

# **The Utilization of Relationships for Firm Growth in a China Context: an Empirical Investigation of ASIMCO**

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## **Introduction**

The paper departs from an interaction perspective to look at a firm's developmental process towards growth and prosperity in a China context. Although "activities" and "resources" are two central ideas in the area of strategic management that focus on explaining how firms differ from each other and how they achieve competitive advantage (Barney, 1991; Hoopes et al., 2003; Porter, 1985; Porter, 1996), the interactivity of activities and resources and how they are used and deployed through interfirm or inter-organizational relationships is less discussed in extant literature. Moreover, this stream of research tends to focus on controlling and using resources within the firm, rather than across firm boundaries; and seems to emphasize performing activities against others, rather than considering the interdependence between firms (Baraldi et al., 2007; Håkansson and Ford, 2002). Thus, this research adopts the IMP (Industrial Marketing and Purchasing) school's interaction and networks approach to investigate a firm's developmental process (Håkansson et al., 2009; Turnbull et al., 1996).

The IMP school sees the world pluralistic and heterogeneous (Axelsson and Easton, 1992). Actors in the business landscape are resource-dependent and their survival and prosperity hinges on how they develop and relate their resources and activities to those of other actors, so that economic goals are pursued and value is jointly created based on collective and aligned actions (Håkansson et al., 2009). In such business landscapes, "relationships" plays a central role in facilitating the operation of firms and organizations. An IMP perspective suggests that relationships allow the combinations of resources and connections of activities spanning organizational boundaries for productive purposes (Gadde and Håkansson, 2008; Håkansson and Snehota, 1995). It also has been pointed out in IMP literature that relationships do not stay unchanged but evolve, resulting in relationship dynamics as well as the configuration of the network structured by these relationships (Chou and Zolkiewski, 2012; Halinen et al., 1999). These dynamics affect a firm's competitive position in the network of which it is part (Johanson and Mattsson, 1992; Zaheer and Bell, 2005). And thus, managing and utilizing relationships has become an important strategic issue.

Although extant studies provide some evidence towards how relationships are utilized for certain purposes (e.g. innovations) (Baraldi et al., 2012; Chou, 2016; Medlin and Törnroos, 2015), this understanding remains quite limited, particularly from a perspective of processual or longitudinal investigation. Moreover, this issue in a China context is rarely investigated. As a result, this research, grounded in the IMP work, aims to expand the knowledge of relationship utilization by formulating this research question: how a firm utilized its relationships to attain its growth and prosperity in China. To tackle this question, a qualitative single case study is employed. The case under investigation is ASIMCO, which was established in 1994 and which later became a major supplier of automobile components for key brands, including Cummins, Daimler and Volkswagen. Drawing on the IMP's approach, we track ASIMCO's development process.

## **Theoretical foundations**

Since the 1980s the ideas of "activities" and "resources" have been conceptualized as central components in achieving long-term survival, competitiveness and prosperity of firms, particularly in

the domain of strategic management (Barney, 1991; Hoopes et al., 2003; Porter, 1985; Porter, 1996; Sirmon et al., 2011). For instance, in the formulation of resource-based view (Barney, 1991), the possession of valuable, rare, imperfectly imitable, non-substitutable (VRIN) resources permits a firm to generate rents and superior performance. These VRIN resources are not used randomly but purposefully deployed and used in an array of value-creating activities that subsequently generate profits (Porter, 1985). Additionally, a firm's competitive advantage comes from that the firm makes adequate choices of activities which best fit its internal resources (Porter, 1996). Although existing evidence within the domain of strategic management has pointed out that the sources of competitive advantage reside not merely within but also across firm boundaries (Dyer and Singh, 1998; Lavie, 2006; Priem et al., 2012), the majority of attention within this research stream remains at a firm-level analysis and the available studies tend to neglect the interactive nature of business interaction.

