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*CLUSTERING AND NETWORKING
IN BUSINESS START-UP.
A MANAGERIAL APPROACH TO PUSH AND PULL
INTERVENTION FOR ENTREPRISE CREATION*

Massimo Bianchi

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Clustering and networking in Business Start-up. A managerial approach to push and pull intervention for Enterprise creation

Massimo Bianchi

Abstract

Questo articolo mira a discutere lo stato dell'arte relativa all'approccio manageriale dell'intervento internazionale a supporto dell'economia delle start-up, considerando la diffusione di piccole medie imprese come strumento del processo di democratizzazione e, con un'analisi comparata, per la definizione dei modelli relativi a tale argomento. A tale scopo, l'esperienza dell'autore nella gestione di progetti mirati a migliorare la visibilità e la competitività di aziende in Albania, Bosnia, Serbia e Slovenia, dà l'opportunità di comparare diverse tecniche di clustering basate sulle risorse, su un approccio push relativo al processo di creazione di nuove aziende e un approccio pull connesso alla creazione di stabili e prevedibili forme di relazione tra enti pubblici e privati.

The paper aims to discuss the state of art regarding the managerial side of international intervention to support the start-up of economies particularly considering SMEs diffusion as a tool for the democratization process and, with a comparative analysis, for the definition of the models prepared on the subject. To this purpose the Author's experiences in projects managed in Albania, Bosnia, Serbia and Slovenia to improve the visibility and competitiveness of local systems will give the opportunity to compare clustering techniques based on resources and push approach to the enterprise creation by networking and pull approach connected to the building of stable and predictable forms of relationship among public and private entities.

Keywords: Transition Countries, Clustering, Networking, SMEs, Local development

1 – Introduction

New Business Creation (Jones, 2001) bounded the difference between the a-critic trust in traditional and expensive interventions to stimulate the enterprise creation. This change of perspective was motivated by a diffused awareness of restricted results fulfilled in this field (Bianchi, 2005) and new suggestions on the entrepreneurial behaviour during the start-up of new initiatives. Some attentive Authors (Bianchi P. et al., 1997) underlined, at the end of previous century, serious problems in the management of projects aiming to extend European development models in other Countries (Paas & Schlitte, 2007).

Today there is still a lot of doubts in the strategy of International Organizations and National Government for the support of entrepreneurship in a globalized

and interconnected world (Kersan-Škabić, 2007; Klepić et al., 2007). The paper aims to discuss the state of art regarding the managerial side of international interventions to support the start-up of economies particularly considering SMEs diffusion as a tool for the democratization process. Meanwhile it points up the lack of feasible managerial models proposed by scholars on this subject. To this purpose the author's experiences in projects managed in Albania, Bosnia, Serbia and Slovenia to improve the visibility and competitiveness of local systems give the opportunity to compare the Clustering approach with the Networking one.

The Clustering is based on resources and push interventions for enterprise creation while Networking and the connected pull approach aim to create a network of stable and predictable relationship with customers and suppliers.

This paper is an updated version of "Clustering and networking in SMEs development international projects. A managerial approach to push and pull intervention for enterprise creation and entrepreneurial parks initiatives" published in M. Bianchi, M. Baseska, S. Ngo Mai, L. Tampieri, J. Verges (Eds.) (2014), Beyond the horizon of Tempus projects. Theory and practice of project management, Il Ponte Vecchio ed., Cesena, pp.37-46

Massimo Bianchi

University of Bologna, Department of Management (Italy), massimo.bianchi@unibo.it

2 – The State of the Art

Period	Development model	Main tools	Critical issues
1955 – 1975	Pole theory	Big concentrated investments in territorial poles	Desert cathedrals and reduced full up
1976 – 1995	Rainfall system	Diffused distribution of medium and little credits	Difficult control and waste of resources in dispersed activities
1995 - today	Structured interventions	Territorial paths and area contracts between local stakeholders.	Limited diffusion and government delays

Table 1: Evolution of Italian policy for the entrepreneurial development

The evolution of Italian policies in last decades of XX century, concerning the entrepreneurial development of the southern areas, highlights the conflict among different targets and approaches applied in this field. As summarized by Table 1, the pole strategy was used in the years of Economic Planning and of the theory of development areas (1960-1980). It was based on massive investments concentrated on the territory in areas which were thought to be less favorable for business activities because of the disadvantaged economic situation and generally backward social conditions. These investments were mainly made by large Public or Private Companies suitably subsidized (Momigliano, 1975).

