

**BEYOND NETWORKING: A CASE STUDY OF RIGOROUS
COOPERATION AMONG SMEs**

Paper

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Abstract

This paper examines how a group of small and medium-sized enterprises (SMEs) can work together to form a network designed to meet the demands and challenges from large domestic and international customers. The case study is longitudinal and describes an actual network established in northern Sweden in the mid-90s. It follows a complete development and structuring of a network that provided a base for commercial activities. Analysis shows that the process to develop networks among small firms seems to rely to different role models at different development stages. Archetypes of the different process drivers were found and labeled “vision catcher”, “mediator”, and “constructor”. Corresponding network phases were also found and defined as stages of “discovery”, “design”, and “development”. With the guidance of the case study combined with theoretical considerations a number of propositions were formulated.

Key words: Networking, network development, SMEs, entrepreneurship, competence development, strategic competitive advantage, trust building.

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Introduction

The main objective of this paper is to examine how a group of small and medium-sized enterprises (SMEs) work together to form a network designed to meet the demands and challenges from large domestic and international customers. This paper is based on a longitudinal case study of such a network established in the mid-90s in Sweden. The case study describes the formation of such a network and highlights key activities that are important for the subsequent operations and development of the network. The research approach has much in common with what is known as action research (Lundin and Wirdeius 1990) where the authors have had a longitudinal and close relation with the networking companies. The paper starts with a literature review followed by the case presentation. The subsequent analysis employs an inductive approach where empirical findings guide the discussion and matching theories.

Entrepreneurship and small firms have been in focus of the debate for a long time and there exists a widespread opinion that small firms represent the propelling force for economic development and growth (Bolton 1971, Storey 1994). Schumpeter (1934) also found that innovations and development are closely linked to entrepreneurship and small businesses are often drivers for necessary renewal and dynamic development in the economy. Kirzner (1973) also argues that there always exist almost unlimited number of business opportunities but their exploitation depends on entrepreneurial activities and business alertness. Now and in the future, SME will be the platform for the entrepreneur on which business opportunities will be developed into commercial products (Boter and Holmquist 1996, Ardichvili et.al. 2003).

At the same time it must be considered that SMEs have a weak resource base in general which become explicit in functional areas such as financing, accounting, marketing and management (Hisrich 1994). Many SMEs find it difficult to raise enough internal capital

and must rely on external financial sources. The same situation with insufficient resources is prevalent when a growing small company develops professional marketing and management routines (Coviello et.al. 2000). Despite these obvious imperfections all existing SMEs are like bumblebees, they exist and they can fly. Some SMEs rest on a unique business concept often connected to a specific niche and this help them to overcome the effects from insufficient resources. This is also the role model for the classical success story of entrepreneurship where one entrepreneur has started a business that within the control of the same family/group and over time developed to a large and prosperous company. Companies with this success development are MicroSoft and IKEA.

However, the above is not necessarily the only way SMEs developed. Instead the absolute majority of them are dependent on and related to other companies for their survival and development (Tesar 1988). One type of strategy is to develop an organization that can adapt to changing external demands. Autonomous decisions for strategic actions for product development and marketing is replaced by tight links in value chains and adjustment to superior ordering companies. Over the past ten years, the role of smaller subcontractors has undergone major changes. To a large extent, the value of produced goods and services from the subcontractors has increased considerably. The subcontractors have become increasingly more involved in activities strategically important to their customers. The purchasing company, mostly large firms, have encouraged, and in some cases, even forced their subcontractors to be closely involved in their R&D production design activities. Today we can observe industrial systems where large firms that purchase goods and services are surrounded by clusters of many small and medium-sized subcontractors. In these arrangements, the “core company” requires more and more integrated and systematic deliveries and few smaller firms can meet these requirements in the long run (Becattini 2001).

Literature review

The core concepts of entrepreneurship is often linked to individual aspects of one person or a small group of persons and that psychological characteristics and needs are the driving forces for actions and achievements (Bygrave and Hofer 1991). Fifteen years ago research on networks also linked to SMEs and entrepreneurship and underlined the importance of networking in business and that many small firms are “embedded” in professional as well as social environments and that these aspects closely are connected to the entrepreneurial process (Granovetter 1985, Sarasvathy 1999).

This paper examines two related concepts - entrepreneurship and networking. Numerous research results indicate that these two phenomenons are naturally linked to each other and are of significant importance when studying the development processes among SMEs (Johannisson and Mönsted 1997). One approach is to regard networking as an organizational design to strengthen entrepreneurial processes while another is to propose that entrepreneurial processes are of central importance when studying the development of networks (Starr and Macmillan 1990, Hoang and Antoncic 2003). A parallel discussion concerning entrepreneurship, development and change as an individual concept versus interdependencies and development processes among population of organizations can also be found in literature (Mezias and Kuperman 2001).

