

Micro-processes in macro-organizing: the social construction of a strategic network

Eva. A. Sandberg
Midsweden University

ABSTRACT

This paper introduces a social constructionist perspective on the study of the “hub” firm in a strategic network. The paper focuses on the empirical content in an evolutionary process by highlighting how the network came into being, and by mapping out the concrete means by which it was constructed. It also elucidates how macro conditions are interconnected with micro-processes. By integrating social constructionist concepts with concepts from the theory of organizational evolution, an analytical framework is elaborated. This framework is then applied to a biographical chronology of the empirical data. The result suggests that prior inter-personal relations are essential for the genesis and maintenance of strategic inter-organizational cooperation. The results indicate further that imitation of prior strategic networks is an important generic process that brings speed, rationality and legitimacy to the network. Finally, the study gives substantial examples of how procedures and rules at the macro-level influence the design and activity structure of the network.

INTRODUCTION

There has recently been a growing interest, both from scholars and practitioners, in inter-organizational cooperative relations (see Ford et.al. 1998; Johanson and Mattson 1987; Ring and Van de Ven 1994), often referred to as networks (Axelsson and Easton 1992; Forsgren and Johanson 1992; Håkansson and Johanson 1993; Håkansson and Snehota 1989; Grandori and Soda 1995; Gulati 1998; Nohria 1988; 1992; Powell and Smith-Doerr 1994). The interest of the strategic importance of such networks has consequently become a key question in strategy research (see Child and Faulkner 1998; Doz 1998; Dyer and Sing 1998; Jarillo 1988; Gulati, Nohria and Zaheer 2000; Mattsson 1987). The question of competitive advantage for atomistic actors competing with other atomistic actors is increasingly inadequate when firms are regarded, studied and analyzed as embedded in networks of social and professional relationships with other organizations (Granovetter 1985; Grabher 1993; Gulati 1998; Gulati, Nohria and Zaheer 2000). Actors are today purposefully constructing strategic networks to meet the increasing demands of development and adaptability from the market (Child and Faulkner 1998; Jarillo 1988). This paper will deal with the procreation of a planned strategic network, purposefully constructed to place the organizations in it in a stronger competitive position by cooperating with each other.

Little attention has been paid to the unfolding of the cooperation process *per se*. There have been surprisingly few studies on the evolution of strategic inter-firm relations (Doz 1996; Ring and Van de Ven 1994) and even fewer on their genesis (Gulati 1998; 1999; Powell and Smith-Doerr 1994). This scarcity of research on the subject gives us a flawed knowledge and understanding of the current processes in strategic networks. To understand why and how processes in networks appear, we need an understanding of how and why we got there in the first place. Otherwise, we might misinterpret empirical data from current processes in networks, or miss important clues when analyzing the network. We now need to attend both to the mechanisms and conditions of these cooperative actions to understand how they come into being (Friedberg 1997), and detailed empirical descriptions of how actors intentionally try to organize cooperation among organizations (Brunson and Olsen 1998; Gulati 1998; Indergaard 1996; Scott 1998). In other words, the research area is in need of grounded empirical studies (Doz 1996). The question of process is consequently poorly understood.¹ The approach taken to inter-organizational cooperation is mostly static, often focusing on single transactions, instead of considering that these interactions are ongoing and that current cooperation may be the result of prior interactions (Gulati 1998).

Gulati also criticizes prior research on strategic alliances for examining them "...in an asocial context..." (1998:294). Economic action is one form of social action and they are embedded in social networks of relationships. This is often pointed out as a premise by researchers studying networks. However, not many take this into consideration when describing and analyzing networks. According to Granovetter (1985), embeddedness refers to a history of earlier relational interactions among actors. A history of the studies how networks develop over time shows that strategic action and *social structure* are closely interwoven. He defines social networks as a set of nodes linked by a set of social relationships of a specified type. Social relationships can be represented by exchanges, overlapping memberships or friendships. That would suggest that all networks are social networks. He asserts that the social network of a firm's past alliances influences their

¹ This has also been noticed by Ring and Van de Ven (1994), who has developed a theoretical model for studying the developmental processes of cooperative relations between organizations. They have not, however, tested the model empirically.

willingness and ability to enter new alliances. Social networks channel information about suitable and unsuitable partners, and thereby also generate control benefits for the actors. Evidence strongly points to the embeddedness of firms in social networks as having important consequences for their alliance behavior by providing cues for deciding with whom to build alliances (Gulati 1999). To answer the question where inter-organizational networks come from, Gulati concludes that they arise from information flows in preexisting network relations. Inter-organizational ties are driven by relationships formed in prior years. One way of interpreting Gulati's suggestions is to regard business and strategic networks as embedded in multiple social networks. That is the initial point of departure in this paper.

Behind the formalized agreements on cooperation, multiple informal interpersonal relationships emerge between firms. These relationships influence inter-organizational cooperation (Doz 1996; Ring and Van de Ven 1994). Without taking into account how and why new social entities are created, it is difficult to see and understand the connection between macro and micro level in today's society and organizations. It has been pointed out that this connection is often lacking in organizational analysis (see Brunsson and Olsen 1998; Giddens 1984; Sandberg 2000).

This paper aims to provide a detailed empirical description and analysis of the emergent processes of cooperation between business organizations. Some questions to be considered are:

- How does a strategic network emerge?
- How do actors meet?
- By which means is the strategic network constructed?
- What are the conditions (micro and macro) at the genesis of the network and which are the interconnections between the levels? In other words, what can be said about the actual content of the constructive processes behind inter-organizational cooperation?