The expected results of this strategy were that strong localized settlements would produce direct benefits for the local economy and society, but in particular, with a multiplying effect, they would lead to the creation and development of a widespread structure of small and medium-sized enterprises.

In the corporate sector this strategy was supported by an overestimation of the role of large companies which were seen as the only model of truly rational organization and of the scale economies.

Once the limits of this theory became evident and was formulated the approach of scope economies, public interventions started to be mainly aimed at sprinkled actions, both in the areas of free concessions as well as soft loans, products with guaranteed prices and support to trainee entrepreneurs.

With the crisis of the Economic Planning concept, the State gave up to every direct planning and

delegated main activities of development to local institutions and Authors discovered the small and medium-sized businesses as the essential component for the most advanced Western economies. This intervention policy was also supported by the theories on the “fertilization” of the territory and appeared more acceptable to ensure the redistribution of resources among a rising and numerous entrepreneurial class.

The financial problems of the Italian Government and the so-called “Tangentopoli” crisis marked in 1992 the end of the rainfall intervention policies which had led to mismanagement and corruption alongside a waste of resources.

The theory of the rooted enterprise, the on-going decentralization pressure, the attention paid to the role of the local system and of the network organizations in the relationship between companies are components of a new strategy for the development of enterprises in difficult areas, more consistent with the modern approaches to globalization.

A contribution for this change it derives certainly from the reduction of resources available by the State, a corporate culture which in the meantime becomes stronger also in the weaker areas and, last but not least, the gaining ground of economic districts and sectors as an engine for economic development.

The experiences in transition countries made visible the complex framework in which this process has to be inserted (Table 2)

This statement lead to a more reflexive consideration in the methodology of territorial governance mainly linked to the regional dimension and the central role of local stakeholders placed in the centre of structured interventions.

3- Some lessons from entrepreneurship development projects in transition countries

Cluster Analysis (CA) is one of the best-known tools to orient the strategy of projects aiming to develop entrepreneurship in transition countries.

The cluster concept provides a frame to locate individual data available in a particular context and drives a selection of recommended actions to incentive the enterprises start-up.

After a period in which CA was implemented by scholars as one of the most sophisticated research tools in social and economic sciences, this methodology was proposed, with an apparent increasing success, for the development of local systems as a support to the decision process for enterprise creation (Stough, 2016; Kriegel et al. 2011)

Let's summarize main features and implications of CA imaging the case of an agency committed in the development of SMEs start-up.

In most cases traditional interventions in funding

European Model	Transition countries	Project development actions
1. S.M.E. Diffusion	Poor diffusion of S.M.E. and opportunist entrepreneurship	Collaboration and education of entrepreneurs
2. Sturdy link of economic activities with the local culture	Scarce awareness of historic and environmental values. No critical acceptance of western models of competitive and exploiting economy.	Creation of a cultural enterprise devoted to the organization of cultural events and of the recovering of cultural heritage.
3. Support of local municipalities in the development of territory and entrepreneurship	No interest of local municipalities to territorial development and a strong orientation to welfare as assistenzialism to people without any attempt to evolve in active life.	E-government interventions to implement Governance tools and project evaluation in Local Municipalities for the creation of Entrepreneurial Services and so called "one stop" business shop in connection with Local Development Agencies (LEDA)
4. University seats spreaded in the territory	Few centralized Universities that are not at all diffused in the territory	Support action to local Universities for the development and improvement of curricula studiorum and LLL oriented to entrepreneurial and managerial development. Establishment of a practice community with Long Distance Workshop of simulated enterprises.
5. High network interconnections	Territorial data warehouse practically not existent and many problems with web	Project and carrying out of a Information Territorial System.
6. Settlements and industrial areas diffused in the territory with an particular attention to ecology	Last years has been devoted to the exploitation of the environment without any consideration for cultural heritage and eco-balance.	Delivering of tools of territory analysis and programming of urban development that enable investors and public powers to find settlement places outside archeological areas.

Table 2: A comparison between European and Transition Countries Local Systems referring to main actions of Development Projects.

single projects lead to a waste of resources (Bianchi et al., 1997) because agencies have not enough tools to check adequately the feasibility and consistency of projects. As it concerns macro territorial interventions there is a lack of resources for expensive development programs.