In contrast with the discussed "traditional" strategic thinking, the IMP (Industrial Marketing and Purchasing) school places particular emphasis on inter-organizational interaction in which "relationships" lays the foundation for the operation of firms (Håkansson et al., 2009; Turnbull et al., 1996). Grounded in a heterogeneity perspective (Penrose, 1959), and viewing that no firm is a floating island in doing its business (Håkansson and Snehota, 1989), the IMP school stresses that organizations and firms are not using their resources and developing their activities in isolation, but in relation to the resources and activities of other actors through relationships in the business landscape (Håkansson and Snehota, 1995). In other words, firms' resources and activities are conceptually developed in relational space where the interaction atmosphere (e.g. cooperative or opportunistic) and historical components (e.g. mutual trust and understanding) exert substantial influences (Chou and Zolkiewski, 2010; Håkansson, 1982). This emphasis on interactivity of business operation spanning firm boundaries indicates that firms are embedded in a web of relationships, within which their actions are paradoxically enabled and constrained by interaction (Håkansson and Ford, 2002). Thus, the IMP school sees that the attainment of competitive advantage hinges on how firms relate their resources and activities to each other via relational linkages, rather than simply controlling resources within the firm and developing activities *against* others (Baraldi et al., 2007).

Interfirm or inter-organizational relationships have been regarded a crucial form of creating value and achieving competitive advantage (Harrison and Prencert, 2009; Lavie, 2006; Wassmer and Dussauge, 2011; Zaheer and Bell, 2005). The work by Baraldi (2008) vividly exemplifies that the success of IKEA results from its adequate utilization of supplier relationships which facilitate the achievement of operational efficiency and new product release. Additionally, relationships function as important conduits that allow the combination and re-combination of resources on which developmental processes rest, including innovations (Gadde and Håkansson, 2008). In a similar thread, relationships form a locus of interaction within which resources from the interacting parties can be integrated so that value is co-created by such a resource integration mechanism (Grönroos and Voima, 2013; Vargo and Lusch, 2008). Relationships are not simply utilized to combine and integrate resources; they can also be used to access or mobilize necessary and complementary resources by influencing or attracting counterparts (Chou, 2016; Rusanen et al., 2014). Such a mobilization of resources via relationships is an important means to business and non-profit initiatives (Möller and Svahn, 2009; Ritvala and Salmi, 2010). As a result, managing relationships has become a pivotal issue.

However, managing relationships is difficult for several reasons. First of all, due to the interactive nature of relationships, two actors within a single relationship are influencing each other, meaning that the actions of one actor are conditioned by the actions and thoughts of the other (Ritter and Ford, 2004). Here, the power to control a single relationship is problematic. Secondly, due to the connectedness of relationships, change influences may travel within and between relational linkages that affect the development of single embedded relationships as well as the connected relationships as a whole, such as a net or network (Chou and Zolkiewski, 2012; Halinen et al., 1999). Since firms require to develop different types of inter-organizational relationships through which resources and activities are devoted so as to generate rents and value (Brandenburger and Nalebuff, 1996; Håkansson et al., 2009), they have to confront these influences flowing within the relational linkages. A firm's ability to respond to these influences would hinge on its power in the network, which is related to its

interdependence with other actors (Andersen, 2008; Håkansson and Ford, 2002).

Moreover, a firm's relationships may not be all cooperative or well-intentioned and some of them would turn into competitive and co-competitive, resulting in complicatedness and conflicts in business operation (Bengtsson and Kock, 2014; Gnyawali and He, 2006). In the face of co-competitive interaction (the concurrence of cooperation and competition within a relationship), how the firm balance between different logics of interaction becomes imperative. Last but not least, the development of relationships is dynamic; namely, they could be established, enhanced, declined, ended or reactivated along a dimension of time (Chou and Zolkiewski, 2012). There are a number of causes that could lead to relationship dynamics, including atmosphere change (e.g. from distant to close with mutual trust that strengthens a relationship), conflicts (e.g. rivalry in the same sales territories that impairs the cooperation), and organizational capabilities (e.g. the ability to upgrade capabilities to bridge technological change would affect the continuation of the relationship). However, the understanding concerning how relationship dynamics are handled remains quite constrained. In addition, how a firm utilizes its relationships at different developmental stages and for what purposes deserves more attention on research. Currently, existing evidence seems to suggest that the exploitation of established relationships is beneficial to the pursuit of operation efficiency, while in an innovation process certain degree of exploration of relationships is necessary in order to seek for new resources and capabilities (Chou, 2016; Harryson et al., 2008; Medlin and Törnroos, 2015).

Despite that the importance of relationships to the firm's survival and prosperity is evident in literature including the IMP research as well as the research on strategic management, our knowledge towards the utilization of relationships for a firm to gain sustainable advantage is insufficient. In particular, this utilization of relationships over time in China, the second largest economy in the world, remains poorly understood.