A study has been conducted to map out the emergence of a strategic network, which has connected 31 industrial companies in a region in Sweden. The relations between the network members and the unit, or between members in the network, are not the subjects of interest here. Instead, this paper will deal with the processes behind the construction of the uniting organization in the network. Two integrated theoretical perspectives are used to

accomplish this. Firstly, an evolutionary process view (Aldrich 1999), and secondly a social constructionist view (Berger and Luckmann 1966). Through these, it is possible to both analyze the process and the constructive actions of individuals, and to map out the macro connections to the micro processes. A biographical approach (Kimberley 1987) is used to extend and elucidate the evolutionary process in space and time, thereby illuminating significant events and actors, and how they are interconnected.

From this analysis of the generic processes, it is possible to conclude that inter-personal relations play a crucial role in the evolution of the formal strategic network. Another conclusion is that the current network is mainly a result of earlier strategic relations in previous cooperative arrangements. However, these strong inter-personal relations might restrain new member commitment to network activities. Procedures and norms at the macro-level have a strong impact on the design of the structural arrangements carried through at the micro-level. In fact, macro-defined rules and preferences could be one of the main reasons behind inertia and obstacles in the cooperative processes. Imitation of other strategic network formations is an important generic process that brings speed, rationality and legitimacy to the strategic network.

THE CONCEPT OF STRATEGIC NETWORKS

The pattern of strategic relations between organizations is designated by different concepts (strategic networks, strategic alliances, joint ventures, consortia etc.), which has led to a somewhat confusing theoretical development in the research area. 'Strategic alliances' and 'strategic networks' are often used as equal concepts and they do seem to overlap to a great extent (Child and Faulkner 1998). However, strategic alliances are mostly used as a label for formalized cooperation between two actors and studies of alliances frequently focus upon big companies. Strategic networks comprehend more than two actors and often involve smaller companies. The definition used in this paper focuses on the specific uniting firm that "*sets up the network, and takes a pro-active attitude in taking care of it*" (Jarillo 1988:32). This specific, central firm is referred to as "the hub".

Strategic networks help firms to reach their strategic goals by providing them with resources such as information, technology, markets and knowledge (Jarillo 1988). The term 'strategic' seems to imply that firms can use the network to purposefully gain a stronger competitive position in the market. Definitions of strategic networks emphasize

common goals and complementary resources (Axelsson 1996) and they are mostly strategically built and guided by one focal firm (Jarillo 1988; Forsgren and Johanson 1992; Richter 2000), in contrast with *business networks*, which emerge as relations over time through interaction between several actors. In contrast, they are not governed by a “hub” (see Forsgren and Johanson 1992; Håkansson and Johanson 1993; 2001).

Many scholars point out resource dependence between firms as the main motive for them to engage in strategic networks (Pfeffer and Salancik 1978). Other motives could be to reduce uncertainty, provide information, flexibility, capacity or speed (Child and Faulkner 1998). Granovetter (1973; 1982; 1985) suggested more than two decades ago that economic action was embedded in *social networks* and that relatively weak interpersonal links played an important role as bridges between actors and groups of actors (1973; 1982). The main motive behind economic interaction and exchange was the strength in personal relations, which, in turn, was based upon the transacting individuals’ identity and history (1985). Subsequent research confirms that informal interpersonal relations between firms are important for the formation of strategic networks (Ring and Van de Ven 1994; Gulati 1999; Doz 1996).

The first section in this paper introduces definitions and concepts from the social constructionist view and the theory of organizational evolution. The second section describes necessary methodological issues. The third part of the paper provides an empirical description and analysis of a biographical chronology over the emergence of strategic inter-personal relations that, over time, transform into a strategic network. Finally, a concluding discussion of the results and implications of the study is provided.

A CONCEPTUAL FRAMEWORK

In this part, social constructionist concepts are integrated with concepts from the theory of organizational evolution. This conceptual construct is then applied in the analysis of a biographical chronology over empirical data later in the paper.

Organizational evolutionary processes

Aldrich (1999) describes the process through which new organizations and populations of organizations emerge by using an evolutionary approach. He treats origins and persistence as inseparable. He can therefore simultaneously study different levels and units of analysis and also connect history with social structure. Aldrich treats evolutionary process as

grounded in local and historical context, thereby stating that this is not a natural law, but the process has "*certain generic regularities*" (p. 13). Organizations and populations founded in different historical periods show different organizational forms. Aldrich pays special attention to how new organizations imitate existing routines and procedures of their predecessors to obtain a quick and more legitimized start for the organization.

Aldrich (1999) builds heavily upon the work of Campbell (1982; 1994) and McKelvey (1982). He uses four processes that drive evolution, more like heuristic propositions than deductive laws, pointing out that modern evolutionary ideas should not be confused with old-fashioned Darwinist ideas. Evolution, Aldrich asserts, results from the dynamics of four processes: (1) variation; (2) selection; (3) retention; and, (4) the struggle over scarce resources. The processes comprise other processes such as institutionalization, competition, cooperation and entrepreneurship (p. 20).

Variation comprehends any change from routines or traditions and occurs either when people actively try to find alternative solutions to problems or by mistakes and misunderstandings (Aldrich 1999, pp. 22-26). *Everyday variation* is generated by organizational members when they act out responses to problems, advice, accidents or conflicts. Variation is the source for *selection*, which is a process where certain types of variation are eliminated or chosen from different selection criteria. Criteria are determined by market forces, the logic of formal structures or people's norms. Government pressures or cooperative alliances can influence other criteria. Aldrich regards the organization as "*strongly embedded in environments*" (p. 5).

The third evolutionary process is *retention*, which occurs when the selected variations are preserved or reproduced (by repetition or duplication). Aldrich chooses structural elements as typical retention modes within an organization; ie, specialization, standardization, centralization and formalization. Between organizations, retention is generated by education, families, laws, churches, alliances and consortia. Previous successful forms are institutionalized by dominant organizations, thereby taking the same stand as institutional theorists.

