

The difference between approaches in the scouting process in scouting start-up companies in the automotive sector compared to the financial sector

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ABSTRACT

Established companies nowadays often struggle to maintain competitive in terms of innovativeness, in order to meet the demands of the ever-changing technology standards of customers. R&D is time and resource consuming which leads those companies towards using scouting-companies' services in order to find innovative start-up companies as potential business partners. This paper aims at shedding light on the process used by scouting companies, especially looking at the automotive and financial industry. A model is established based on existing literature to depict a potential best practice approach and interviews with representatives of three scouting companies are conducted, with the goal of validating the process model, not only in a theoretical sense but also practically. The results show that there is no clear difference between the scouting process in the two chosen sectors, but the interviews acknowledge the significance of the proposed model in future practice of scouting companies.

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Keywords

Start-up scouting, scouting processes, automotive innovation, financial innovation, alliance building, start-up company

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1. INTRODUCTION

As a large established company, it is nowadays challenging to find the right balance between the maintenance of daily business and still being innovative. In order to sustain a competitive position at a market it is not enough to have a well working organizational culture and a proper management. Due to increasing competition a well-established company needs innovations to stay attractive for potential customers. The problem hereby is – the larger a company becomes, the harder it is to create innovations (Das & He, 2006; Holmen & Pedersen, 2003).

In order to maintain a company's innovativeness, a company can follow different approaches to be able to create new innovations. One approach would be, to create and maintain a big *Research & Development Department (R&D)* – an approach that is costly and cannot be created at a moment's notice. It takes time and resources – financial resources, as well as human resources to create a successful and effective *R&D* department (Cronin, 2016; Marion, Dunlap, & Friar, 2012).

However, there is a second approach for large established companies to improve their innovativeness. This approach concerns creating alliances or partnerships between these large established companies and entrepreneurial firms or start-up companies (Das & He, 2006). Strategic alliances between entrepreneurial firms and established firms differ much from alliances between large firms, because the partners differ in terms of bargaining power, learning ability, organizational compatibility, etc. (Das & He, 2006). The largest advantage for large established companies however is, if they decide to partner up with a start-up company, that they gain innovations without losing time and resources due to *R&D* (Das & He, 2006). This is due to the fact that large companies like Apple in the technology business sector are often measured and rated in how innovative they are (Cabiddu, Di Guardo, & Pettinao, 2008). Especially the stockholders and the stock-market are always very critical, if it seems that companies like Apple seem to lack innovativeness (Tidd & Bessant, 2011, p. 5). As an explanation, if one studies e.g. the smartphone sector, it is stated by many established technology and business web magazines like *cnet.com* and *wired.com*, that this product is currently saturated in most established markets (also see e.g. Kim, Wong, Chang, and Park (2016) for an example in the Korean Market). When a company like Apple wants to ensure its superior position in the market, it is unavoidable to create an advantage in innovativeness (Tidd & Bessant, 2011, p. 5).

Entrepreneurial firms however, are often innovative to a greater extent, even if large firms spend a lot of resources on *R&D*, because large firms need to focus heavily on securing their current position in the market. Das and He (2006) state that entrepreneurial companies are adaptive and innovative, and characterize entrepreneurial firms as small, successful and high-growth. Furthermore they argue that very few large, mature firms have sustained product innovation because they are not organized to facilitate innovation, and innovators lack the power to connect occasional innovation with organizational resources, process and strategy (Das & He, 2006; C. Freeman & Soete, 1997; Shefer & Frenkel, 2005). That leads to the result that large established companies are in need of start-up companies, in order to maintain the innovativeness of their companies (Hogenhuis, van den Hende, & Hultink, 2016).

But how do large established companies find possible targets for alliances?

This can be done with the help of *scouting companies* for start-up companies, such as *venturescout.com* or *new venture scout*. These companies act as mediators between large established companies and entrepreneurial firms. *Scouting companies* are more likely known from sports to find upcoming talents for Football clubs or other professional sports.

The *scouting companies* monitor the *start-up* scene and evaluate on behalf of large established companies whether the idea the start-up companies want to establish is interesting for them or not. If it is suitable for the large established company, the *scouting company* acts as a mediator and establishes a connection between the two companies.

The business model of scouting companies for firms therefore is a rather recent approach. Due to this fact, it would be interesting to extend or take general theory of mediator companies and apply it to a specific case, what will be further elaborated in the method section. This could help to elaborate the role of a *scouting company* for start-up companies scientifically. The theory that will be used in this paper is based on the research of Aarikka-Stenroos and Halinen (2007); Holmen and Pedersen (2003); Obstfeld (2005) and will try to further adjust these theories in order to create an explanation of how the scouting companies act a mediators in this context.

This paper attempts to answer, *whether the approach in the scouting process in scouting start-up companies in the automotive sector compared to the financial sector is vastly different from each other or not*, but limits itself on strategic alliances between start-up companies and large established companies. In this paper, the question above will be observed from a *scouting company's* point of view, in order to gain rich insides into the process. Any other party involved (large-established companies or start-up companies) could only give some indication on those parts of the process, in which they are actively involved, whereas the scouting company is involved and has insights into every part of the cooperation process.

This research is focused on the automotive and financial sector, because the scouting companies who are interviewed to confirm the concepts found in theory, are based in Germany and one of the largest industries in Germany is the automotive sector. The automotive industry is naturally seeking for innovation to cope with changing life-styles of people, increasing environmental awareness and new possibilities in technology (Cristina De Stefano, Montes-Sancho, & Busch, 2016). As a comparison sector, the financial industry promised to give different implications, since banking is a service industry and there are no tangible innovations involved.

The outcomes of this research could lead to a further understanding of how important scouting firms for start-up companies are and if it is a used practice, in what extent it is used and how important it is to gain competitive advantage in a specific business.

It could furthermore play a part in creating a theoretical foundation for further research in the topic of *scouting companies*.