Consequently the agency can decide to intervene by delivering information about territorial possibilities in various sectors or by referring to local business networks or focusing activities in which new SMEs (that at the beginning are all micro enterprises), can display their creative actions.

Let's consider what would be the most relevant information to understanding the local situation and the particular social and economic framework. To this aim, the main sources are represented by data warehouse or database, preferably on web, together with a more or less intensive round of interviews with local stakeholders.

The first results of these actions will be a report

listing the most profitable initiatives. A more advanced action, as most of reports have a limited diffusion, would be the publishing of information on a web site normally not interactive and only in few cases organized as a Customer Relationship Management.

In this way stakeholders' indications, interviews and CRM will dispose of a number of selected entrepreneurial proposals with the purpose of choosing the most profitable or promising initiatives to support SMEs with financial or organizational facilities (as in the case of Business Centers Models, One Stop Business shops or Business Incubators).

Most of the support to each initiative performed by Business Centers or Business Incubators is ruled on a length of three years for each start-up with the possibility of an extension. After this term, the enterprise would be autonomous and in condition to spread one's wing. Also the Agency intervention will be concentrated in furnishing information, discussing and implementing the business plan as well as controlling its fulfillment. Agencies staff carry out this role of clarifying ideas of entrepreneurial candidates lining up their intuitions in a rational and controlled path. A relevant role in this job is undertaken by financial or-

ganizations which distribute credit on the basis of an administrative process taking care the expected coming back of investment.

Considering the experiences carried out until now, what kind of performance we can individuate with this approach?

1. Low Efficiency, Efficacy and Adequacy
2. Time slitting
3. High mortality of initiatives
4. Results recycling

To discuss the reasons of this scarcity of results concretely obtained by cluster techniques and the related cluster approach, used in territorial development, let's focus our attention to the start-up of an enterprise referring to the original organizational unit created by someone who decided to carry on a new business.

3- Clustering and Networking

Cluster analysis gives us a tool to elaborate information about environment particularly as it concerns resources availability and environmental diversity. In this way, it is supposed to have enough information to create an enterprise with satisfactory performances and a positive feedback from the environment. This is the dream of each researcher: to invent a founded and feasible analytical tool to discover the treasury of a favorable and profitable conditions to be exploited by the enterprise start-up.

The Clustering approach, applied in the majority of international projects for the development of entrepreneurship, considers that the process of enterprise creation starts from the availability of resources as financial ones, facilities, professional education and it is mainly focused on material elements which, it is supposed, push the individual to assume an entrepreneurial initiative.

It is true that we need information to start an enterprise but the discussion is about what can be intended as information (signs, documents, data, commitments, business opportunities etc.) and particularly what kind of information we need and in which way we can find, select and gather significant elements of decision and choice for the new entrepreneur.

The orientation in this field is that the main motivation to apply Clustering approach comes from agencies and their staff that need this knowledge to conveniently advise people coming to agency counters to get useful information.

The research on New Business Creation (Jones, 2001) underlines two main trends: firstly, the attitude of new entrepreneurs (or the decision to enter in a particular business) is in most cases linked to the imitation of other initiatives and, secondly, the propensity to take advantage from territorial facilities. The lo-

cation of facilities in a specific territory links the imitation process to the development of local systems mostly disadvantaged ones and poor of entrepreneurial activities. This introduced some doubts about Clustering.

The Networking approach is based on the creation, by the aspiring entrepreneur, of a feasible network of business relationships and starts from the material endorsement that consists in a job or a business order committed by a potential customer.

In this way, the starting point is not represented by financial resources or facilitations but by the support to candidate entrepreneurs in the search of the business links (Bianchi, 2005).

This support can be represented, as it concerns the exchange of knowledge and best practices, by Business Angels (BA), Business Mentors (BM) and initiatives of Job Creation (JC) managed by Employers Associations, Public Institutions and Private Companies which create opportunities of direct contacts with experienced business men, managers, public purchasers, company buyers and corporate departments for the development of innovation.

These subjects, that can constitute themselves a network, can ignite the start-up process through a concrete support in the search of potential customers, in the offering of business opportunities and in the admittance to public or private orders. The knowledge they deliver directly expresses the demand of products and services the new entrepreneur can satisfy.