The fourth process of evolution, *struggle*, is strongly connected to earlier theories on resource dependence (Emerson 1962; Aldrich and Pfeffer 1976). Scarce resources within and between organizations underlie both variation and selection. Struggle originates from processes whereby members in the organizations are pursuing organizational goals and

individual incentives at the same time (Aldrich 1999, p. 32-33). Aldrich uses substantive verbs such as “generating” to give the reader a sense of process and creation, when it comes to variation. Unfortunately, however he leaves us unaware of the actual content of these concepts. To illuminate the genuine content of these actions, we seek to connect Berger and Luckmann’s (1966) constructs on social construction to Aldrich’s concept of “generating variation”. This also gives the opportunity to look deeper into what variation stems from.

Social constructions in evolutionary processes

Aldrich’s description of variation begins with the words: *Any departure from routine or tradition is a variation [...]* (Aldrich 1999, p. 22), so one can conclude that variation stems from routines and traditions. But how do routines and traditions come into existence? Berger and Luckmann (1966) suggest that the world around us, as we perceive it, is intersubjective and constructed by making the world objective by means of *objectivations* to subjective processes and meanings. Knowledge about this “commonsense reality” is always knowledge from a certain position, i.e. the individual. We share many beliefs about this “reality” with other individuals and that is why it is intersubjective. This common sense reality appears as already objectified before we enter an organization.

Individuals in interaction construct objectified reality by means of language. The language presents roles and situations and describes how to behave in these roles and situations, in a way that makes sense to the actors in their everyday routines. This everyday “reality” is taken for granted as *the* reality. As long as these routines continue without interruptions, there will be no problems. However, as soon as they are interrupted a problem arises.

When meeting others, we perceive him or her through the lenses of these constructed roles and situations called *typifications* (Berger & Luckmann 1966). We perceive the other as for instance “a buyer”, “an American”, “a bridegroom” or “an employee”. These typifications decide how the interaction is to proceed. Encounters will be typified in two ways. The situation at hand is also typified (wedding, buying). The social reality is accordingly perceived as a continuum of typifications. Social structure is the sum of these typifications and of the recurrent interaction pattern that is established by them. If Berger and Luckmanns’ concepts were translated to organizational life, typificated roles would be leaders-followers, manager, clerk, or chairman of the board. Typificated situations then, would be board meetings, kick-off meetings, and other rituals and ceremonies in a

company. Procedures, techniques, policies and programs function like powerful myths and a lot of organizations adopt them in a ceremonial manner (Meyer and Rowan 1977). The formal structure of organizations today reflects the myths in their institutional surroundings, rather than what they would need from a rational perspective. If organizations adopt or rather imitate these institutionalized factors, they will receive the resources and the legitimacy they need. Sevón (1998, p. 239) chooses to perceive this imitation as a constructive process, since imitation is “*a process in which something is created and transformed by chains of translators*”. Imitation becomes a transforming process, where an idea is picked out and transformed into something that fits its own context. There it is materialized via action (ibid., see also Sandberg 2000).

Language is essential for understanding everyday reality (Berger and Luckmann 1966). The processes and meanings we wish to make objective to others (i.e. objectified) can be brought to existence by means of our expressions. An important part of objectification is *signification* (p. 50). This refers to the use of different clusters of signs, such as gestures and artifacts. The most important system of signs is language. Our mutual objectifications are primarily sustained by linguistic signification. Language stems from everyday life and forces the individual to act in accordance with specific behavioral patterns. Social order is a result of earlier human activity and exists only as long as human activity continues to produce it. A seemingly rational way of signifying would be “labeling”, i.e. using labels from the general discourse about how to organize (Brunsson 1998; Czarniawska and Sevón 1996). We can use relevant labels to create departments, positions, organizations, identities, and so on. Organizations incorporate elements that have been externally legitimised. Organizing is a bit like building a house; you pick out the prefabricated blocks you need and want, and that you know what will work in your context. Some of the building blocks cannot be dropped by organizations, e.g. certain laws and rules. They have to be adopted because of normative pressures from institutions in our society (DiMaggio and Powell 1983).

Every activity that is frequently repeated (by *habitualization*) constitutes what we call routines (Berger and Luckmann 1966). This creation of habits precedes *institutionalization*. In other words, institutions originate from mutual typifications of activities, repeatedly performed by typified individuals. Every constructed type is an institution. Institutions