2. THEORY

The current literature delivers an adequate body of information on the acquisition of start-up companies by large established companies (Andersson & Xiao, 2016; Hogenhuis et al., 2016). This helps to clarify in how far acquisitions of start-up companies help large established companies achieving a competitive advantage, what benefits and risks both parties have to assess and how the process is undertaken. Andersson and Xiao (2016) say that acquisitions of start-ups imply a technology and knowledge transfer process, but the frequency of such is rather rare. Hogenhuis et al. (2016) remarks that large companies should indeed cooperate with start-ups if they lack innovations, whereas start-ups should partner up with large companies when they have financial and or managerial bottlenecks.

However, there is a research gap in how scouting agencies for start-up companies are defined and how they work. Furthermore, the current research lacks information about in which business sectors scouting of start-up companies is most suitable and if there are differences in the applicability of scouting in certain sectors. To gain a further understanding on how scouting companies work, the research of this paper is needed to scientifically examine if the scouting companies of start-up companies can play a crucial role in the future.

2.1 Scouting Companies for Start-up Companies

Scouting companies for start-up companies function as a mediator between the large established company and the start-up company. This role is sometimes defined as *mediator* and as *tertius iungens* in existing literature. The term *tertius iungens* (the third who joins) is based on the Latin verb “iungo” which means to join, unite, or connect (Obstfeld, 2005). The *tertius iungens* in this case describes the *scouting company* that connects the established company and the start-up company. This closes the knowledge and innovation gap for the established company and for the start-up company the management and funding gap. Additionally, *scouting* helps to develop mechanisms for strategic foresight within a company to react on changes in the future. According to Rohrbeck (2014) *scouting* [networks] supports a company in facilitating their follow-up steps after a newly developed innovation.

2.2 Alliance formation problems

In the beginning of a *negotiation* for a successful alliance between two companies it is often the case that the two companies are not aware of each other and distrust each other at the point when they reach mutual *awareness*. In the case of a start-up company the distrust can result from being intimidated of the large established company and being afraid of them, because they could purely exploit the relationship to “steal” the knowledge they want to acquire. Additionally, they do not have the amount of resources and *experience* that the large company possesses. Alexy, Criscuolo, and Salter (2009) discuss the issue how intellectual property should be protected in business collaborations. They conclude that custom-made agreements for every case should be negotiated, in order to protect the knowledge of the inferior party. The large company could be afraid of exploitation too, because they own a lot of resources, but lack innovation what could lead to a temptation induced by the start-up company to only “steal” the large company’s resources (Aarikka-Stenroos & Halinen, 2007). Holmen and Pedersen (2003) argue, that all [business] relationships need to have secondary functions, that help to adjust the positive and negative effects of [business] relationships. These secondary functions also manage the

relationships towards third parties in a [business] relationship and help to create a successful alliance between two companies. These secondary functions will be addressed later on in this paper.

In addition to this Anderson, Hakansson, and Johanson (1994);

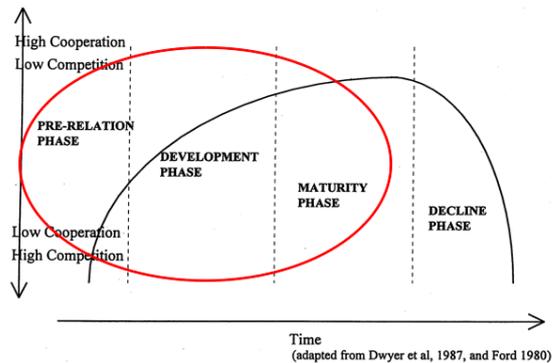


Figure 1. A Relationship Life Cycle Model (Wilkinson & Young, 1994)

Dabholkar, Johnston, and Cathey (1994); Wilkinson and Young (1994); Wilson and Jantrania (1994) argue that companies prefer to deal with known counterparts. This problem increases the barrier of entry for the possible formation of a new business relationship even higher and enhances the efforts the *scouting company* has to put into the process in order to achieve a relationship. Wilkinson and Young (1994) use the model of *figure 1* in their paper, which tries to explain how business relationship life cycles look like.

In *figure 1* especially the first three phases, e.g. the *pre-relation phase*, the *development phase* and the *maturity phase* are of interest for this paper. They are later in *figure 3* addressed as *pre-meeting phase*, *meeting phase* and *finalization phase*. Wilkinson and Young (1994) explain in their paper that for a “successful marriage” of two companies – so in terms of this paper, a successful alliance, must be achieved till the end of the *maturity phase* and works best if the two companies have a high cooperation and a low competition. In order to achieve this, it needs a good management of interfirm relationships, what in the case of this paper leads back to the *scouting company*. Furthermore, it has to be said that the model of *figure 1* is only used as an explanation of the relationship process, but will not be further discussed within this paper.

Another problem that rises in creating a well-functioning business relationship is described by Holmlund (2004) – she states that relationships are dependent on interactions, activities and activity links. But in a relationship, created with the help of *scouting companies*, it is not the case that the *start-up* and the *established company* were looking for each other, rather the *scouting company* found two *matching partners*.

Due to these facts, it is now the role of the *scouting company* to initiate a successful relationship between the two parties to create a good atmosphere for negotiations and helping to create an alliance.

2.3 Phase of relationship initiation

On the basis of the model of Wilkinson and Young (1994), who used three phases for the creation of a business relationship – *pre-relation phase*, *development phase* and *maturity phase*, a model was created that also establishes three different phases for establishing an alliance between two parties. The phases in the newly established model are *pre-meeting phase*, *meeting phase* and *finalization phase*.

Wilkinson and Young (1994) described in their first phase, the *pre-relation phase*, that this would be a phase where both parties are “distant” from each other, compete for benefits and try to take advantage of opportunities. Compared to the model created in *figure 3*, this would be partially different. In the first place, because Wilkinson and Young (1994)’s model is for the forming of business relationships without a third party. Whereas the model created in this paper assumes that during the *pre-meeting phase* only the third party, so the *scouting company* would act – thus look for possible prospects for an alliance.

In the second phase that Wilkinson and Young (1994) describe in their paper – the *development phase*, they show how relationships develop. After the distance between the two parties is overcome, relationships are characterized by increasing commitment and cohesion influenced by the increasing scope and scale of cooperation and absent competition. The second stage of the model in *figure 3*, the *meeting phase*, is also characterized by an increasing commitment and collaboration but furthermore, includes the meeting phase of the two companies. The *scouting company* acts as a “pairing device” for the two parties during this phase, with the overall aim of successful nurturing a negotiation that should lead to an alliance between the two parties.