In last times, theorists and divulgators indicate as connected, in a functional way, Clustering in Networking (Johannisson, 2009) as it happens in BA, BM, JC when these initiatives attend to the investment side. The hypothesis it's that cluster analysis is a tool for Networking with the purpose to improve the performances of the net created by the new enterprise.

Other Authors consider Clustering and Networking as two different approaches, not at all compatible (Gordon & McCaan, 2000), for the development of enterprises. This is an extreme position but has the advantage to clarify differences and to introduce new hypothesis in business creation.

On this concern the graph, indicated at [Figure 1](#), summarizes the two opposite approaches to enterprise creation.

In 1.1 Clustering approach orients its main efforts in the offer of facilities and financial resources focused on the enterprise start-up.

We have to underline that all these conditions are only hypothesis about the development of start-up process. In fact, it is not sure that these elements cause the creation of enterprises. For instance, the concentration of professionals in a restricted specialization, rather than a facility, can worst the possibility to find people available for employment and increases transaction costs.

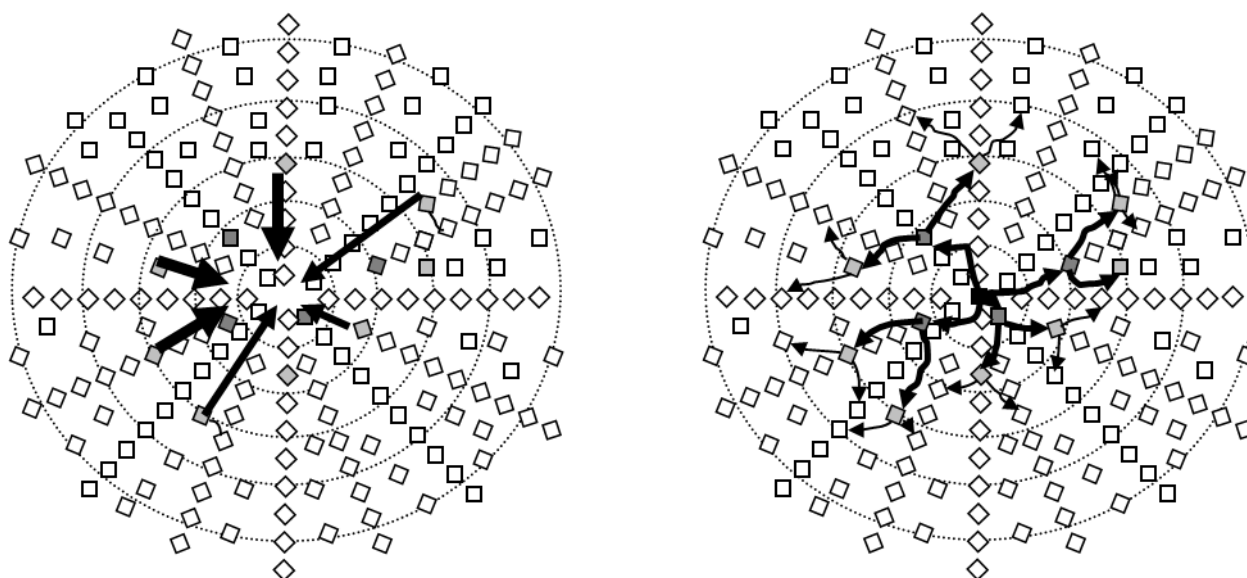


Figure 1: Cluster and Networking approaches

1.1 – Clustering

1.2 – Networking

In Networking (1.2) the start-up comes from an individual idea of enterprise on which actors and supporters have to focus their resources on the spread and stabilization of a net of links with customers and suppliers useful for new business. In this way they orient the action, otherwise dispersed in the territory or in the wide field of potential links and subjects, on a restricted target: the individuated microbusiness (Zaric & Tampieri 2007). In this perspective, Networking approach points to the agglomeration efficiencies, labor pooling and technology spillovers

There are other differences that play in favor of Networking and concern the efficacy and efficiency of interventions for the development of entrepreneurship. Indeed, the Clustering approach faces many times the demand of information coming from the staff of organizations engaged in the promotion of territories. To this purpose, the Clustering approach orients agencies counters for the counseling in business start-up with the delivering of classified information and in the preparation of the business plan.