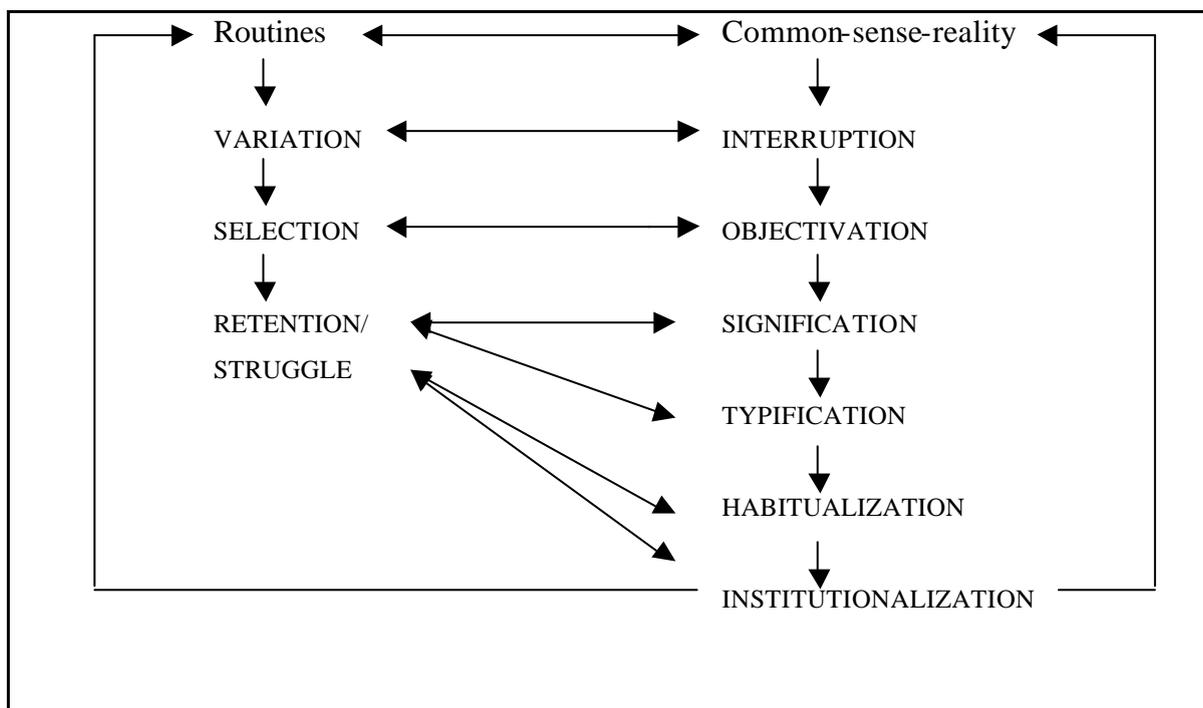
control human activity by providing readily defined behavioral patterns, such as routines and traditions.

Thus, we have reached the point where Aldrich (1999) started his journey - at routines and traditions. Individuals in interaction construct them by means of repeated words and actions. We will look upon the four evolutionary processes socially constructed in the same way, thereby also saying that there is no organization environment as such that makes selection and retention. The so-called environment consists of social interactions, not abstract organizations and/or forces (see Sandelands and Drazin 1989).

Both Berger and Luckmann (1966) and Aldrich (1999) discuss *interruptions* in everyday activity. Aldrich defines variation as “departure” from routines and tradition. These departures are in focus for the selection process. Berger and Luckmann state that every day life will be no problem as long as everyday routines continue without interruptions. Deviations are handled by trying to integrate the problem in something unproblematic. Thus, deviations from routines and traditions seem to have a fundamental role for the genesis and evolution of organizations, since they illuminate the variations that can be selected and preserved.

In the figure below, these evolutionary and constructing concepts are integrated (Figure 1). Aldrich’s *routines* are interpreted as Berger and Luckmann’s *common-sense reality*. From routines, *interruptions* sometimes occur, or *variations*, which start the selection process. When *selecting* something that deviates from routines, we have to signify it, i.e. give it a label. Ready-made *significations* could be called *typifications*. When typified roles and situations are frequently used, by *habitualization*, they become *institutionalized*. All of these constructing actions are carried through in a social context, by interactions among actors, and therefore they are the dynamic forces in social constructions. We have chosen to interpret these constructive forces as the same procedures behind *retention* and *struggle*. The retained institutions are then again the subject of variation, since they become routines and common-sense reality. The concepts in Figure 1 above will be used as a conceptual framework in the analysis of the network biography.

Figure 1. Conceptual integration of evolutionary and social constructive processes



METHOD

The study was conducted with a qualitative approach, with the aim of generating broad information about the rise and evolution of the network. Unstructured interviews were held with the founders and other significant actors, who were allowed to give open accounts about their beliefs about the constructing process and development of relations and resources. From these interviews and from various documents (protocols, correspondence), a biographical account of the network has been constructed. The biographical approach (Kimberley 1987) is useful because it specifically addresses processes of change. In a biographical approach, the focus can be set upon major events that shaped the network's subsequent development and the significant actors that were involved. It is also possible to address the significant resources and relations when mapping out the biography. With the help of this perspective, not only the rise and development of a network can be better understood, but also a better understanding of the network's current functions and problems, can be provided, for *"yesterday's events shape*

today's behavior" (Kimberley 1987, p. 82)². A central aspect of developing this network biography is the mapping of *major transitions* that have taken place over time, and trying to find both its causes and its implications. Kimberley means that a biography can be "*a vehicle both for enriching theory and for helping managers in the subject organizations achieve a better understanding of the context in which they work, which would help them be more effective*" (p. 84). The biography also highlights the connections between micro and macro levels, since it traces and identifies the origins and consequences of the major transitions.

A biographical approach is useful because it addresses the problem of change, in particular for single organizations. In this paper, the biographical perspective will be used on groups of organizations. It is the history with its significant events and actors that are important here, not the level of analysis. The process is in focus, not the entity, and that is why the approach is useful for this study.

Every network is unique because specific terms and specific actors are involved when the network is created and when it evolves. Yesterday's events and experiences form today's actions for the individual as well as for organizations and networks of organizations. By putting the organization in a historical context, the biographer is able to trace the events and forces that have marked the individual. This makes it possible for us to be aware of how beliefs and values have come into being. A biography of the life of a network points out the interaction between micro and macro processes and the occasions and decisions that decide how the network and its relations evolve. We need that knowledge to be able to understand the dynamics behind the processes of evolution.

Kimberley uses the concept *transition* (p. 234) to describe the significant changes that occur in an organization. Central to an organizational biography is the definition of *major transitions* and their origin and consequences. The essence of the biography is the question of how and why the organization has evolved the way it has.