The third phase of the model in *figure 3* is called the *finalization phase*. Compared to the *maturity phase* of the model of Wilkinson and Young (1994) the *finalization phase* is purely about the finalization of the business relationship, leading towards an alliance of the two parties. Wilkinson and Young (1994) included the *decline phase* in their paper as a last phase. This phase is not further considered in the paper, because the shown process is simply focusing on the initiation of a business relationship. In the paper of Aarikka-Stenroos and Halinen (2007) it is also said that the end of the initiation process is about trust creation. I strongly disagree with this position, mainly because the trust must be present during the whole process. Without an initial and ongoing trust, the uncertainty barrier for the two parties would have been too high.

Over the entire process, the *scouting company* should incrementally decrease its active involvement in the process and should shift from an active role in the process to a rather passive, observing role. Still present if requested or if they can foresee difficulties or pitfalls e.g. legally or disequilibria, but rather less active towards the end.

2.4 Process of relationship initiation

In this section, it will firstly be discussed what the problems are for two companies, when they try to achieve a business

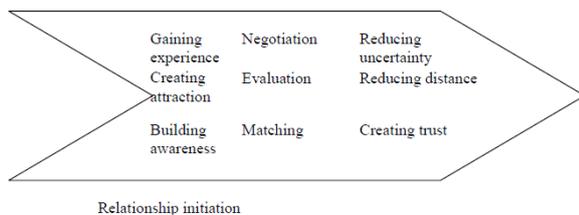


Figure 2. Key processes in the initiation of a business relationship according to relationship development literature (Aarikka-Stenroos & Halinen, 2007)

relationship without the help of a third party – a *scouting company*. The two companies will be referred to as *party 1* and *party 2*. The activities originate from the model of Aarikka-Stenroos and Halinen (2007) – *figure 2*.

Figure 2 shows the key steps for the initiation of a business process. In the beginning the two companies try to *evaluate* each

other. Ford (1980) even separates the beginning into a pre-relationship stage and an early stage, but in the model of Aarikka-Stenroos and Halinen (2007) – *figure 2* – it is not distinguished in that way. Dwyer, Schurr, and Oh (1987) distinguish these phases as *awareness* and *exploration*, what the chosen model of Aarikka-Stenroos and Halinen (2007) suits, since it starts with *gaining experience, creating attraction and building awareness* (*figure 2*).

Within these three stages the two companies without a scouting company would have to overcome certain prejudices, conditioned by experiences with previous relationships that are further influenced by *uncertainties* and *distrust* (Aarikka-Stenroos & Halinen, 2007). Furthermore, in models of professional relationships, Reid and Plank (2004) depict initiation as a transition from *ignorance* to *interest*, and Halinen (2012) emphasises *uncertainty* and the emergence of *attraction* and *initial trust*.

In order to achieve a collaboration and a possible alliance, the companies have to be *aware* of each other’s existence and business. To achieve this, both parties or companies need to collect key factors about each other what is shown in the model of Aarikka-Stenroos and Halinen (2007) – as in *figure 2*. In *figure 2* a third actor or *scouting company* is not yet mentioned; thus, the initiation would have to overcome a high barrier to achieve the points of *gaining experience, creating [mutual] attraction and building awareness*. The role of the third or the *scouting company* hereby would be to build *awareness* of each other. Therefore, the first task would be to collect key factors about the two parties to gain *experience* about the companies and after this the *scouting company* would transfer this knowledge towards the two parties that they could gain *experience* about each other. The *scouting company* would try to provide helpful information for both sides, to create a knowledge base for each of the two parties.

Still in this stage, the *scouting company* would now help to build the *awareness* of what *party 1* could offer, that *party 2* would need and vice versa and would match these needs. This step also would include the creation of mutual *attraction* – if the *attraction* is not given, a continuation of the proceedings is most likely not given. Without the help of a third party in form of a *scouting company*, the initialization of the relationship is easily conceivable to fail.

As a next step – *party 1* has to recognise that they definitely have a benefit if they form an alliance with *party 2* and the other way around. The role of the *scouting company* would be to now nurture the need creation. Within this step, after a successful recognition, the two parties can start the *negotiation* process. Without the *scouting company* in these initial stages, especially in an asymmetric relationship between *start-up* and an established company there are a high number of uncertainties that have to be overcome. Due to crucial information that is missing in the knowledge gaining process, a *scouting company* would be expected to have the largest role throughout the whole process during the initiation process. Based on the model of Aarikka-Stenroos and Halinen (2007), I argue that within the *negotiation*, the *scouting-company* would be expected to ensure that both parties remain satisfied. Apart from the satisfaction, it is crucial for the two parties in this step to stay at the same level. Under no circumstances should one party have a superior role during the *negotiation* process – the *scouting company* would also have to ensure that this does not happen and if it would discover tendencies regarding this concern, it would be the *scouting company*’s task to equalize this disequilibrium again.

The next steps in the process of Aarikka-Stenroos and Halinen (2007) are *negotiation*, *evaluation* and *matching*. The *evaluation* without a *scouting company* is rather complicated. Due to information asymmetry and credence quality both parties have to gather external information about each other, e.g. about earlier cooperations with other companies. Especially for the small company, the *start-up*, it could mean a bottleneck, because all of their human resources are fully occupied. As J. Freeman and Engel (2007) state, “organizations that are good at generating creative solutions are often not good at rapid and precise execution of plans.” Furthermore, *start-ups* often lack management, organizational skills and human resources. For the *evaluation* a *scouting company* could assist for both parties to evaluate the quality of both companies and could take a large amount of workload from already busy employees.

The *matching* process is about the potential fit in between parties and especially finding suitable partners in between the two companies. It is closely linked to the *awareness* phase. Over both phases lies the negotiation about the whole alliance that would best be guided by a neutral third. Without a *scouting company*, it is again harder to achieve an equilibrium within this process, because of the earlier mentioned occupation of human resources.

