracting would have a diminishing role, or that they could even be separated from the product business totally. Quite soon it became clear, however, that the product development required so much resource that some part of the operation had to also bring revenues to the company. If the project business had been separated during the strong phase of product development, the product business may have not been able to develop. Product development needed financing, and hence the company changed its objectives and began to develop each business area simultaneously. More customers were searched for subcontracting and project business, and each business area was considered equally important. This way the new product development was possible, and if project business had begun to flourish, it could have been separated into a company of its own that could concentrate on offering specialist services.

Search for independent identity through growth

Beta aimed at growth and development independently from its partnership with the local OEM manufacturer. They established a branch in a bigger city with a group of previous colleagues, but soon noticed that the company is totally separate from Beta regarding both its expectations and ways-of-working. Beta detached from that company, and both firms went their separate ways. Also other similar experiments were made. After these incidents Beta focused its operations in its home town. Other units in different cities had been in mind, but the purpose was to plan the company's operation on the local unit's terms: what it wants to be, and what kind of competence the people hold. The business faced the downturn together with Gamma's fading and continued to be slow until the turn of 2004-2005.

The idea of growth had existed already from the beginning, but during the year 2004 these ideas reached a culmination point in the form of a documented growth strategy. Through his personal contacts, the local IT business association among others, MK got background support for his thoughts and ideas, which led to announcing the formal strategy to the management team and employees. Another factor affecting the change in strategic thinking was the eMBA programme in which MK participated during this same period.

Being a small actor in software business seemed to mean living too much hand to mouth, and the possibilities would have been far more limited for a small company. For MK, it meant a choice: either to stay as a small company, with only a few employees, or to aim to grow the operations in a way that there are more customers and projects, and also several business areas as supporting structures. When concentrating on subcontracting and project business, sales of the company had been based on a large part on the personal relationships of MK. More systematic sales operations begun in 2005, when the

development of the product had reached a level where a dedicated sales person was needed to boost the sales of the product. After that, the amount of sales people grew, and the company had a clear effort to develop the sales management as a whole. Also the amount of employees in total had nearly doubled during the following few years: in 2008, there were more than sixty employees working for Beta.

New owner, new managing director, new business areas: identity changes again

One of the partners in co-operation in the area had been the local telephone operator that, like the other companies belonging to national group of telephone companies, had developed through years towards a company providing all kinds of ICT related products and services. Beta had worked with them in different regional development projects, both companies belong to the IT Association, and Beta had also used their product platforms in their own operations. The managing directors had also participated in the same training in which they worked in the same team and came to think about their companies' strategies together. Already earlier they had been talking about ownership, and the same issue rose again during the training, after which they decided to act. In the beginning of 2008, Epsilon purchased the majority of the shares of Beta. MK planned to retire, ES took a position in the parent organization, and KR from the parent organization became the new managing director in 2009.

The beginning for the new managing director was challenging, since the global economic downturn had begun in 2008, and the whole IT sector was suffering from the consequences. The first thing he had to do was to held the co-operative negotiations and let people go. At the same time, Beta had to find new support pillars for its operations, and the new strategy was to concentrate on three business areas: software development, application service packages, and mobile work solutions. The plan was that Beta continues as it is, and synergies in the operations are searched for. The business cultures of the two companies were kept separate. Growth was still an objective, and the operations of the parent company were anticipated to give a possibility for new kind of product applications. The share of videoconferencing started to grow in 2010. Next year, another acquired company by Epsilon was merged with Beta. As a result, online business was significantly strengthened and so was videoconferencing due to a partner agreement with a company specialized in video conferencing services.

Partnership with IBM and merging with Omega: towards an identity as a data centre service provider

The local IT network was very active in trying to fill in the void left by the national paper giant that closed its local factory and left not only people unemployed but also the wide mill area empty. IBM provided a modern data centre into those facilities that would serve the customers of both Beta and its sister organization under the ownership of Epsilon, Omega. Beta also signed a partnership contract with IBM. The IBM service package that combines the local services and IBM's global cloud offering was published in September. Strategy-wise, this meant a clear shift towards data center services for Beta, leaving software development gradually on the background. Beta saw the future of the cloud markets as a strongly growing business, and its goal was to grow with it. Their short-term goal involved being a significant ICT service provider by the year 2015. Their strategic partners in the IBM's network were Omega and Microsoft. This partnership and through that, the focus on data center services grew even stronger in the beginning of 2015 when

Beta merged with Omega, and the name of the company remains as Omega. When the end of 2014 was drawing near and the news became public, the employees of Beta were worried about their jobs as data center forms the core of this new firm.