## **Empirical research design**

### **Research method**

Due to the focus on tackling "how" research question in a real-life, China, context, the method employed was a qualitative, single-case study (Halinen and Törnroos, 2005; Yin, 2009). Within this research design, we were permitted to conduct a longitudinal study concerning how relationships were utilized by the focal actor (ASIMCO) from its establishment to date, allowing a holistic description with using richness and depth of data. Also, the qualitative case study facilitates the investigation of business strategies formulation and implementation within the focal firm's development process, and how the focal actor makes use of its external actors through developing the relationships (Pettigrew et al., 2001).

Theoretical interests, ongoing research connections, access and company activity were crucial criteria we considered for the selection of the case (Halinen and Törnroos, 2005; Harrison and Prencert, 2009). Specifically, one of the authors has a good individual relationship with one of ASIMCO's managers and good business relationship with the company. Hence, permission was granted for a prospective research study in order to follow the dynamics of company's strategy, relationships with other actors, and networks.

To facilitate the empirical investigation, we adopted a focal net perspective (Chou and Zolkiewski, 2012), which looked at the net evolution mainly from the viewpoint of the focal actor. Apart from the consideration of research boundary and network complexity (Halinen and Törnroos, 2005), this adoption also allowed the focal actor's-ASIMCO's in our research-important direct and indirect relationships and its networks to be taken into account during the evolution of the firm's business strategies (Johanson and Mattsson, 1992). Employing a focal net perspective provides an alternative to the use of focal organizations, or the adoption of the overall network as unit of analysis (Brito, 1999), enabling us to gain a deep understanding of business interaction in a specific network context.

The focal firm ASIMCO in our paper was an American company which founded in 1994 in China and which developed as a component manufacturer leader in Chinese automotive industry. Now it has 9 operation firms, more than 800 service stations, and three selling companies in America, Japan, and Europe; and it becomes a key supplier to global automotive brands, including Cummins, Daimler and Volkswagen.

### **Data collection and analysis**

Qualitative material from 1994 to now has been collected by observation, in-depth interviewing, and secondary materials. 31 interviews have been taken in three stages. The first stage focused on both different business strategies of ASIMCO and the reasons and consequences of those strategies. During the second stages data was collected about not only exploring and exploiting relationships but also the changes of ASIMCO's network relationships. What is more, funding were confirmed and clarified during the third stage of the interview. The main interviewees were the main managers of ASIMCO managers and its operational firms' managers and the managers who witnessed the whole development process of the firm.

Observation and extensive secondary material has also been used in order to complement the interviewing data. ASIMCO provides some internship programs for our graduate students, and our graduate students collected some data by observing through. One of our authors, in addition, is given a lot of opportunities to attend company meetings and visit the firm's operation companies. Confidential meeting materials given by ASIMCO's managers, the company website ([www.asimco.com.cn](http://www.asimco.com.cn)), and the autobiography of Jack Perkowski who established ASICMO (Perkowski, 2008) provide the background material regarding the different strategies and dynamic of network relationships of ASIMCO.

Taking a focal net perspective when conducting a longitudinal, case-based method allows for reconstructing the evolution of a focal net of ASIMCO (see Table 1 where define main actors of ASIMCO's network). For confidentiality, all company names but ASIMCO are not revealed in this paper. And ASCIMO has three types of operation companies: joint venture that ASCIMO has more than 50 per cent equity, wholly owned subsidiary, and selling service stations. We will not give detail information of these operation companies except their main relationship with other companies neither.

**Table 1: Actors involved in the evolution of the focal net**

Company A	The focal actor ASIMCO, is an American company which was initiated in China in 1994 (A will represent ASIMCO in the following content)
Company J	ASIMCO's joint venture company
Company Sd	Wholly owned subsidiary
Company Se	Selling service stations
Company C	A's main customer
Company S	A's main supplier
Company R	A's main rival

### **Exploration and exploitation network relationships through different strategies**

#### **Phase I (1994-1997): Exploring and exploiting network relationships for localization strategy**

##### ***Exploring network relationships to begin localization strategy***

The founder of Company A, Jack Perkowski, decided to entry China market in 1994 based on his visits to more 40 cities of China and his analysis on Chinese motor industries which had limited resource and low supply and would have high demand in the future. Due to policy reason which

regulated that firms from foreign countries could not build wholly own companies in Chinese automobile industry and market attractiveness the company A chose auto parts industry which is closely related with automobile industry and at the downstream chain of automobile industry.

