



## Strategizing as networking for new ventures

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### ABSTRACT

Strategizing as networking has become a powerful theme particularly in the IMP tradition. This paper focuses on new ventures and how these develop through the relationships formed by them. Strategizing through network development concerns how the firm perceives its network of interconnected relationships and how it interacts with other actors in relation to these perceptions. The aim of the paper is to identify patterns in the network development of new ventures and in how their strategizing relates to this development. The paper is based on a longitudinal case study of three new ventures. The case study captures the firms' 'stories' of how the networks of relationships have developed since their start. Based on the case illustrations we identify three patterns of how the new ventures strategize in their networking and how they network in their strategizing. These patterns concern: (1) exploration and exploitation of similarities, (2) knowledge sharing among customers, and (3) developing relationships with mediating partners. All three rely on interaction with counterparts that provide access to external resources which is of particular importance for new ventures.

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### 1. Introduction

This paper investigates the early development processes of new ventures with particular focus on networking and strategizing. According to Hoskisson, Covin, Volberda, and Johnson (2011), previous studies of networks and entrepreneurship have provided plenty of evidence regarding the existence of weak and strong ties and their benefits for entrepreneurs (Chell & Baines, 2000; Lechner & Dowling, 2003). A firm's relationships influence not only the firm's capabilities but also other firms' perceptions of those capabilities (Baum, Calabrese, & Silverman, 2000). In their review of previous studies, Lechner and Dowling (2003) found that networking is often regarded as an important entrepreneurial behavior but that few studies have investigated network development.

Most previous studies of networks and entrepreneurship have focused on network content and network structure at a given point in time (Chabaud, Fayolle, Jack, & Lamine, 2012). A few studies have focused on processual changes in networks (e.g. Hite & Hesterly, 2001; Larson & Starr, 2003). Anderson, Dodd, and Jack (2010, p. 122) argue that compared with the role of networking in start-ups "we know much less about how networking operates and changes". Chabaud et al. (2012, p.730) suggest: "One way to further understanding might be to consider the networking process during the different stages or

phases of the entrepreneurial process and/or in response to entrepreneurial requirements". This is in line with Dubini and Aldrich (1991, p.312) who state that it is: "crucial to investigate how an extended network is created, developed, and strengthened over time". Moreover, Hoang and Antoncic (2003, p. 167) who reviewed network-based research in entrepreneurship argue that: "Many questions remain regarding how network content, governance, and structure emerge and develop over time." According to Hoang and Antoncic more longitudinal and qualitative work is needed in order to address unanswered questions on how networks emerge over time. Snehota (2011), taking a starting point in the industrial network approach, suggests five research themes that may further the research on new business formation in networks: the interdependence of businesses, the boundary setting of businesses, organizing, interactions in business relationships and the actor as acting in business networks. Hence, the entrepreneurship and the industrial network literatures combine in taking an interest in these matters.

With these notions as a point of departure, this paper takes a network view on new venture development and strategizing which point to the key issue of how new ventures interact with other firms over time (Ford & Håkansson, 2006; Gadde, Huemer, & Håkansson, 2003; Håkansson et al., 2009). By taking a network view on strategizing, interdependence and co-evolution (Baraldi, Brennan, Harrison, Tunisini, & Zolkiewski, 2007; Gadde et al., 2003; Håkansson & Ford, 2002) also become central aspects of how, from a new venture's perspective, to develop and maneuver in a network.

Partanen and Möller (2012, p.481) argue that: "the academic literature has yet to propose a systematic managerial tool for the strategic network building process". One tendency in the literature is to

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assume that firms are able to engage in deliberate strategizing in networks. For instance, [Ozcan and Eisenhardt \(2009\)](#) argue that it is possible for new ventures to act within their networks in an inventive way in order to develop 'high performing portfolios' of network relationships. In addition, [Harrison, Holmen, and Pedersen \(2010\)](#) address 'strategic initiatives' as a form of deliberate networking action, and propose a typology of ways in which counterparts can be involved in strategizing initiatives. Another tendency in the literature is to focus on the initial conditions of new ventures and how these conditions shape the continued development of these ventures ([Aaboen, Dubois, & Lind, 2011](#); [Colombo & Piva, 2012](#); [Keating & McLoughlin, 2010](#); [Milanov & Fernhaber, 2009](#)).

This paper intends to contribute to the understanding of how new ventures develop relationships and how they, as a result, build their network positions. The aim of the paper is to identify patterns in the network development of new ventures and in how their strategizing relates to this development.

## 2. Frame of reference

The frame of reference builds on two main streams of literature. First, research on industrial networks and resource interaction. By taking a starting point in the industrial network approach, the context of the firm is viewed as a business network. Consequently, a single firm's development cannot be properly understood without including its business relationships and counterparts in the network of which it is part. Hence, we need to understand the historical and contextual factors that shape strategic processes ([Araujo & Easton, 1996](#)). We also rely on a framework centered on interactive resource development to analyze the strategizing processes of start-ups (see e.g. [Baraldi, Gregori, & Perna, 2011](#)). Second, we use insights from the entrepreneurship literature dealing with the peculiarities of start-ups. The basic theoretical assumptions of this stream of literature differ but networking of start-ups is gaining in importance as a research theme ([Hoang & Antoncic, 2003](#)) although 'networks' is typically not a theoretical starting point in these studies. Below, we relate to definitions and research findings of relevance with a focus on the key concepts: networks and networking, relationships, processes and process patterns, and resources and resource interaction.