The pattern underlying Beta's development unfolds through the phases of 'network hopping': breaks in the status quo through detachment of previous partner and then locking into a new partner and its network externally (from Gamma to Delta, and then to IBM). After this leap, new resources are acquired through a merger, i.e. locking into a new partner internally (first with Epsilon, then under Epsilon's government, with Omega). This pattern is shown in Figure 2.
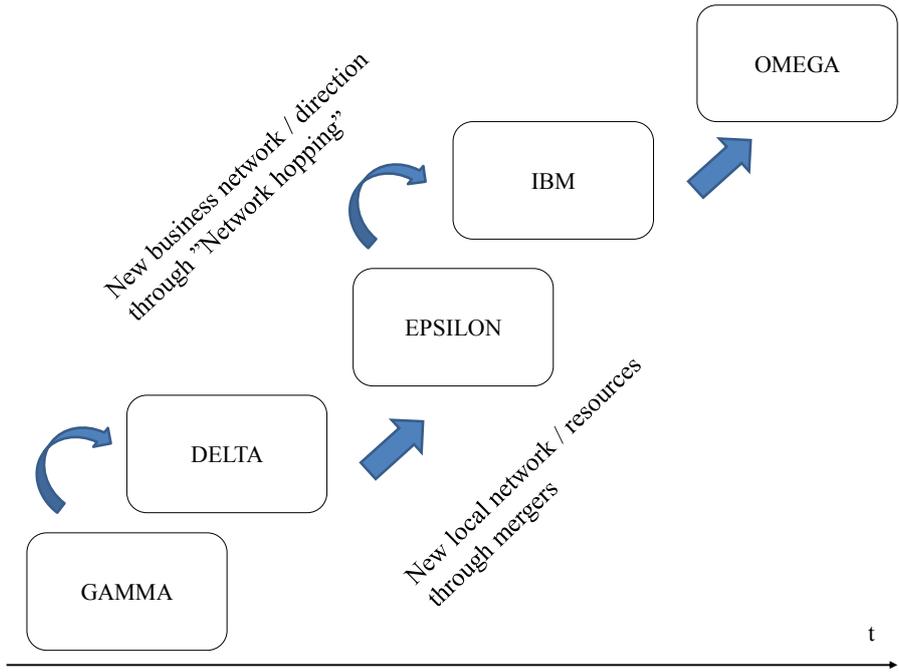
Figure 2. Development of strategic direction through "network hopping".

The 'partnership loop' of identity construction

The 'partnership loop', as shown in Figure 3 below, describes Beta's development over time and the underlying logic behind the strategic activities. It starts with the contradiction between the nature of the subcontracting work and own product development. The latter would require different kinds of capabilities as it is more about innovation and marketing/sales, and the development would also require financial resources. Hence, the firm is 'forced' to maintain the subcontracting work – sending work out - in order to produce cash flow. When this dependence on the existing partner does not produce satisfactory results any more, as it was in the case of losing Gamma, or the desire to grow beyond the local OEM manufacturer Delta's network, through the process of re-drawing the boundaries, the company relies on 'network hopping' in finding new direction and business areas.

As a result, the focal network changes and so does the partner-dependent strategy and identity. Through identification the firm molds its understanding of who they are in relation to the new network and hence, new position as new goals set by the partner. At this point, Beta was searching for capabilities and financial stability by being acquired by Epsilon. However,

no matter how many times the hopping, that we here call as *network leveraging* as a strategizing activity, is done, the result is always the inevitable contradiction between the need to draw new capabilities and resources in for own product development, and matching with the capabilities required by the partner. New leap is taken towards global markets with the leverage of the local IT network and their emphasis on data center services. Beta signs a partnership contract with IBM and locks itself into its global network. Again, as a result, the relationship dynamics change and Beta is drawn strongly into the data center business. Even though the software development side and own product/service development is tried to be maintained, eventually the decision made within Epsilon directs Beta to merge with Omega, another subsidiary that is focused on data center services. Hence, this becomes the core business of the former Beta as well.