When analyzing the organizational process, special importance is attached to the decisions made relatively early in the life of the organization. Major transitions are very frequent and changes occur more in small steps than in revolutionary events. One kind of important decision concerns the early employees, since that plays a crucial role for the prevalent values present in the organization, and also for the way people learn, or do not learn, commitment, risk-taking, tolerance of mistakes and connections to the environment (Kimberley 1987, p.

² The use of this approach should not, however, be interpreted as a view of the network as a biological organism. It does not have emotions or the capacity of making decisions.

235). The early actors determine, by their contacts and preferences, which relations the organization will establish with other actors. The most interesting factors in a biography will show connections to these early decisions.

When writing a biography, the biographer has to trace not only the transitions and their genesis and consequences, but also the natural connections between macro and micro in the analysis. Kimberley (1987, p. 236) has developed the biographical approach in several studies and it includes a three-stage process. Step 1 comprises a combination of interviews and documentary analysis, which results in a *Significant Event Chronology*. One purpose is to identify key actors and supporting groups that may have been important in shaping the organization. The goal for Step 2 is to put some flesh on to the historical skeleton constructed in Step 1. This is done by interpretations of individual accounts of their impressions of significant events and their sources and results. The biographer's description considers both the respondent's agreements and their disagreements regarding major transitions. Since individuals perceive a course of events in different manners and also tend to interpret the past in a rational way that is to their own advantage, it is reasonable to assume that a consistent account of the process is not possible. According to Kimberley, such a consistency is not even desirable, since different preferences and beliefs are one important driving force behind the behavior in an organization.

Step 3 consists of an analysis of different documents referring to significant events and actors (protocols, evaluations, annual reports). More interviews could also be needed to clarify vague events. In this way, it is possible to get beyond the sterile and static descriptions of how organizations are produced. Since this kind of biography is both analytic and critical, it is more than just a historical description. Its purpose is to illuminate and hopefully also explain important episodes. One disadvantage of the method, however, is that it is very time-consuming, but that is compensated by the richness of the knowledge, useful to both practitioners and theorists.

AN ANALYTICAL BIOGRAPHY ON THE CONSTRUCTION OF A STRATEGIC NETWORK

In this part of the paper, the biographical approach will be applied to the empirical data from the construction of the strategic network. Due to space considerations, the three-stage model (described in the Methodology) will be integrated into one descriptive and analytical biography. The *significant event chronology* (Kimberley 1987, p. 236) will accordingly include parts of the respondents' apprehensions of the events and also information from

relevant documents regarding the significant events. First though, a summary of how the constructed network looks today.

The network today

The network of 31 small and medium-sized companies is today united by a strategic, economic association (referred hereafter as the 'Industry Group', IG). It is constituted by a working chairman of the committee, a project leader and one assistant. The 31 member companies of the strategic network are manufacturing businesses in a relatively sparsely populated area of Sweden. They manufacture either components or complete products for their customers. They represent plastic, electronics and engineering industries along with contractors. The goal of the uniting "hub" is to support the members with common marketing services and education, but also to enhance cooperation in different areas such as the delivery of jointly manufactured product systems. Customers prefer fewer suppliers so that they can manage the market more effectively. Geographically, the companies are scattered over an area where some companies are located about 300 kilometers from the "hub" and as far as 600 kilometers from some of the other members. Most of the members, though, are concentrated to a town in the middle of the area.

The 31 member companies are connected by a formal registration to the economic association, IG. They receive offers by mail to join specific activities, such as exhibitions or annual member meetings. They are also connected through the Internet, by a common homepage. Some of the companies are connected by sales or buying relations, but those relations are not dependent on the strategic network itself.

Significant Event Chronology

First, something about the context in which this process is embedded. This description is justified by the special interest in the connections between processes at a micro and macro level.

Conditions at the macro level

The region is scarcely populated and located in the south of northern Sweden. It is centered round a minor city and has no major industries. Instead, most resources are directed towards tourism and, in part, the forest industry. Many of the companies in the region receive grants from the EU, since the region is part of the formally supported scarcely populated areas.

The companies in the area have something of a spatial market problem, since the major part of the market is located far away from the region. In other parts of Sweden, actors in companies

have started to arrange cooperative and strategic alliances to be more competitive in the market. Some indications even point out that The County Administrative Board³ in each region in Sweden is willing to accord grants for cooperative projects among companies in scarcely populated areas. The time seems to have come for the idea of cooperative networks in society.

The *common-sense reality* has been single companies, selling and buying in a competitive market. The strategic cooperative networks, now emerging in different regions in the country, can be regarded as *variation*, or a phenomenon that has been *objectified*, making it possible for actors to perceive and to be subject to *selection*.

The Government in Sweden founded in each region in the 1970's, an organization whose purpose was to encourage, develop and support both new and already established companies. That organization will here be referred to as the Fund for Development (FD).⁴

Conditions at the micro level

In the city of the region, which is the focus of interest, quite a few industrial companies were gathered in the same area, on the industrial estate. It is a relatively small city and many people know about each other, even if they don't know each other. Between some of these companies, buyer and/or seller relations have been established, but there is no strategic cooperation. Indirect relations exist between some of the companies, since they are competitors, and therefore have the same clients.