Networks are defined in different ways in the entrepreneurship literature. For instance, [Dubini and Aldrich \(1991, p. 305\)](#) define networks as: "patterned relationships between individuals, groups, and organizations" while [Hoang and Antoncic \(2003, p. 166\)](#) define them as "patterns of relationships that are engendered from the direct and indirect ties between actors". Moreover, networking is viewed as "social processes over and above the normal economic trading relationship" ([Chell & Baines, 2000, p. 196](#)). In contrast, [Zhao and Aram \(1995\)](#) argue that networking is to be understood in terms of the number of external relationships used to obtain resources, the frequency of contact, and the amount of resources obtained. According to these authors networking is the activity by which resources are obtained, and can thus be considered as strategic action.

A study of Chinese technology-intensive firms conducted by [Zhao and Aram \(1995\)](#) suggests that the breadth and strength of networking relationships may be associated with faster venture growth. [Hormiga, Batista-Canino, and Sánchez-Medina \(2011\)](#), who studied start-ups in low-tech and service industries in Spain, found that improvements in customer relationships leading to customer loyalty and recommendations had a positive impact on firm success. Furthermore, the number of attended trade fairs and business events also had a positive correlation to firm success. These findings relate to [Jack, Moul, Anderson, and Dodd \(2010\)](#) who found that social learning and confidence building are more important aspects of networking than resource acquisition. [Lechner and Dowling \(2003\)](#), in turn, found that firm growth may be seen as "determined by path-dependent relational capability that eventually reaches its limits and leads to the reconfiguration of a

rather stable network" ([Lechner & Dowling, 2003, p.1](#)). Also concerned with network configurations, [Baum et al. \(2000\)](#) suggest that once they are established, relationships need to be configured in order to become part of an efficient network.

[Van de Ven \(1992\)](#) describes a process as a sequence of events or activities that shows how things change over time, while [Sørensen et al. \(2010\)](#) argue that development processes tend to be more complex, disorderly and interactive than is visible in presentations of consecutive stages. According to [Halinen, Medlin, and Törnroos \(2012, p. 215\)](#): "process research deals with how events come into being and unfold over time in a context". Many different types of processes take place at various levels in networks; some processes are more or less firm internal, while others involve many actors such as the firms' suppliers and/or customers. To capture strategizing in networks, the processes need to result in some conceptualized outcomes based on which analytical generalizations can be made. One way to accomplish this is to identify generic process patterns, i.e. "descriptive regularities in the evolution of phases of a process over time" ([Bizzi & Langley, 2012, p. 230](#)). While a *process* includes a sequence of events or activities, a *pattern* refers to some type of regularities. Those regularities may be identified in single processes or in groups of processes and/or over time. Drawing on [Araujo and Easton \(1996\)](#), patterns in strategizing have to do with consistency in the behaviors and interactions of firms over time. A process pattern can thus be described and analyzed with a focus on many possible dimensions (see e.g. [Lundgren, 1995](#)).

According to [Anderson et al. \(2010\)](#) the 'getting by and getting on' actions and the 'modus operandi' that shape these actions is particularly interesting for understanding networking during entrepreneurial growth. In a similar vein, [Keating and McLoughlin \(2010, p. 998\)](#) focus on 'entrepreneurial imagination' that is "made up of diverse connections in knowledge that give rise to an opportunity" and apply this idea to the development process of a new venture. How strategic ideas are formed and changed through networking and how knowledge is developed in interaction with other actors is a key theme in our study.

To be able to capture patterns in new ventures' network development, a framework that enables analysis of changes in certain dimensions is needed. In this study we draw inspiration from the framework developed by [Håkansson and Waluszewski \(2002\)](#) and [Baraldi et al. \(2011\)](#), focusing on how resources are developed through interaction between and within four resource categories: business units, business relationships, products and facilities. In the case descriptions and analysis of the network development of the new ventures we have paid particular attention to how these types of resources have been developed in interaction with the firms' counterparts.

## 3. Research method

In the present paper, the stories of the development of three new ventures, referred to as Alpha, Delta, and Epsilon are presented and used to suggest patterns in how new ventures strategize in their networks. In this section, the methodological approach is described, followed by a description of the initial conditions of the case companies and the data collection.

### 3.1. Methodological approach

Recent literature points out the importance of developing an understanding of strategizing processes. According to [Bizzi and Langley \(2012\)](#) we need both to look backwards and forwards in time to uncover these processes. In line with this notion, [Aaboen, Dubois, and Lind \(2012\)](#) suggest an approach for capturing views of the past, present and future at different points in time by relying on a combination of narratives and network drawings. The network drawings are developed together with the interviewees during each interview with the case companies. Previous network drawings are

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