The advantages with networking have been high-lighted in research and for SMEs with limited resources such results could be to gain market and business information, use the group of co-operating partners for active problem solving, etc., and all this would not, for economic and practical reasons, be possible without the partners in the network (Boter, et.al. 1999). Active types of networks can in this respect have multidimensional purposes for the single partner companies where the advantages from participating comes from social, business risk taking, learning new professional fields, and the conclusion could be expressed

like multiplexity in networks to underline the manifold in structure and content of networking (Johannisson et.al. 1994).

The way a network is organized is also actively discussed in research. Bilateral or dyadic types represent the simple type of cooperation between two partners while an increasing number of participants naturally implicate more complexity in multilateral network relationships (Varamäki and Vesalainen 2003). Some classical studies have focused on the tightness in the collaboration between companies often expressed in strong and weak ties (Granovetter 1985, Aldrich and Zimmer 1986). Strong ties support trust between the participants and are also prerequisite for extensive network development but on the other hand these strong ties can function as rigid structure and inertia that could prevent the inflow of new information, new business opportunities, etc. (Uzzi 1997, Chell and Baines 2000). Weak ties are said to be important for all entrepreneurial activities as they enable the co-operative partners to be open for external influences (Birley et.al. 1991). Strong and weak ties should not be seen as mutually exclusive, instead is it of importance that an entrepreneur and the network put efforts in creating both types in order to “increase their access to information and resources, multiplying by many times over what is available through their direct ties” (Dubini and Aldrich 1991:309).

A parallel discussion could be made concerning the size of companies and the size of networks. A large number of co-operating partners increase the direct links between the main actors in a network which normally put demands on higher degree of formalization, e.g. more formal type of organization, flow of information, and decision making (Bohman and Lindfors 1998). The contracts to co-operate can be formally or informally oriented but irrespective of this there must also exist more social related ties often summarized in the word trust. The trust dimension is regarded as a key factor for adding more quality into the relationship with direct

positive effects for the resource flow, exchange of information and the exploitation of common business opportunities (Thorelli 1986, Lorenzoni and Lipparini 1999).

The actors in the network, and the actors within the separate network companies, have to take different roles depending on the characteristics and the faces of the inter-firm cooperation. The network transforms into more stable structures and research results indicate that such a formalized group also must develop an awareness of the importance to have an overall strategy to guide future resource co-ordination and network actions (Astley and Fombrum 1983, Varamäki and Vesalainen 2003).

The Case of SSMG

A case methodology can imply different approaches varying from snapshot type of interviews to longitudinal and close in-depth studies (Yin 1989). The research for this case started 2000 and is still on going, the data is collected via a wide range of methods, and the researchers is closely involved in the development activities. The methodological process can be summarized by high degree of mutual commitment, full access to empirical data, high presence, and action oriented research strategy. This fulfils many of the characteristics connected what is know as comprehensive case study (Yin 1989, Håkansson et.al 1999).

System Supply Marketing Group Limited Company (SSMG AB) is group of six smaller manufacturing subcontractors located in the northern part of Sweden, was established in 1995. Its purpose was to strengthen the supply competence within the group. Total annual turnover of the participating companies was around 200 MSEK and total employment of about 200 persons. The formation of SSMG was in response to several apparent external threats such as decreasing demand in the local market and a long-term pessimistic outlook for the leading regional companies operating in the forest, defense, and transport industries.

The original idea to go together and cooperate was formulated within a small group of owner-managers in 2 to 3 of the final member companies in the SSMG AB group. These

persons had relatively long experience from entrepreneurship and SME management and some of them also had experience from merging three small companies into one medium-sized company. Further, they also knew each other well and had both professional and social relations. During this first stage in network building they expressed a number of reasons to co-operate in a more organized way and following strategy was stated: (1) to be competitive in the region, and (2) to move from the local to the national market, and (3) to meet a growing demand of more complete system products.

From 1995 to 1998 a number of investments were made in order to establish an operational basic structure for the co-operative ambitions. The SSMG AB was formally registered which also resulted in hiring a CEO and appointing a board. The CEO was an experience manager from the public forest company in the region and his primary task was to be active in sales and marketing operations. The board members were exclusively owner-managers from the network companies and together with the CEO this group met regularly and the concept of SSMG was established internally as well as externally in the region. Despite the explicit stated ambitions SSMG marketing activities between 1996 and 2000 were relatively passive and only a few contracts for orders were negotiated.