In this period, from 1994 to 1997, the main objective of company A was to entry and capture auto parts market in China. And its strategy during those years is localization strategy. In 1994, company A only had approximate 180 million dollars which were invested by American companies. These companies would like to fund company A due to two reasons: they were conquered by Perkowski detail research on Chinese auto parts market; and they believed that this company had a bright future since Perkowski would devote his all energy on managing this company in China.

In this respect, company A did not have any inter-organization relationships in China market. Then from 1994 it used its only resource, cash, to explore organization relationships in Chinese auto parts market through acquiring more than 50 per cent equity of Chinese auto parts companies. By 1995, company A had established 6 joint ventures: J1, J2, J3, J4, J5, and J6, all of which targeted on commercial vehicle auto parts. At that time, China had a substantial market demand for auto trucks which were used to transport cargos and Chinese individuals had limited consumption level to afford private passenger vehicle.

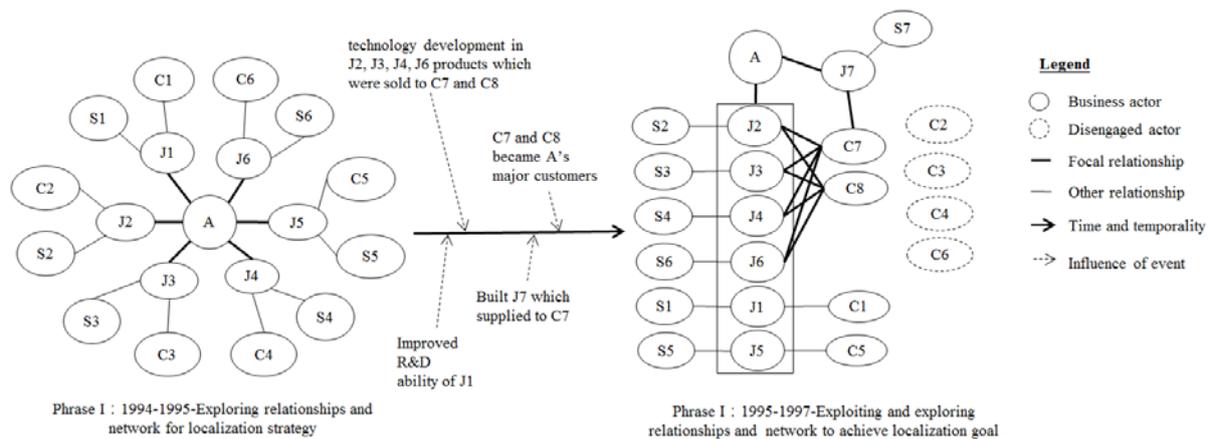
Joint ventures J1, J2, J3, J4, J5, and J6 all had its own suppliers and customers which were company A's suppliers and customers after the acquisition. And the explored relationships and network is showed in figure 1. In this phrase the relationships between company A and joint ventures were focal relationships while the relationships with suppliers and customers were not of importance for strategic goal of company A.

#### ***Exploiting and exploring network relationships to achieve localization strategy objective***

By 1995 company A established its own inter-organization relationships with its 6 joint ventures, customers, and suppliers thus formed its business network. And it gained fixed assets resource, human resource which included operational workers and Chinese managers, and market resource through these relationships and network. Company A exploited these network relationships to maintain joint ventures' previous customers and develop their products.

However, those relationships and business network did not have competitive advantages. Most of the joint ventures were of low technological level thus did not possess high-tech product and sustainable customers. Company A would not achieve its localization objective only by those network relationships and resource interactions within them. The managers of company A utilized their own individual relationships with high-tech companies to improve R&D capabilities of joint ventures. For example, company A introduced a foreign high-tech firm to J1 to improve its production technology, and through this technological development J1 and C1 kept their long-term relationship.

Also, company A's manager and C7's manager appreciated each other's personalities and company strategies, as a result they reached supplier and customer relationships. And C7 which was a high-tech company in Chinese auto parts industry assist its suppliers, company A's joint ventures, to improve their products. This kind of help ensured not only a stable and relative low supply but also high quality goods. Therefore, J2, J3, J4, and J6 all built long-run and intensive supplier-customer relationships with C7; as a result C7 became one of company A's main customer. Another main customer was C8, which was gained due to joint ventures' improved R&D technology from joint ventures' interaction with C7. And company A set new joint venture J7 to supply for C7. Until 1998, there were about five joint ventures to provide auto parts to C7 and C8, however they did not compete with each other except for J2 and J4 which produced similar merchandise. In addition, C2, C3, C4, and C6 were not important customers for company A due to the technology changes occurred in J2, J3, J4, and J6.