To summarize, in the continuous process of identification and effort of finding the firm's strategic direction, Beta develops from subcontractor in tele operator network through a project partner in mobile in-vehicle systems into data center service provider. Through the partnership loop, it succeeds in business development and getting into global markets but at the same time sacrifices its possibilities of becoming an independent actor with an identity and product/service portfolio of its own.
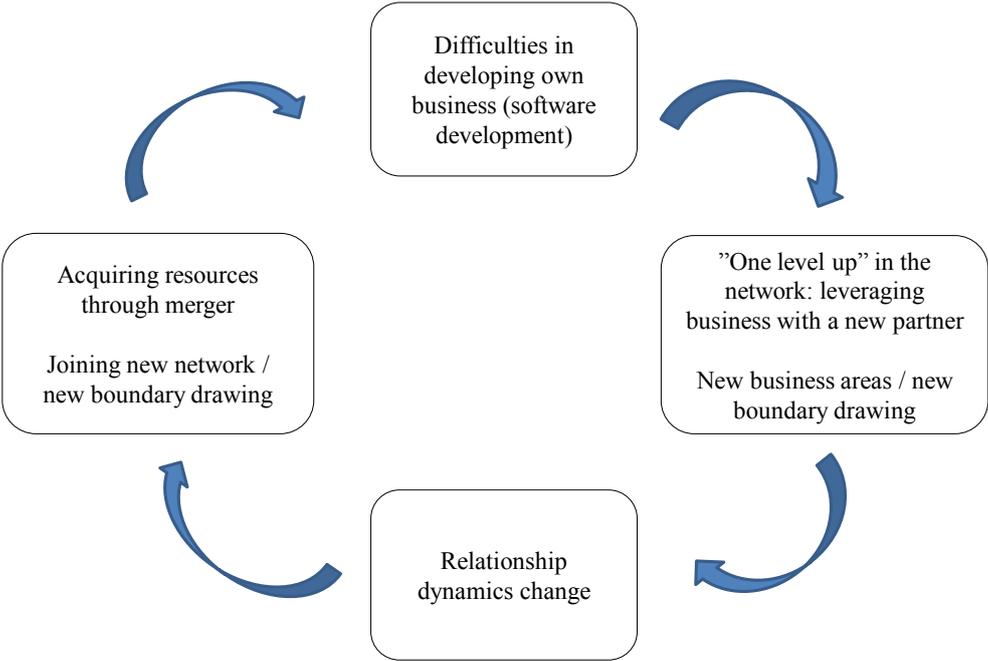

Figure 3. Partnership loop of strategy formation.

CONCLUDING DISCUSSION

The findings of our study elaborate the notion of organizational identity in networks by showing it embedded in the process of strategy formation. Extant literature has connected identities to the processes of identification and boundary-drawing, that both are the starting point for, and the results of, strategic decisions made and actions taken (Huemer et al., 2004; Ashforth & Mael, 1996; Dutton & Dukerich, 1991; Reger et al., 1994). Also the different aspects of strategy and strategizing in network context have been shed light on (Harrison &

Prenkert, 2009). However, a better understanding is needed of the different aspects of strategy and the way they are connected to the whole process of strategy formation and the dynamics, as well as of the generative mechanisms underlying the changes in the firm's strategic direction.