Any *uncertainties* now should not be of a crucial nature and should further be about the contracting or smaller terms within the possible alliance. In this part, it would be the *scouting company's* role to act as a service provider, to support both parties also in legal manners etc.

If the large established company and the start-up company have faith in each other's intentions and *trust* each other, the most positive outcome would be to form an alliance.

2.5 Tasks of the scouting company

During the *pre-meeting phase*, the *scouting company* is expected to actively *scout*. Regarding the model of *figure 3*, there is no further action possible for *party 1* & *party 2*, because in this step of the process, they are not aware of each other, yet.

During the *meeting phase* it is the role of the *scouting company* to act as an *awareness builder*, *need creator*, *nurturer* and *legal assistant* (Aarikka-Stenroos & Halinen, 2007). These roles facilitate on the side of the two parties the processes of *gaining experience*, *creating attraction*, *building awareness*, *negation*, *evaluation* and *matching*. The processes and roles were already mentioned earlier.

In the *finalization phase* the *scouting company* is expected to just smoothen out the upcoming uncertainties, trust issues and distance issues, but acts rather passive than active, but still helps to finalize the deal between the two companies.

2.6 Tasks of the scouting company related to phases and processes of relationship initiation

The role of the *mediator* or *tertius iungens* therefore initiates the business relationship between two parties and leads to an alliance between the two parties, in the best outcome.

As a further elaboration and for a better understanding of the model used in *figure 3*, I will now elaborate the phases of the *scouting* process and the corresponding tasks.

Based on the models of Aarikka-Stenroos and Halinen (2007), Obstfeld (2005) and Ford (1980) a model was created to explain the optimal *scouting* process (*figure 3*). The model of Aarikka-Stenroos and Halinen (2007) displays the basic roles that the *scouting company* should accomplish and further helps to explain why the forming of a business relationship without this company will be rather hard.

Ford (1980) helps to understand the initial differentiation in the beginning of the process and the theory of Obstfeld (2005) helps to understand the role of the *scouting company*.

The created model therefore distinguishes between three different parties. The first one would be the *scouting company* and the other two are the *party 1* & *party 2*, as they were already referred to in the earlier discussion.

In this process there are three different phases, the *pre-meeting phase*, the *meeting phase* and the *finalization phase*, where the *scouting company* is expected to act with declining participation towards the end of the business relationship. For each phase the *scouting company* is expected to fulfil different tasks as named in chapter 2.5.

2.6.1 Pre-meeting phase

The first phase in this model is the *pre-meeting phase* where the *scouting company* is expected to actively *scout*, i.e. is searching for a specific company predetermined by a profile given by its clients. It is also later useful during the *negotiation* and *evaluation* stage – like Warsta, Lappi, and Seppänen (2001) describe in their article, because it is useful when it comes to screening a company for potential partnerships.

2.6.2 Meeting phase

In the second phase the *meeting phase*, the *scouting company* is expected to show both parties, why they need each other and creates *awareness* of each other. At this stage, it acts as a *tertius iungens* – so the third party that acts as a pairing “device”, with the overall aim of successfully nurturing a *negotiation* that should lead to a relationship between the two parties in the end. The *awareness* is built with the reputation of both companies, reference projects and other supporting work, that helps to identify the strength of both companies. The *scouting company's* task hereby is to present these references to each other in order to initiate.

Furthermore, does this model not distinguish between the phases of *creating experience*, *creating attraction* and *building awareness* as one big step and *negotiation*, *evaluation* and *matching* as another big step, like it is done in *figure 2* – the model used by Aarikka-Stenroos and Halinen (2007). In the model in *figure 3* it is all recognized in the *meeting phase*, because most of these steps are closely linked to each other, so that it is rather advisable to combine these steps within the *meeting phase*.

In this process *party 1* and *party 2* should see for themselves if they could match with their needs. Overall the *scouting company* is expected to help in creating a balance of power, to avoid an unbalanced *negotiation*. Furthermore, it would be desirable that the *scouting company* would be able to legally assist both parties. Especially the *start-up* is not equipped with a legal department or specialists within this profession, what would make it desirably for contracting decisions that the *scouting company* would be able to validate the contract.

2.6.3 Finalization phase

The last phase in the model above is about the finalization of a business relationship. The two parties are expected to *trust* each other in that extent, that a successful relationship should be achievable by now. The *scouting company* could assist here in form of a trust builder, but it should be said that the trust should have been created over the whole process. In this point the model of *figure 3* enhances the idea of Aarikka-Stenroos and Halinen

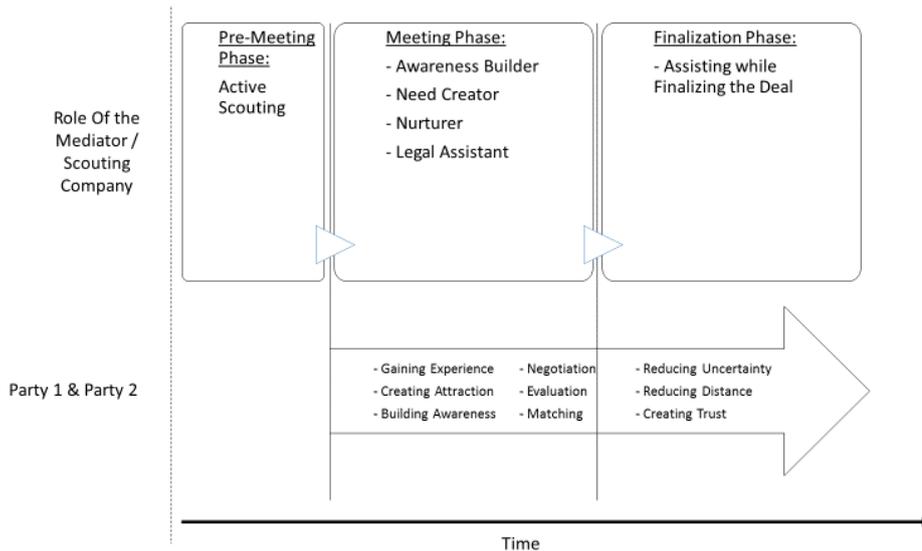


Figure 3. Advanced model with key processes of a scouting process for creating a business relationship

(2007) that the focus of trust creation should only be at the very end of the process. Rather than that, mutual trust should have been created and achieved over the whole process and only the determining amount of “finalizing” trust, that helps to finalize the alliance should be provided in the *finalization phase*.