The biographical chronology

We have to go back to the middle of 1970 to find out where the first ideas of strategic cooperation among the industrial companies in the region materialized. In 1975, a consultant at FD, tried to bring several industrial companies in the region together to participate in a large exhibition for subcontractors, called the Elmia Exhibition (EE), located in the south of Sweden. He visited most of the industrial companies in the region in order to convince them to come together and present themselves to potential customers in a joint exhibition stand financed by the FD. Ten of the companies accepted the offer. They were all from the city or its immediate surroundings area and in autumn 1975, they traveled together and exhibited their different products to visitors at the exhibition. (One of the exhibitors from the region was a woman). Some of the exhibitors knew each other more or less superficially, and here, at this event, people came together and talked about each other's companies and products. The

³ Länsstyrelsen

⁴ Utvecklingsfonden, which later changed name to Almi.

conditions for cooperation were ideal, since they were all gathered in a joint space in the exhibition grounds. Some of them discovered that they could deliver and/or buy products from each other, and so the first relations in a cooperative network were established. In the evening, they all stayed at the same hotel and so the conditions for cooperation increased even further. They came to know each other quite well, gathering in the hotel lobby, talking in the evenings and also having dinner together. They referred to themselves as the Exhibition-lot, which in a retrospective way, could be considered as an informal business network.

These companies came back to the E Exhibition year after year (*habitualization*), new companies joined in, and relations expanded and grew more profound by the year. Visiting the exhibition became an *institution*, with its specific *routines*, for this “lot”. Every year, the FD had one person handle all the practical arrangements. Business among these companies increased by the year. The FD arranged and financed a great part of the event every year, and when representatives from FD several years later made the decision to stop financing the event, relations were so strong among the industrial company participants that they kept up the habit of visiting the exhibition by themselves.

In 1983, actors in the FD once again acted proactively to help industrial companies in the region to reach and expand their market. A project named Industrial Contact (IC) was launched. Its purpose was to create contacts between the industrial companies in the area and potential customers. The idea for this project seems to have come from within a small group of men who often met and informally discussed different ideas to develop the region. The group included the presidents and owners of industrial companies, representatives from an investment company, consultants from the FD and other committed entrepreneurs in the region. IC invited all industrial companies to be members in the project and for ten years, a considerable number of marketing activities were carried out. Most of the companies from the “EE-network” described earlier were members in this project and the companies in the region got to know each other even better and established several contacts and buyer-seller relations among themselves.

Among the activities carried out in the project, exhibition visits and several sports events for customers were undertaken. The project was generally considered a success and like the E Exhibition, became an *institution*. However, after ten years, there was not much commitment left among the early enthusiasts, so the FD decided to discontinue the project. In addition, by then, several actors were beginning to feel a vacuum regarding joint activities for the industrial companies in the region.

A few years later, in 1997, a man in his fifties, president and single owner of an industrial company in the city, grew frustrated that not much was happening in the region to encourage and develop industry. (Before he bought his company, he was working, amongst other things, with developing issues concerning industry at The County Council). His frustration grew even more when he attended a meeting, arranged by The County Council, to discuss ideas for developing the region. He felt that no fruitful ideas were discussed at that meeting. He decided to write a letter to a few organizations with responsibility for progress in the region.

At about the same time, one consultant at the FD had become very interested in the idea of a strategic cooperative network among companies. Several strategic networks in Sweden already existed at this time. One of them was a network for sub contractors, initiated by the FD in another region of Sweden. The consultant had several contacts with representatives for that network, so he had some knowledge of it. He wanted to start up a similar “subcontractor pool” in the region where he worked, but he got no support for the idea from his employer. In other words, he had perceived a *variation* in everyday *routines*, which he wanted to *select*.

One day in spring 1997, sitting in his office at the FD, he saw the frustrated company owner in the corridor. He was there about another matter, but the consultant called him in and hastily asked him if he agreed with him about the idea of starting a subcontractor pool for industry in the region. Of course he agreed, since the company owner himself for some time, had had the same idea. The consultant suggested to him that he write a formal letter to the organizations in the region that were involved in developing industry. And since the company owner himself had already decided to write a letter of that kind, he wrote a letter, to the FD⁵, the Chamber of Commerce⁶ and The County Administrative Board⁷. In that letter, he strongly requested these organizations to launch a network of cooperative efforts among industrial companies in the region. By writing this letter, he was making an attempt to make the idea objective, i.e. *objectify* it. He used a sign, or a label, “industrial network” to describe the idea.

The FD consultant was able to use this letter to convince his employer of the need for a strategic subcontractor pool for the industrial companies in the region. The letter was again a means to *objectifying* the idea. They took a decision that the FD should help representatives from the companies to start up such a network. The consultant took the role of administrator,

⁵ SV: Utvecklingsfonden

⁶ SV: Handelskammaren

⁷ SV:Länsstyrelsen

he created formal documents and made invitations to meetings. The company owner, who wrote the letter, was also a very important person in this process.

In preparation, the consultant from the FD contacted several already established strategic networks in Sweden, getting information about their procedures and experiences. From an analytical point of view, this could be regarded as seeking relevant labels and tools, *typified* roles and actions, from the general discourse about strategic networks. This is important for actors to be able to construct organizational forms that will work and that will get legitimacy from members, financiers, governmental representatives and so on.

The consultant then visited a few strategic industrial companies to hear their opinion of the idea of a subcontractor pool. They were strategic inasmuch that the consultant considered them suitable members and also committed to ideas of this kind. The main idea was that the pool should focus on business development, joint marketing and delivery of systems (instead of each company delivering one component for a system). From these visits, a core of a few committed businessmen emerged. These men were all from the informal network around the E-Exhibition, the “Exhibition-lot” mentioned earlier. When making these visits, the FD consultant was able to use the labels from the general discourse about strategic networks provided by actors that had already constructed strategic networks. By doing so, he was able to *objectify* and legitimize the idea to the businessmen.

In the spring of 1997, these committed men had a few meetings with the consultant at the FD, informally discussing how the subcontractor pool could be realized. On May 20, 1997, a document was created in which a working model for the pool was presented. Documents are important for the *objectification* of the idea. Documents can give an impression of an idea being rational and serious. In these documents, all relevant labels were used, and the word “model” gives the idea of a technical solution, which further strengthens the construct.