**Figure1. The changes of relationships of company A in phrase I due to exploring and exploiting relationships**

### Phrase II (1998-2003): Exploring and exploiting network relationships for international strategy

#### *Exploring network relationships to begin localization strategy*

Most joint ventures' sales growth rate began to plunge in 1998 due to two main factors. Firstly, the problems in companies' cash flow, as in China context domestic companies had high tolerance with accounts receivable and it was very difficult for company A to collect cash from its customers timely. Secondly, the government adopted tight fiscal policy to control Chinese economy. The main customers of A suffered harsh decline in their businesses because of this policy. To change this situation and get sustained development in long run, A's management group adopted international strategy.

In order to achieve its international strategic goal, company A helped J4 and J5 build supplier-customer relationship with C9 which is an international company. Due to personal conflict and operational conflict between managers in company A and J1, the managers and board of company A did not trust their partner in J1. This led to company bought the equity of Chinese partner of J1 directly, and J1 was changed into Sd1. C1 and C5 was no longer the major customer of J1 and J5. Also in 1998, company built another joint venture J8 which was not import at that time. In 1999, Sd1 explored new relationship with C10 which is the leader company in global auto parts by company A's introduction.

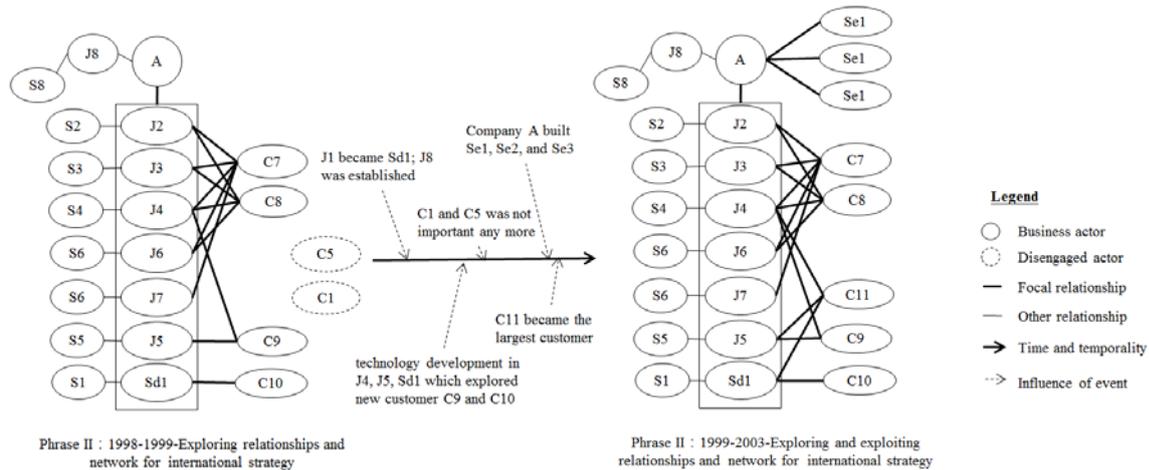
#### *Exploiting and exploring network relationships to achieve international strategy objective*

In 1999 three organizations who built new relationships with international customer were all engaged in exploiting these relationships. At beginning of the supplier-customer relationships, managers from J4 and J5 had devoted all their energy to overcoming the technological dilemma for at least 6 months to meet their C9's requirement on product. One of the managers from J5 said that due to their attempt in 1999 on technology breakthrough J5 has been the leader of auto parts companies which sell same product since then. Also C9 and C10 gave technology support to their suppliers: J4, J5, and Sd1. Technology guidance from C9 improved products of J4 and J5, in turn C9 could gain high-technology product from J4 and J5 at relative low cost. Also C10 has regularly trained staff in J5 since they formed the relationship in 1999.

What is more, because J4, J5, and Sd1 improved their technology through the cooperation with C9 and C10 and their reputation resource-the suppliers of C9 and C10, they gained new customer C11 which is a joint venture of a reputational commercial auto parts company. By 2004, C11 was the largest customer of company A, and C7 and C8 became the second and third important customers for company A. In addition, as company accomplished its international strategic goals, problem occurred when they conveyed their products to foreign customers. For example, customers always could not receive their order timely because of long journey of the shipment from China to their countries. To tackle time problem, company A established three selling service stations which sustained substantial

inventories in Japan, America, and Europe respectively from 2000.