Over the entire process, the *scouting company* should incrementally decrease its active involvement in the process and should shift from an active role in the process to a rather passive, observing role. Still present if requested or if they can foresee difficulties or pitfalls e.g. legally or disequilibria, but rather less active towards the end.

Within the model in *figure 3* there are three phases where the *scouting company* has to perform certain activities to facilitate the *scouting process* and lead it to a positive outcome. The three stages were mentioned earlier in the *phases chapter 2.3*. The selection of these activities are based on roles for third actors in the initiation of [potential] relationships in the paper of Aarikka-Stenroos and Halinen (2007).

This chapter helps to understand the connection between *figure 2 (Processes during the initiation of a business relationship)* and *figure 3*.

So for the general understanding, the roles that were used in the model of *figure 3* are on the basis of Aarikka-Stenroos and Halinen (2007, pp. 11-16). I used it for the model in *figure 3*, because I try to evaluate whether the *scouting process* works according to this or not. Furthermore, the selection of these roles is the most appropriate way of how a *scouting company* could help to facilitate this whole process as will be further discussed in the methodology section.

2.7 Outcome that the paper tries to evaluate

Due to limitations of time and scope, this paper now tries to evaluate, *whether the approach in the scouting process in scouting start-up companies in the automotive sector compared to the financial sector is vastly different from each other or not.*

Due to very different business processes in these business sectors it is interesting to see, if the *scouting processes* in these business sectors differ and if yes, how they differ.

3. METHODOLOGY

Since the published research is very limited, a new model was created to combine different concepts and develop a more

complete idea of the *scouting process*. In order to confirm the correctness and completeness of this model, three interviews with scouts will be conducted. The interviews should also shed light on the differences of *scouting processes* within the automotive and financial sector.

The interview structure will be a semi-structured interview with a *scouting company*, which should deliver the information which is needed to find proof for the questions that were raised earlier in this paper. Furthermore, it will be used to falsify or approve the model that was created with the help of the papers of Aarikka-Stenroos and Halinen (2007), Obstfeld (2005) and Ford (1980). The interviewees information composes the central statement of the thesis.

3.1 Participants

A total number of three participants from three different *scouting companies* were selected using convenience sampling. Due to the growing interest in *scouting companies* and the resulting high demand for interview sessions with students, many companies decided to decline any requests, because of a lack of resources. Nine *scouting companies* were contacted initially via contact forms on the company website, e-mail and telephone. Three German *scouting companies* agreed to an interview. The criteria the participants had to meet were as follows. First, the participants had to be employees of a *scouting company* for *start-up companies*. Second, they could have any position within the company, but had to have an involvement in the *scouting process*, to understand how it works. The participants did not receive any form of reward.

The interviewees were 2 females and one male employee of the *scouting companies*, all in between 30 and 45 years old. One interviewee was one of the founders of the company and the other two were both working in the middle management of the respective companies. It is a rather recent business field and due to that reason the experience of all interview partners in this specific field was < 8 years. Additionally, the fluctuation in this business sector is high, that is why the lowest job experience of the second interview partner was only around 3 years.

The German *scouting companies* were especially appropriate, because they have many automotive as well as banking sector clients and convinced due to their international experience and proximity to the Netherlands, where this study was conducted. Two of the companies have subsidiaries in other European

countries and one is only located in Germany. The sizes of the companies are all in between 10 and 50 employees.

3.2 Semi-structured interviews

A qualitative design for semi-structured interviews was most suitable for this research, regarding the fact that the number of participants for this study is relatively low. The interviews were conducted via Skype, in English language to avoid biases in validity due to translation. All interviews were conducted on the same day, with a one hour break in between every interview. The researcher used the facilities of the University of Twente to ensure a professional and anonymous surrounding, while conducting the Skype interviews. The interviews lasted between 20 and 40 minutes and were recorded in consent of the participant. All three companies asked for anonymity in the interview script and analysis to avoid getting an overload of requests from university students for future studies. Furthermore, did the researcher inform the interviewees that they could stop the interviews at any time and they were able to indicate that, if needed, certain parts of the interview should be considered as confidential. As a first step, the interviewer asked the participants how often the interviewee's company gets requests for *scouting*. After that, the participants were asked from which sectors they receive the most requests. As a third step the interviewees were asked how often they receive requests from the automotive or financial sector, respectively. Next the participants were asked for their opinion on the suitability of *scouting* in different industries, followed by a request of a short description of the initiation process for an alliance between two companies in the automotive and financial sector. In the following the participants were introduced to the model that was developed in this study and asked whether it is a fitting representation of the *scouting* process. Afterwards it was asked if interviewees could provide information on the success rate of business relationships [alliances]. The last question concerned how the participant's company tries to follow up with the customer companies. Finally, the participants were thanked for their cooperation and informed that they would get a copy of the final result.

3.3 Data analysis

The interviews were written out with the website transcribe, manually coded and analysed. An appropriate coding system is crucial in order to classify or categorize individual pieces of data (Babbie, 2013). At first the transcription was searched and highlighted for qualitative output that fitted within the topic of the research question, the general topic of *scouting a start-up* company and the interview questions. Access data that did not concern the former named requirements, was not further considered. During the second round of coding the data was listed according to the answers to the interview questions in a table (see Appendix A) through which similar comments, diversity or lack of comments became visible. The table consists of five columns, the first column contains the interview questions, the second to fourth columns contain the different answers of the interviewees and the fifth holds the common outcome of the three answers. The overview resulted in the formulation of one combined outcome of the three interviewees, per question, in the fifth column of the table. The combined outcomes allowed a clear comparison with the initial assumption and the drawing of conclusions for this research paper's proposed model.