Drawing on a mechanism-based explanation, we model the process of strategy formation in network context to be about the interaction between the organizational cognition of itself – identity – and strategic action (see Figure 4). Through the continuing processes of boundary-drawing and identification, the organization relates and positions itself to the network, continuously re-building the sense of 'who the organization is' and 'where it is'. When the relationship dynamics change: relationships are broken or otherwise changed, and new relationships are established, also the boundaries and network identity are about to change. This change can be due to the deliberate in-bound strategizing, or due to the emergent out-bound adaptations.
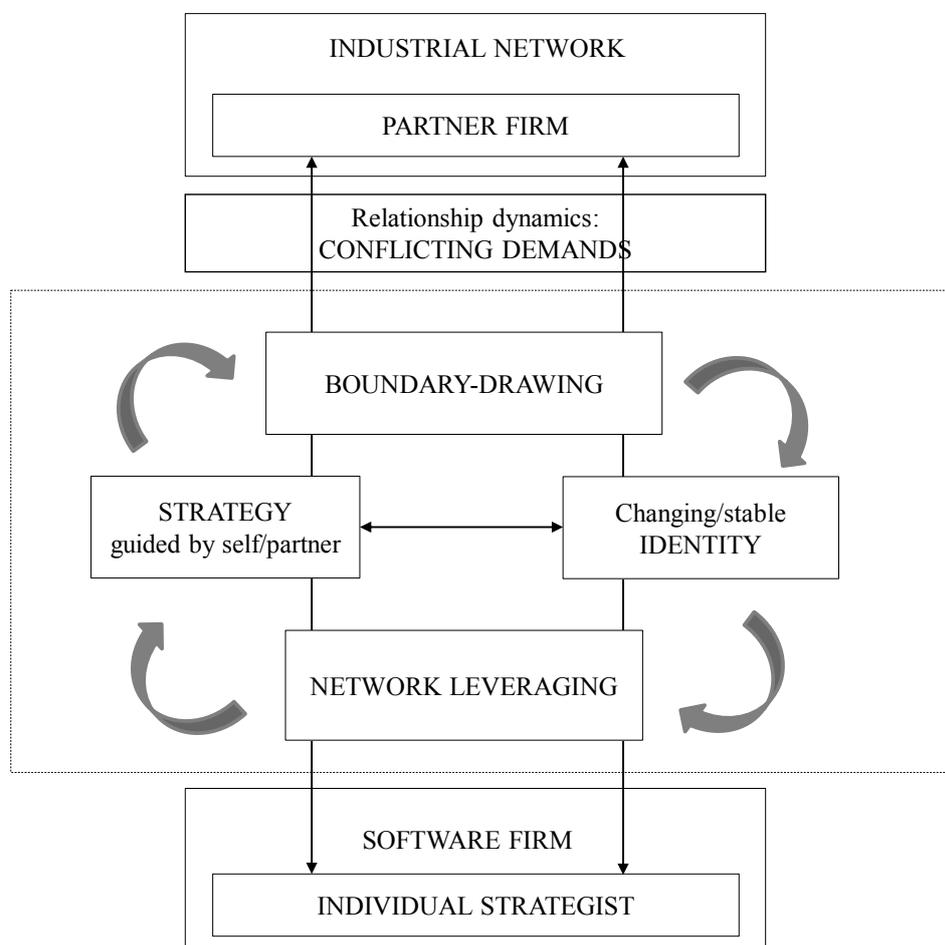
Figure 4. Action-formation mechanism of strategy formation.

This intertwinement of organizational identity and network relationship dynamics throughout the process of strategy formation is explained through the different conflicting demands that arise from this dynamics (Håkansson & Ford, 2002). We define the contradiction between the simultaneous demand of dependence and independence of identity and the consideration of the firm's own and the partner's outsourcing needs within the strategy development as those conditions on which the co-existing and development of identity and strategy take place. The

first contradiction of dependence/independence is due to the firm's need of the partner organization and the network in both identity-wise and strategy-wise: they offer a new direction and access to wider markets and business areas that would otherwise be closed from the firm. On the other hand, securing the firm's own business would require an identity and strategy at least partly independent of the partner; a sense of 'who we are' in addition to the positioning 'who we are with'.

The second contradiction is about the conflicting developmental demands of the partner's business and the business or their own. In order to maintain the relationship, the firm needs to provide the services the partner needs (serve the partner's outsourcing needs) – i.e., send work out, in contrast to what kind of capabilities the firm's own strategy development would require – i.e., bringing strategic capabilities in. This is the problem with a more generalist work of subcontracting or even partnering, and being a specialist in a narrow field of expertise. This calls us to pay further attention to the questions of type of dependence between the supplier and customer firms and how it influences capability development of the supplier in particular, instead of focusing on the capabilities the customer is after (cf. e.g. Möller & Törrönen, 2003).

Finally, the study suggests network leveraging as a strategic activity crossing identification and boundary-drawing activities. It is an activity that intermediates the complex interplay of identity development and strategic action. The conflicting demands are tried to be solved through network leveraging; acquiring new resources and establishing new relationships providing an access to new markets. However, depending on the network and relationship dynamics, this may or may not help to balance the contradictions. As the new set of dynamics change the setting to the core, it is bound to reproduce same conflicting demands, just in a new network setting.

The managerial implications of the study center on the benefits and drawbacks of the partnership loop in the strategy formation of a small firm. The case study illustrates how the own production development may become harder and harder due to network leveraging for widening the business on the grounds of changing key customers. If the identity is to change every time, there remains less and less room for the 'own' organizational identity of the firm that would distinguish it and make it less dependent from the bigger counterpart. The practices and work culture around the basic operation remains the same until the business areas will change totally. Managers of small firms should pay attention to drawing and re-drawing the boundaries outside the partner's business as well as the way it affects the balance in the contradictions of dependence/independence and own/partner's outsourcing needs. In the case of the studied firm, as a result, the combination of local parent dependence and business partner dependence resulted in being merged into a firm that matches better with the business areas required by the business partner. In a way, the contradiction in the new setting resulted in a friendly 'quasi-takeover' of the firm in the end.

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