Company A became the leader company in commercial auto part industry and achieved its international strategy objectives through exploiting new relationships. It had both foreign customer C11 which invested by Chinese and American company and domestic customer C7 and C8. And it exported its product to Japan, America, and Europe. Meantime, it made a huge progress on technology level. The figure 2 below shows how company A explored and exploited relationships and network from 1998 to 2003.



**Figure 2: The changes of relationships of company A in phrase II due to exploring and exploiting relationships**

### **Phrase III (2004-now): Exploring and exploiting network relationships for grand growth strategy**

#### ***Exploring network relationships to begin grand growth strategy***

After company A achieved their strategic goals both for localization and internationalization, its managers decided to implement grand growth strategy in order to obtain more market share in both China market and foreign market. At the beginning of the strategy company A explored its new relationship with C12 which is a famous American passenger car company through joint J8 in 2004. Even though company A had substantial relationships with their operation companies, customers, and suppliers until 2004, the relationships with their operation companies led to lots confusions to customers who complained a lot to the top managers of company A. They wondered that why did so many companies who acclaimed that it was ASIMCO contact them when they just gave one order to company A.

In order to tackle above problem, company A tried to change their current puzzling supply mode. The new supply mode (shown on figure3) was that company A would gain order from customer directly and then the operation companies would select and bid these orders. And the operation companies would provide products to three selling service stations based on the foreign market demand. Through this mode, company A explored many new relationships between its joint ventures or subsidiary with current customers, for example J5 built new relationships with C7 and C8. And every operation company provides products to almost every customer of company A.

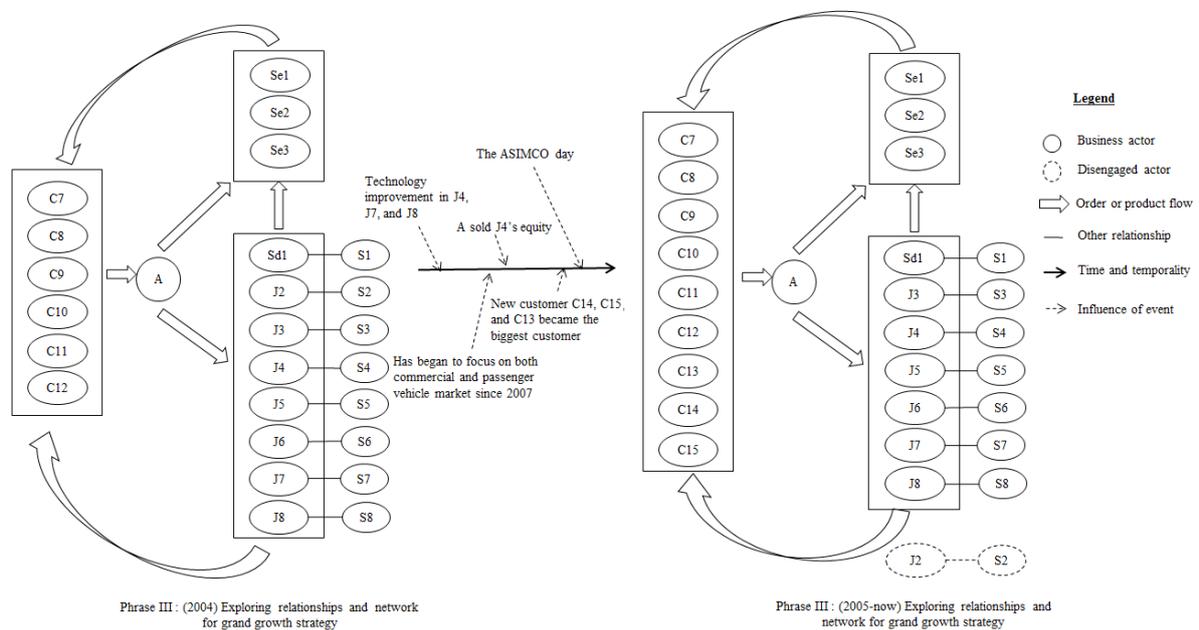
#### ***Exploiting and exploring network relationships to achieve grand growth strategic goals***

Company A accumulated many core technologies and much good reputation through exploiting the relationships in the early stage of phrase III. Specifically, Sd1, J2, J3, J5, J6, J7, J8 all have its own core technologies to sustain the long-term relationships with customers and for confidential reason this paper will not name the detail technologies. And one of the top managers of company A said “it was

our reputation which due to our cooperation with world famous auto part firms and car firms that attract new customers and it was our technology that help us obtain order from these new customers”.