4. RESULTS

In this section, the combined outcomes of the interview questions of the previous section will be explained. The interviews with three participants from three different *scouting companies* resulted in the following. The considered companies mostly

receive one to five contact requests per month. The industry with the most requests the companies receives could not be pointed out by either one of the interviewees, because the requests are evenly spread out throughout industries. However, two of the participants put special emphasis on the financial sector, because they have had many clients from this sector before. When asked specifically about frequency of requests in the automotive and financial sector, all participants answered that both sectors show a high number of requests indicating a high demand for *scouting* efforts. There was also consent about the question, whether *scouting* is more, or less suitable in certain industries. All interview partners believed that the demand for *scouting* does not differ in diverse industries. It was explained by all participants that there are no severe differences within the automotive and financial sector, due to standardized processes and the fact that in both sectors innovations are mostly sought for solutions within the business-to-business scope. It was remarked, though, that the automotive sector has an even higher amount of business-to-business scope required innovations than the financial sector. For the initiation process for an alliance or the creation of a business relationship between two companies in the financial and the automotive sector four different approaches were described as follows:

1. The corporate receives a list with possible start-ups and selects the most suitable themselves.
2. The *scouting* company stays with the client in the Meeting phase for the selection and evaluation of the possible start-ups.
3. The *scouting* company guides both parties through the whole process. This is a rather new approach and is still to be tested.
4. One company also introduces a completely different practice by using a bottom-up approach, supporting and funding start-up companies to be able to make them the perfect fit for corporate clients.

After being presented with the model developed in this study, the participants who used the first three approaches saw many parallels between the model and their practices. Especially the third approach presented above followed the model very closely. Nine initiation processes were introduced in the model *figure 3* which summarize the key processes in the initiation of a business relationship. *Table 2* in *appendix B* gives detailed information about which processes are used in which approaches and by which companies. The three different interviewees all revealed that they follow a similar scheme for approaches 1,2 and 3. In the first approach out of the nine initiation processes none are usually used, as expected because the first approach only includes the *pre-meeting phase*. In the second approach five out of the nine processes are usually included and only two tasks of the *scouting company*. In the third approach eight out of the nine processes were included, the only point that is usually not addressed is the mutual creation of *trust*. Since both companies have the urge to work together and are dependent on the outcomes it is in the interest of both parties to trust each other and trust does not have to be established. Solely in the fourth approach *nurturing* and partially *legal assistance* out of the tasks of the *scouting company* and eight of the nine initiation processes are used. This approach though is only tested by one company, yet. A complete overview can be found in *appendix B*.

All companies did not have a specialized legal department and therefore did not agree on the task of "Legal Assistance" introduced in the model. They answered that usually all legal questions are handled by the legal department of the large established company. Some companies saw their responsibility more than others in facilitating an equilibrium between the two parties.

The success rate of their *scouting* efforts was said to be very hard

to predict, because alliances are long-term processes and *scouting* is a relatively young field of business. All company representatives mentioned that the follow-up with client companies happens naturally, because corporates usually use *scouting* in many different projects within the daily business and therefore establish a relationship with one another.

5. DISCUSSION

In the following section, firstly the main findings will be presented, followed by the theoretical and managerial contributions. Furthermore, the limitations and the implications for future research will be discussed and finally an overall conclusion is provided.

5.1 Main Findings

This study aimed at examining the process which is used by *scouting companies* to help building alliances between large established companies and start-up companies, comparing the processes used in the automotive sector and the financial sector. Previous research provided the foundation of this study and enabled the development of an advanced model for *scouting* processes (figure 3). The main frameworks used to build the model were the “Relationship Life Cycle Model” by Wilkinson and Young (1994) and the “Key processes in the initiation of a business relationship according to relationship development literature” by Aarikka-Stenroos and Halinen (2007). The model by Wilkinson and Young (1994) divides the relationships of businesses into four phases, namely pre-relation phase, development phase, maturity phase and decline phase. As depicted in figure 2, in this paper the decline phase was not further considered. The three remaining phases were used as a basis for dividing the different tasks of *scouting companies* in the later developed model. The model by Aarikka-Stenroos and Halinen (2007) helped to understand the key processes in relationship initiation and laid the foundation for the processes described in the second part of the developed model (figure 3).

The main finding from the conducted interviews was that in many aspects the three considered *scouting companies* did not differ, but four different approaches for *scouting* processes were mentioned. Throughout all mentioned processes, participants did not agree with the proposed model that “Legal Assistance” is part of the *scouting company's* tasks. When looking at the new proposed model, the first approach only reaches the Pre-Meeting Phase, by only providing a list of

possible start-up partners to a corporate. In the second approach the *scouts* go through the process including the Meeting Phase, where they assist in evaluating and selecting potential partners. The third approach can be directly linked to the proposed model of this study, following the whole process. The interviewee mentioned, though, that this approach is still in its infancy and will be further tested. This indicates that in the near future the proposed process model could function as a guideline for other *scouting companies* to adapt a more complete approach in following their clients through the whole alliance process, if the approach pays off in practice. All of the three approaches were said to also exclude the task of a “Nurturer”, whereas it is the underlying concept of the fourth approach. The fourth approach, that was introduced by one interviewee includes the support and funding of start-up companies in order to create a perfect fit for future corporate clients. Therefore, this last approach can be seen as bottom-up approach and might give implications for future research. All aspects discussed above lead to an adjusted version of the *advanced model with key processes of a scouting process for creating a business relationship* resulting in figure 4., where all tasks and processes which were not relevant in practice (in the eyes of the interviewees) have been removed.

The interviewees were very much in line with their claim that there are no large differences between the automotive and financial sector. This is due to the reason that both sectors mainly use *scouting services* for business-to-business innovations, which are not necessarily directly linked to the end product. Differences are therefore only small, due to standardized processes. It was mentioned that the automotive industry delivers slightly more opportunities for business-to-business innovation research and therefore differs slightly in their demands.