On the other hand, the Networking derives from the demand, external to the development agencies, and expressed by their clients who ask a support focused on specific ideas or activities connected to the start-up. Particularly they expect a concrete help not only and not necessary in the financing but in the tutoring and mentoring for the building of a feasible network with potential customers and suppliers required to carry on a profitable business.

One of the more impressive subjects to make the difference between Clustering and Networking is the different fashion in which the net is considered. In the acquisition of knowledge about the market, the pur-

pose of Clustering is to gather more information is possible as an indispensable know how for the development. In Networking the net is the target and the resource as the Net is itself a source of information. The concept is that “networks have memories” and this memories are waiting to be used (Ciborra, 2002). In fact, the actual networks of ties reflect both the past social architecture of networks and the increasing experience acquired through the past relationships.

In business creation by Networking, the allotment of time needed to establish a concrete network focused on the start-up assumes a critical relevance (Chell & Baines, 2000).

This research stream, widely debated in literature (Drakopoulou Dodd et al., 2015; Slotte Kock & Covielle, 2010), analyses the process of enterprise creation, from the pre-start-up till the structuring of a stable growth process. In business start-up this means to join, as soon as possible, a critical mass of links with partners, customers and suppliers.

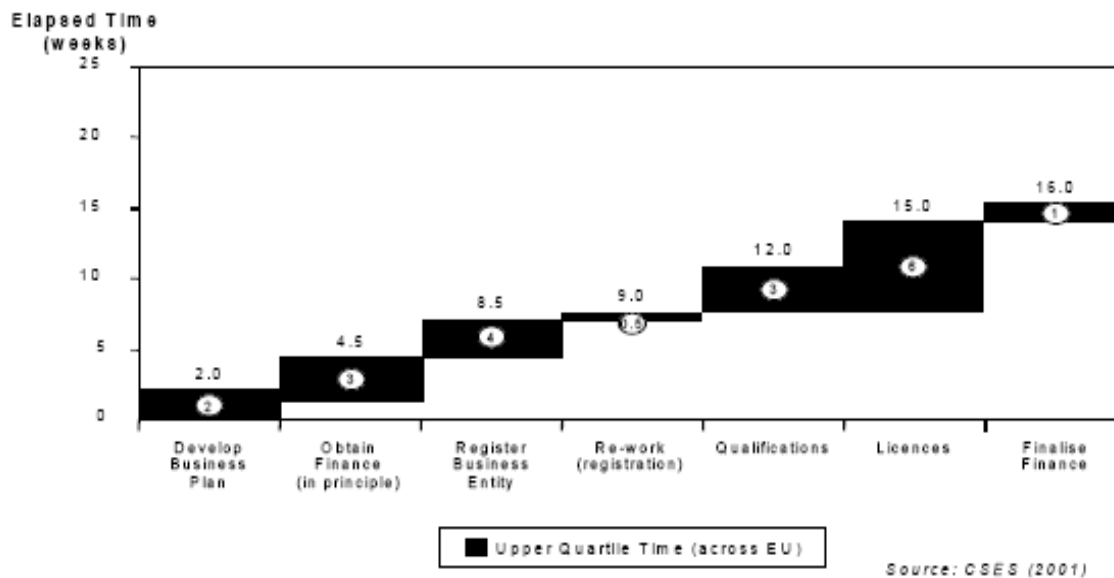
In the pre-start phase, a substantial amount of time is addressed to deploy existing social contacts, and to identify key contacts ensuring needed resources (Greve & Salaff, 2003). There is also some evidences that new and instrumental ties was generated to meet specific start-up needs (Larson & Starr, 1993). With the next establishment phase, networks are empowered through the strengthening of business ties selected among most reliable or broadened, through the exploring of new ones. During the start-up these links are essentially instrumental and often developed in the social dimension. The transforming of social links into business links and vice versa, create multiplex relationships which contribute to enforce the business start-up (Johannisson & Monsted, 1997).

Studies on the growth of entrepreneurial networks (Seddon et al., 2010) outline the shift from identity based on more calculative networks according

to the evolution of the firm networks (Hite & Hesterly, 2001). As the firm grows, its network evolves toward ties based on economic costs and benefits. In such a case, the critical Networking is set at the beginning of the start-up process when the enterprise has to establish the needful links for its growth.