Company A has begun to shift their focus from commercial vehicle industry to passenger vehicle industry since 2007. At that time, households in China had enough consume ability to afford cars and the market for passenger cars grew while the market for commercial vehicles declined. Company A explored new relationship of C13, a famous Germany Automobile enterprise by technology and company reputation which were exploited through its relationships. And now C13 and its joint ventures in China market is the biggest customer group of company A. Also in 2010 company A sold its equity of J2 whose product is similar with J4 to a Chinese company.

The ASIMCO day which has been held every year since 2012 provided a way for company A to explore new customers. Almost all of core products of company A are exhibited to the potential customers on the ASIMCO day. These potential customers are explored from company A’s current relationships with operation firms or customers. There are two typical successful cases which show how company A explored new relationships. In 2014, through the relationship with joint venture J6 the managers of company A got an opportunity to meet purchasing manager of one famous global car company. And this opportunity could not be achieved without the relationships with J6 because the purchasing manager had strict time schedule and he would not meet company A’s manager without J6’s recommendation. Fortunately and dramatically the company got a huge order from this car company which is C13 for company A now and it only took 1.5 years for company to gain the order. While it always needs at least 3 years to obtain this scale order from C13 for other automobile components manufacturers. Another successful case to explore new relationships through current relationships is that company A explored a Japan automobile firm-C14 through its relationships with its current costumer who was a joint vent of C14 in China market.

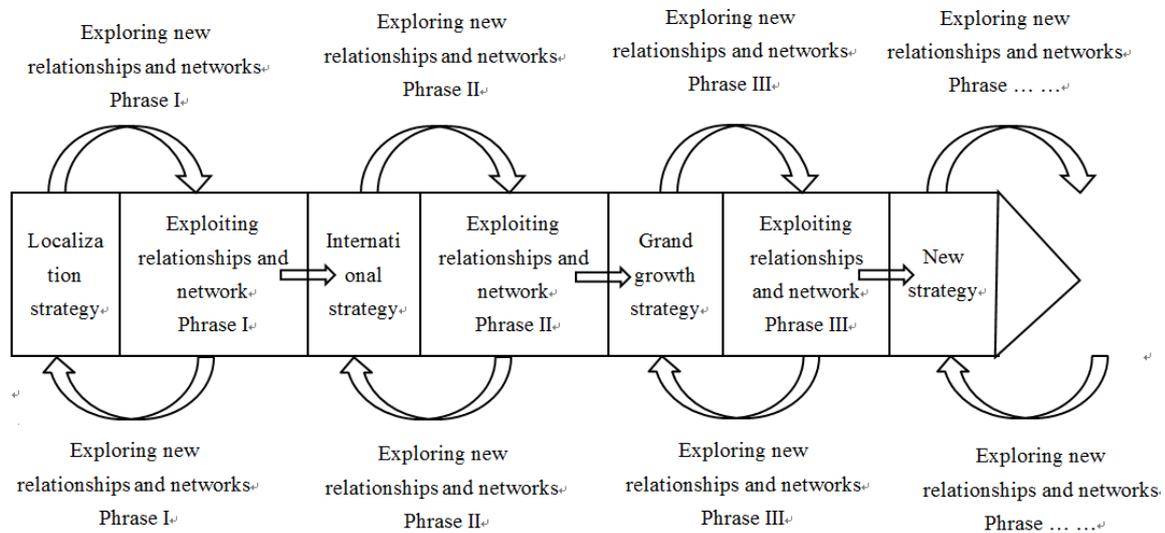


**Figure 3: The changes of relationships of company A in phrase III due to exploring and exploiting relationships**

### Conclusions

This study analyzes how ASIMCO explored and exploited relationships in order to implement its business strategies in different development process. The findings suggest that the firm will explore new relationships by utilizing its current resources when a strategy starts; then the firm will exploit

these established relationships to gain more resources, such as technology, which are essential for achieving its strategic objectives. However, the company usually cannot reach its goals only by exploiting these relationships; it always needs to explore and exploit relationships more than one time (see Figure 4).



**Figure 4: The process of exploring and exploiting network relationships for different business strategies**

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