A list of presumptive members was compiled, and on August 7, 1997, an invitation to a meeting about the idea of a subcontractor pool was sent to these companies. The meeting was held on November 3, 1997. At this meeting, a man from a similar subcontractor pool in another region (arranged by the FD in that region) was invited to give an account of their experiences to the participants at the meeting. He was the man whom the FD consultant had earlier had contacts with. At this meeting, a working committee for the project was formed. It consisted of the core of committed industry managers and the FD consultant. Forming a committee is one of the building blocks in constructing a strategic network. A committee is one of the labels available for use in the *objectivation* of the project. In this way the actors

have also started the process of *retention*. They begin to preserve their building blocks for the project.

On November 7, 1997, the committee created another document. The title was “Proposal for the forming of a subcontractor pool in the region” and it describes the need, purpose, structure and financing. This document was used as information about the project in official letters to request funds from the EU. This kind of document was extremely important for them to convince others about the need for the project and to make it look as a rational construct, worth *retending*.

On January 12, 1998, the working committee had a meeting where it was finally decided that the name of the project would be “The Industry Group” (IG)⁸. In April, an interim board was formed. The committee had decided to formalize the project as a legal entity by applying for the forming of an economic association. This is an adaptation to the formal rules for applying for funds from the EU, which say that they have to be written by a legal entity. It is a prefabricated formula they *select* for the reason of both *objectivation* and *retention*. This formula is an *institution* by which certain *typified* roles; situations and rules are followed (constitutional meeting, board and board members, chairman, annual general meetings, and also systems for accounting and taxes).

To be able to be granted financial resources from the EU funds, 50% of the project had to be financed from other sources, which is another formal rule the committee had to adapt to. The FD financed 70% of that half, with 30% provided by The County Administrative Board. On April 14, 1998, the FD consultant helped the interim board to write the application for funds to the EU for a project that was planned to last for two years. In the application, the purpose of the project was formulated as: “*The association shall promote the members economic interests by marketing their products and services*”.

On April 29, 1998, a statutory board meeting, which is a typified situation with typified roles and actions, was held. All interested subcontractors were invited and a board was elected, due to the coercive incorporation of normative *institutions*. The event was signified by the use of ready-made labels. The Swedish Patent and Registration Office, PRV, 1998-06-11, registered the application. A formal offer to become a member in the association was sent to all the companies in the list of potential members. During these weeks, members sent in their formal acceptance of membership in the association. Every company had to pay a small fee for membership. These activities represent the evolutionary process of *retention*.

⁸ This name does not correspond to their real name.

On August 28, 1998, a notice to attend the first members' meeting was sent to those who had accepted membership, and in September 1, 1998, the project formally started. By that time, the board members had rented an office, hired a project leader and a clerk, and registered 21 member companies.

The first member meeting was held October 13, 1998, where the members for the first time met the new project employees and had a look at the office.

During the coming months of autumn 1998, the project leader visited all the member companies, and then potential customers for these companies, informing them about the capabilities of the IG. He also made a product catalogue and induced several business magazines and newspapers to write articles and reports about the association and its companies. These activities contributed to both the *objectivation* and *retention* of the strategic network.

In a letter dated January 21, 1999, the project leader stated an additional purpose of the association: "*to create a close and trustful network cooperation among the members*".

During 1999, several important activities, besides formal board and members' meetings, were arranged within the network project. These activities promoted the preservation of the strategic network (*retention*): an exhibition for industrial companies was held for two days where 30 members exhibited their products. Many new contacts between companies and customers were established. Exhibitions are *institutions* with *typified* behavior. The association became a member of the Swedish Export Council⁹ and four companies began exporting products to Denmark and Great Britain. Six companies accepted help from the association to go through with quality work towards ISO 9001 accreditation. Steps were taken to encourage young students to apply for the industrial education program, so that companies in the region in the future would be able to hire competent people. The IG also helped their members to exhibit their products in other exhibitions, both within and outside the country.

In spring 2000, the IG arranged another exhibition for two days and continued its work of helping their members to get in contact with interested presumptive customers, and also arranging management education courses for their members. They held, of course, the customary formal meetings too.

The project formally finished on May 31, 2000, but by that time, a new application for EU funding had been submitted to assist the association for another two years. IG was becoming an institution.

⁹ SV: Exportrådet.

An evaluation shows that the member company's sales turnover had increased by an average of 21%, during the project time. However, the members were not very active in joining the activities arranged by IG. One of the respondents estimated the ratio to be 20% active members and 80% inactive members. The active members were the companies from the original "E-Exhibition-lot". The new members seemed to be only formally connected to the network.

The board decided to partly change the aim and direction of the project from the mere selling role that the project leader had accomplished, to a more development role, with focus on competence and joint system manufacturing. The board hired a new project leader and also an executive chairman of the board. However, that is another story.

CONCLUSIONS

The social construction of a strategic network has been described and analyzed as an evolutionary process by the help of a biographical approach and concepts from organizational evolution theory (Aldrich 1999), integrated with concepts from the social constructionists (Berger and Luckmann 1966), further developed by some of the early institutionalists (Meyer and Rowan 1977; Powell and DiMaggio 1983) and post-modern constructivists (Brunsson 1998; Czarniawska-Joerges 1988; Sevón 1998). This made it possible to assemble a rich and dense description of concrete micro-processes. This made it possible to fill the abstract process concept with genuine content, which is something that is often pointed out as lacking in this research area. The analysis and conclusions illuminate the actors' active participation in the processes. The focus is on what they actually *do* to make things happen, not just what happened 'to them'.

How does strategic inter-organizational cooperation emerge?