In this field, previous researchers carried out by the Authors about the time for SMEs start up (Bianchi et al., 2010) outline the connection between the level of control and the speed of the start-up.

Models of start-up processes mainly refer to a controlled action. This marks the difference between sociological and business approach (namely teleological one).



However, the relevance of this control is qualitatively different from a simple take and put method that characterizes the learning process (Mella, 1997).

As the managerial control implies feedback and feed forward perspectives, the consequence is that in the short and hurry time of the start-up the entrepreneurial process is mainly connected to objectives than to results with the prevailing of feed forward perspective.

This statement simply derives because results are not yet fulfilled or not fulfilled in a meaningful way (Habbershon et al., 2003). Accordingly the time arrow of the start-up is most oriented to the trust in the future than in the past (Bianchi, 2004; Korsgaard et al., 1995).

Empirical evidences come from the Lean start-up conceived by Eric Ries, a business man who proposed a continuous and fast process of ideation-validation and change targeted on a dynamic adaptation, step by step, to customer's needs.

Ries's approach recommends an intensive use of internet technologies in a learning process holding what it works and discarding what does not (Roush 2011).

This orients the research toward the shortening of the time required to achieve a sustainable enterprise, time that in business incubators is established in three years as the maximum period of hospitality offered to start-ups.

In this direction some Authors considered the time needed to the start of an enterprise considering the administrative procedures to be accomplished (CSES, 2001). The time exposed in the Figure 2 concerns the upper quartile of cases examined which regards the SME's best performances and it is expressed in weeks.

Fig.2 – Critical path analysis in micro enterprises start up - Upper quartile situation

Other Authors consider the different temporal density of start-up processes based on the number of enterprises created in a time unit, of the related turnover or the contribution to employment, always referred to a particular, defined period. The relevance attributed to this purpose to the critical time for a successful start-up is significant as it concerns the analysis. This approach localizes the temporal profile of the enterprise start up in different cultures (Keegan, 2005; CSES, 2001).

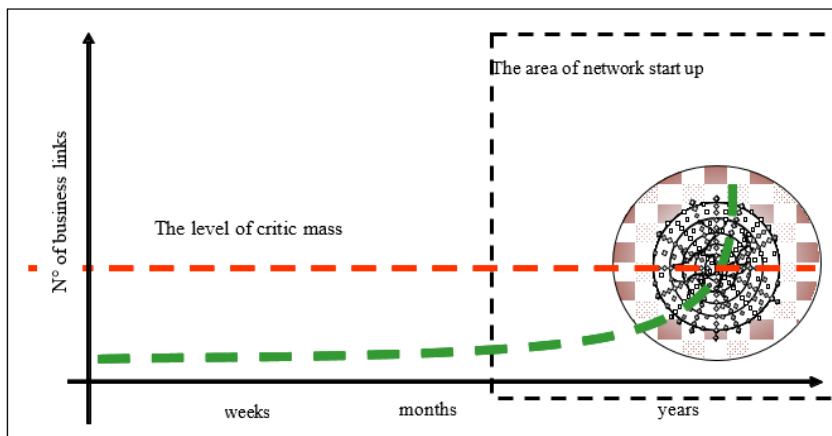
In following studies, the time scale applied by researchers was further reduced and, in the study of micro business, timed on a daily basis (Brustein, 2015).

The "Classical approach", as defined by the Clustering approach, considers the achievement of sufficient resources, mostly financial, as the priority of the start-ups (Klepik et al., 2007). According to this model, the entrepreneurial action concretizes only after some years a stable network through the growth of initial one and reaches the critical dimension needed for the survival (Figure 3).

This process shows an increasing curve of networking with an initial strategy linked to the achievement of an internal equilibrium, mostly in terms of financial and human resources, rather than the external one connected to the relational assets (Johannisson, 2009). According to Clustering approach, in the first steps of the start-up the business plan prevails as a tool for a strict control of the entrepreneurial action.

The “Innovative approach” based on the concept of Networking locates the building of a critical network at the beginning of the start-up process (Figure 4) when the enterprise promoter (or promoters) searches for an adequate asset in terms of relational resources. A low level of control in the selection of business partnership and opportunities connected to the business idea characterizes this period.

Fig. 3 - The start up in the Clustering Approach.