5.2 Theoretical contribution

This research builds a small foundation for future research in the topic of *scouting for start-up companies*. As mentioned earlier there is not much scientific literature on the quite young concept of *scouting companies* and especially on their used process approaches. As it was to be experienced during the conduction of this study, many *scouting companies* do not have the resources to fulfil the information need of researchers who are interested in studying the subject. This study could therefore be very useful. Furthermore, in this study two specific industries were considered, which in the end revealed that in these specific cases, and probably even in most cases, industry does not matter in the *scouting* process. This finding makes it void for researches to

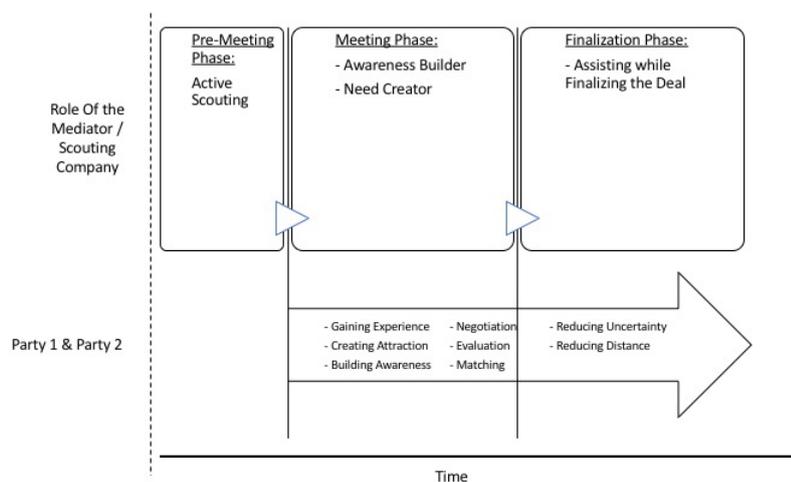


Figure 4. Adjusted advanced model with key processes of a scouting process for creating a business relationship

concentrate on specific industries, after the outcomes of this study have been replicated by another study in a third and fourth industry.

5.3 Managerial implications

This study delivers several managerial implications. Firstly, the outcomes can be used as a guideline for *scouting companies* who are not following their clients through the whole alliance process, yet. As it was observed in the interviews the proposed model depicts the future efforts of one of the companies very precisely and might be used as a best practice example in the future, if the efforts of the companies actually pay off.

The results of this research could also be helpful for young entrepreneurs, e.g. students from the University of Twente, that established a *start-up company* during their studies and try to find an appropriate business partner for their company. It could support their knowledge about *scouting* company efforts and possibilities and help to establish a path for their vision.

Furthermore, could it help established companies to find the correct approach to form an alliance with *start-up companies* with the help of *scouting companies*. Since the efforts and expenditures for an alliance, with the help of a *scouting company* are limited and monitored, this research could help to increase the attractiveness for future developments in this direction.

5.4 Limitations

This research is subject to an amount of different limitation factors. A first limitation was the limited body of literature about the topic of *start-up scouting*. The theory had to be transferred from different fields of research to fit the chosen topic of *start-up scouting*.

Secondly, this research is limited by the scope and time available for this Project. Due to the fact that this is a Bachelor Thesis, time and scope for this research are limited by the University to preferably a quarter of a year and ten pages in the final formatting.

A third limitation is the number of interviews, since it is limited to three interviews with three interviewees. A higher number of interviews could have resulted in a wider variety of answers and new implications.

Furthermore, Babbie (2013) mentions that some limitations always occur in qualitative data analysis, as the interviews conducted in this study, containing two ethical issues. Since the data is directly dependent on subjective judgement, researchers have to be careful that they do not analyse the results according to what they want to see. The second issue Babbie (2013) mentions is working with human beings as subjects in a study is always of ethical concern and to protect the subjects' privacy, all scripts and analysis were done anonymously. This means for this study that after all data was collected and analysed, no further questions can be asked to the participants.

5.5 Future research

Future research for this topic could further aim on the deeper understanding of the *scouting* process or focus on one specific field of business. Additionally, researchers could try to establish a connection between alliances and forecasting for large established companies.

Furthermore, future research could be linked to a certain field of study such as purchasing and try to find out whether *scouting for start-up companies* can support future purchasing decisions of companies.

In the previous section of this paper it was mentioned, that a different process approach was revealed during the conduction of the interviews (Approach 4), which could deliver implications for future research on this bottom-up approach.

6. CONCLUSION

This study tried to evaluate whether the approach in the *scouting* process in *scouting* start-up companies in the automotive sector compared to the financial sector is vastly different from each other or not. The research shows that the business sector does not make a difference in the choice of process approaches used by *scouting companies*. This can be explained by the purpose of *scouting* efforts for large established companies. Corporates mainly use *scouting companies* to find partners for business-to-business innovations within their company, and these processes are mainly standardized. Therefore, it does not make a difference which product is produced by the corporate in the end or whether the corporate is a service sector corporation. Different *scouting companies* use (partly) differing approaches, though, still experimenting and searching for a best practice approach. This study could have delivered this approach, if it proves to be successful in practice.

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9. APPENDIX

A.

Table 1. Separate and combined outcomes of the interview

Question	Interviewee 1	Interviewee 2	Interviewee 3	Outcome
How often does your company get requests from large established companies?	<p>Different scouting approaches</p> <p>Mostly corporates contact us</p> <p>We also have Accelerate Programs, start-up boot camps</p> <p>About two requests per month</p>	<p>Focus on scouting and initiation and follow-up</p> <p>Close to all are corporates contacting us</p> <p>Are involved in some spin out scouting</p> <p>In between one and two requests per month</p>	<p>Try to do it equally but get more often contacted by corporates</p> <p>Financing young start-ups</p> <p>Early phase financing of around two from our company self, but try to find co investors and get around 4 requests per month</p>	<p>Contacts vary between 1 and 5 contacts per month.</p>
From which sectors, do you get the most requests?	<p>Evenly spread throughout all of the sectors</p> <p>Often it is the financial sector, but recently we started with the shipping and maritime sector</p>	<p>There is no sector significantly stronger than other sectors</p>	<p>We have strong requests from the financial sector</p>	<p>Evenly spread throughout the different sectors, however, two interviewees mention especially the financial sector</p>
How often do you get requests from the financial and the automotive sector?	<p>Both sectors are within the first sectors that demanded for innovation</p>	<p>Quite often since the demand especially in the financial sector is quite high due to emerging bitcoin market etc.</p>	<p>Both sectors have a high demand for young ventures and star-up companies</p> <p>The automotive market is changing quite rapidly these days and so is the financial market</p>	<p>Both sectors, the financial and automotive sector, show a number of requests indicating a high demand for scouting.</p>
Do you think that there are some industries where scouting is more suitable than in others?	<p>I think it's hard to say that there is an industry where is scouting is not suitable, because everybody should be in the look up what start-up companies are small companies do</p> <p>I believe that scouting is</p>	<p>No, you can definitely use it for every industry</p>	<p>No, because scouting in general is a good tool to have an understanding what competitors want and look for and what emerging technologies are in the pipeline</p>	<p>Consent that it is usable for every industry. Interviewees do not differ between different industries in the demand for scouting.</p>