The two most significant actors in the process of bringing the network into existence were the frustrated business owner and the FD consultant. They were both carrying an idea (selected from variation) about launching a cooperative network for the industry companies in the region. They knew each other from many years of activities in the industry, so the fact that they met was nothing odd. However, this meeting had crucial consequences. They bumped into each other, informally and unplanned (but within the context of business), and started the first discussions of the reciprocal idea. It was then they decided to investigate if there could be other significant actors who would support the idea. There was a need for competitive advantage for firms in the region (companies needed to be more competitive on the market), and there were relevant building blocks available in the form of typified labels and models,

provided by the general discourse about network cooperation. They chose to incorporate these existing elements, since that would reduce uncertainty and increase speed and rationality.

Of great interest here is that one of the most significant explanations to how strategic inter-organizational cooperation emerges is the informal, yet strategic, interpersonal network that already existed before anyone decided to start a formal network; i.e. the “E-exhibition-lot”, from the 1970’s. They were already interacting, or networking, and therefore they knew each other quite well. They were already committed to cooperation and the time for the idea of a strategic network had come.

Means for constructing a strategic network

The network was constructed mainly by means of prefabricated elements and formulas, available from the current discourse about business networks. These elements and formulas were adopted and/or imitated by the actors who wished to construe and legitimize the network. Some elements were forced on the project, for instance that they selected a juridical association, and some elements were selected voluntarily. Both types of elements seem to have had both objectifying and legitimating purposes for the project. Elements and formulas could be structures, roles, activities (like exhibitions and meetings), accounting systems etc. Other examples are committees, protocols, working models, board meetings, member lists, project leader and application forms. These constructing elements and formulas were also important tools for the retention of the network. They constitute the cement for the network, but it is the activities that are the most essential thing for the manifestation of the network. Without individuals *networking* there would be nothing more than dead artifacts, symbolizing the network. Adaptation, imitation and legitimization seem to have been important factors in the construction and preservation of the network. The things being adapted and imitated were prefabricated solutions, typified schemes, that quickly and easily promised legitimacy and thereby retention. These concepts should have a more prominent role in both the evolutionary and social constructive perspective, because not much is said about them, in spite of the fact that they have been shown empirically to have had considerable influence on the evolutionary construction of a strategic network. They are very important indicators for retention processes and institutionalization.

Important to every social construction are encounters, people meeting, creating tools for the objectivation process that is so important for the retention of an idea.

Micro and macro conditions and how they are interconnected

The conditions at the genesis of the network were at the macro level, characterized by an increased interest for business cooperation. The term “network” was selected to describe the

emerging cooperative efforts among companies, and “to advocate what organizations must become if they are to be competitive in today’s business environment” (Nohria 1992, p.1). Governmental actions had been taken to support and develop companies, and the EU had deposited funds for developing projects in companies. Several projects had been started in other regions, and academia, alongside the media, had a great interest in networks.

The conditions at the micro level could be described an initial perception and interest for the idea that strategic networks could enhance business cooperation. The two architects of the project knew that at least one other industrial region in the country had successfully implemented a strategic network. The region had also already experienced a successful cooperative project, but since that network had been disbanded and finished, many actors were waiting for something similar to connect to.

Public authorities have a profound influence on how this network is constructed. They determine the formalization of the network, the manner in which the network is controlled and structured, and also how it is financed. Thereby they decide the duration of the project. By forcing the network to incorporate certain procedures, the authorities also decide many of the roles and activities in the network.

A final conclusion is that the concept of strategic networks does not mirror the network processes very well, since it does not include interconnectedness to other preexisting networks, and the interconnectedness between micro and macro levels. It does not take into account the social structures that the networks are embedded within. Formally, it is quite simple to map out the actors and the activities, and the starting point of the project. However, behind that map are several overlapping social networks, integrated by many different events, activities and actors, and, since ideas for selection are spread globally, are impossible to trace to one single moment and/or actor. Multiple social networks are extended in time and space. It is possible, however, to trace when, how and why single actors select ideas, and manifest them by social constructions, as we could see in the network biography.

IMPLICATIONS

Since the creation of a strategic network is an important strategic action, studies on how they emerge can provide valuable insights for theories of strategic management and organizational theory. Practitioners can reduce some of the uncertainty involved in inter-organizational cooperation if they know more about this process. They can be more proactive when generating network cooperation and they can learn to take advantage of earlier cooperative

relations with actors. They can generate selective contacts that might improve the development of the company.

Scholars often use process-concepts when they discuss the evolution of networks. However, the processes are in most cases neither observed nor specified. The concepts lack a genuine description of processual content. Describing this content is therefore important to both practitioners and scholars, since this will provide us with important insights on how they function today and where specific problems stem from.

The results of this study show that prior cooperative relations are essential when actors develop a strategic network, as suggested by Gulati (1999) and Doz (1996). Gulati also concludes that the probability of new inter-organizational alliances increases with their prior mutual alliances. Earlier network theories contain the assumption that strategic networks are generated from new business relations and not from pre-existing links between actors. The result of this study does not support that assumption. Prior alliances provide the actors with information and referrals for organizations. This is an important question for future research.

The analytical connection between micro and macro levels provides us with a more accurate description and understanding of key influences on strategic cooperation processes. It is an important question for future research to analyze the consequences of macro-rules and preferences on the construction of networks. The study clearly shows that the County Administrative Board had significant impact on the design and the size of the final strategic network. The County Administrative Board follows the specific rules for funding applications from the EU. This might have decreased individual actors' commitment to the project, since the rules imply a great deal of administrative tasks and also state how the work in the controlling unit of the network should be structured. It would be important to explore if macro-rules and norms affect strategic networking in a negative way.

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