It’s a phase of exploring and testing of partners, customers and suppliers. Only after this initial step, it starts the selection of business links focused on successful results with the purpose of exploiting the best relationships established. More than 70% of initial contacts will be not confirmed and the stable links on which the new enterprise will found its success represent, after 6th years, around the 10% of the global amount of undertaken links (Bianchi & Barzanti, 2004). Aside researches in different countries and sec-

tors indicate around 44% the failure rate after three years from inception (US Census Bureau-US Dpt. Of Commerce 2016).

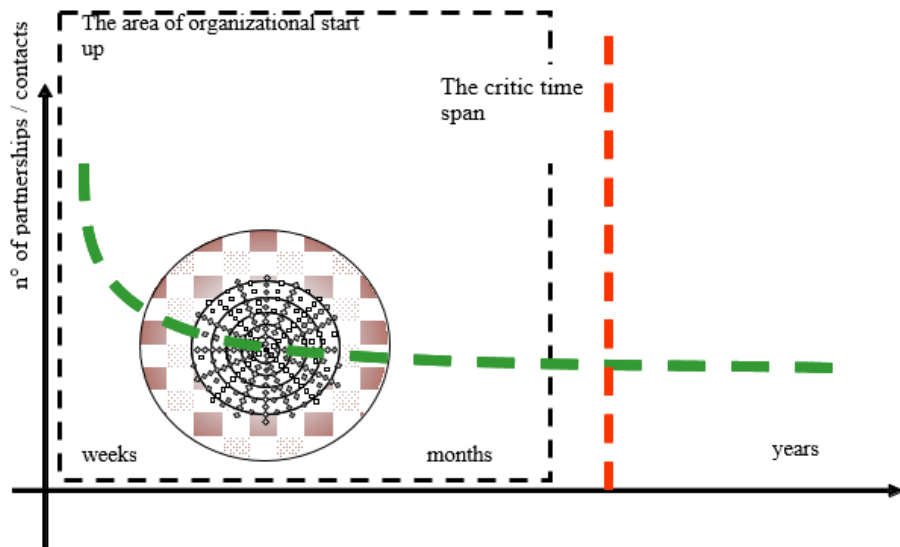


Fig. 4 – The start up in the Networking approach.

In the perspective of Networking, the time for the accomplishment of start-up activities is shorter than in the classical view as the fulfilment of the critical network is located at the beginning of the start-up and produces a big bang of initiatives with an intensive exploring strategy linked to the search of business opportunities. Only after this kick-off period, it start the exploiting of selected business links and the establishment of a business continuity (Moensted, 2010).

4 – Conclusions and Perspectives

When the Clustering is concretely applied, agencies for entrepreneurship development are normally committed to deliver studies, classified information, and

files of documents supposed useful for the start-up. In this way, aspirants entrepreneurs receive rough material many times not up to date but easy to be massively delivered by agencies counters.

The content of this material is mainly connected to facilities and opportunities for entrepreneurial initiatives financing. From the other side, Networking implies the activation of links with an approach focused on the development of business relationships. This is what the transition countries need for their develop-

ment as they have to invent and structure the future environment in which SMEs will operate. Really, the challenge is not to study the existing situation often not favorable at all to entrepreneurs and innovators but to convince people that in a short period the business can be undertaken with a reliable network of relationships (Bianchi, 2005).

This change of perspective can be a feasible way, in a period of restriction in resources destined to the development of countries in transition because the emphasis of entrepreneurship creation is on immaterial resources like the endorsement, the motivation, and the interpersonal skills. Furthermore the subject became actual as it concerns the resilience of areas affected by catastrophic events, natural or human made, in which the main challenge is to rebuild the framework of activities and the net of collaborations.

The experience of European Projects for the promotion and support of Eastern Economies highlights the building of strong networks based on micro and small business as a tool of stable development (Bianchi et al., 2014).

As in transition countries or in devastated areas the SMEs territorial framework has to be created as a result of the projects, it appears inappropriate to list a weak or inexistent network among pre-conditions for the entrepreneurial development as it happens in the Clustering approach. This recommends a fast start-up based on Networking and on a critical mass of links for a quick verification of the organizational feasibility of the proposed enterprise. Cluster facilities could be considered as opportunities to be exploited but not sufficient for a successful start-up.

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