	suitable for every industry			
What do you think is the main difference between the automotive sector and the financial sector?	<p>The process is more or less standardized</p> <p>Automotive tends to more look for start-ups from universities, spin offs etc.</p>	The difference lies mostly in the safety concerns that a start-up company in the automotive branch has to fulfil	In the financial sector, you have a mix about 75/25 about B2B and Consumer, whereas the automotive is more or less all B2B	Mostly the same, due to standardized processes and always more B2B, but car sector has a higher amount of B2B
Could you shortly describe the initiation process for an alliance or the creation of a business relationship between the two companies in the financial and the automotive sector?	<p>Generals three approaches, first, corporates want to have a list with possible companies and only demand the list and figure out for themselves</p> <p>Second approach, corporates demand a list and want us to evaluate start-ups in pitch meetings at their company</p> <p>Or we guide the two companies through the whole process</p>	It is either us sending to the corporates possible prospects from our databases or we do guidance over the whole process	<p>With the help of boot camps and incubators we gather information about start-ups and use our database to have information for our corporate clients when they demand help. Either than we create a list about these companies and help them to initiate a relationship or we only deliver data to the client.</p> <p>Furthermore, since we also do financing of start-ups our approach is slightly different than from standard scouting, because we also work the other way around so start with the startup</p>	<p>So, four different approaches.</p> <p>First, corporates get a list with possible startups and select self.</p> <p>Second, scouting company stays for the selection for pitch meetings.</p> <p>Third, scouting company guides through the whole process (like in my model), but this is a rather recent approach and is still to be tested</p> <p>One company also finances early stage start-ups and works the other way around.</p>
Do you think the model I presented to you is close to the real scouting process?	Yes, but only for the recent approaches. Also, we do not help with legal questions nor do we look that there exists an equilibrium throughout the whole process. The two sides are far too professional to sip each other off like you asked.	More or less. Since corporates have often a large legal department, we do not help in legal questions, because we are far from being professionals in this sector. However, is it our full interest to keep a balance in between our two clients, since we also profit from that.	We see, that there is a trend towards less acquisition and more partnerships or in your words alliances. In general, we try only to stay till your meeting phase in the process, but there is an increasing request for a longer stay.	<p>The scouting companies I contacted do not have any professional in the legal departments, since normally all corporates/large established companies do have large legal departments.</p> <p>Furthermore, see some companies their responsibility more than others in</p>

		<p>Additionally, is it not the original scouting process and it needs to be tested whether it is successful to be involved in a process over such a long amount of time.</p>		<p>facilitating an equilibrium between the two parties.</p> <p>Since the parties are both professionals, they do not try to “steal” each other’s funds or innovations.</p>
<p>Do you have any information how high the success rate is?</p>	<p>It is really hard to say; how do you say it is a success?</p> <p>Additionally, is it a long-term process, so we have to stay in contact and see if companies stay together over a longer time.</p>	<p>For us it is already successful if two companies decide to work together.</p> <p>We do not know in the beginning how long corporates and start-ups will work together, but stay in contact to monitor it over time.</p>	<p>We helped some start-ups to be successful over the last 3 years, but due to the fact that our field of business is rather new, it is not sure whether they will stay in business over the next 5 to 10 years.</p>	<p>Hard to predict, because long-term processes and young field of business.</p>
<p>How are you trying to follow up with the companies?</p>	<p>We have a network of corporates and are in close contact with them, since the scouting process is for us mostly the beginning of a business relationship with us.</p>	<p>The initiation of a business relationship with scouting is mostly not longer than 3 month. Since the corporates, we work with are often not only one time clients but more or less regular clients, we can monitor whether the alliance we launched recently lasts or not. Still it is a long-term process.</p>	<p>We follow up with it during our day to day business.</p>	<p>Due to initiation of a business relationship the companies are during their day to day business in close contact to their clients and stay naturally in contact with them.</p>

B.

Table 2. Outcomes of the interview in comparison with improved model

		Company 1				Company 2				Company 3			
Approach		1	2	3	4	1	2	3	4	1	2	3	4
	Pre-meeting phase	Y	Y	Y		Y	Y	Y		Y	Y	Y	Y
	<i>Scouting</i>	Y	Y	Y		Y	Y	Y		Y	Y	Y	
	Meeting phase		Y	Y			Y	Y			Y	Y	Y
	<i>Awareness building</i>		Y	Y			Y	Y			Y	Y	Y
	<i>Need creator</i>		Y	Y			Y	Y			Y	Y	Y
	<i>Nurturer</i>			N				N				N	Y
	<i>Legal assistant</i>		N	N			N	N			N	N	Y/N
Process	Gaining experience		Y	Y			Y	Y			Y	Y	Y
	Creating attraction		Y	Y			Y	Y			Y	Y	Y
	Awareness		Y	Y			Y	Y			Y	Y	Y
	Negotiation			Y				Y				Y	Y
	Evaluation		Y	Y			Y	Y			Y	Y	Y
	Matching		Y	Y			Y	Y			Y	Y	Y
	Finalization phase			Y				Y				Y	Y
	<i>Assistance</i>			Y				Y				Y	Y
Process	Reducing uncertainty			Y				Y				Y	Y
	Reducing distance			Y				Y				Y	Y
	Creating trust												

Y = Yes; N = No; Y/N = Partially; Empty = not observed