SSMG's board evaluated the results at that time and the Chairman of the Board came to the conclusion that *"we have to decide either to 'invest' in this cooperation or not."* The decision of the Board was to intensify and develop the cooperation. With assistance from a university business school in the region, SSMG began to negotiate for cooperation to obtain support needed to strengthen their group. A competence development program was designed and developed with a number of prerequisites¹. The program had to be demand driven and

¹ With support from the Swedish Knowledge Foundation (KK-stiftelsen) a national program for strategic business development in SME (krAft) was initiated by four-partner universities/business school. The one year programs are demand-driven, network based, and the participating companies are paying a fee. The krAft-program runs from 2000 to 2006 with a total budget on 60 MSEK.

extended over one year and it had to be built on expert knowledge and networking, with the main purpose of building a sustainable business competence.

A short but intensive period of discussions between SSMG and the business school resulted in a contract to immediately start the one-year competence program. The content of the program was very much influenced by the methodology of action research. No specific objective was defined except that the overall ambition of the program was to strengthen SSMG as a successful business group. At the beginning of the implementation of the program, several strictly defined rules were introduced such as two-days meeting each month, high discipline within the group, at least two key individuals from each company had to be present at each meeting, projects had to be linked to the theme of the program, and front line research had to be mixed with external knowledge and expertise. The participants were all representatives from the group of owner-manager in the networking companies and completed with persons from key functional areas.

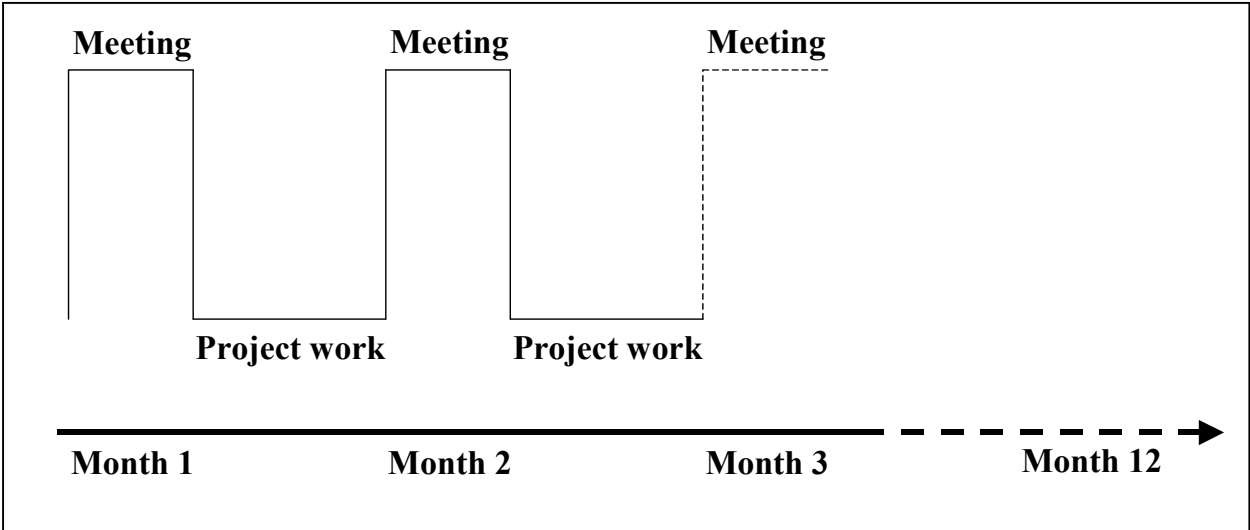


Figure 1.: A Process-Based Competence Program

As illustrated in Figure 1 above the process consisted of two main activities, two-day meetings and project work. During a meeting the project mission was defined by the group and linked to specific problem fields within the SSMG task environment. Between meetings

the participants were supposed to, in small groups, work with and propose suitable solutions of the stated problems and present these at next meeting. The program implementation became very much focused on how to eliminate obstacles, weaknesses, and barriers in the task environment and also on how to eliminate corresponding barriers in the minds of the participants. With the input of expert knowledge, old routines and processes were challenged and through the group processes new solutions emerged. When the group participants had built enough trust and confidence in each other, the group started to define role models for individual group members and individual members began accepting theoretical and practical inputs that helped them develop explicit business knowledge and an increased awareness of an incremental type of process for problem-solving.

During the year a number of results materialized. Policies for joint SSMG routines in the fields of marketing and information management were developed and agreed upon. All of the development work of this kind took place within the existing organization with in-house personnel. These activities were formulated as projects and specific persons from the network companies, as task force, were given the responsibility to accomplish the project's attached goals. The main theme of the program was to support the SSMG business development and over time the strategic dialogue was to constantly question and search for the core missions, goals, and strategies. The process led to agreed strategic decisions without leading to any comprehensive strategic map.

Analysis and results

It is apparent from the literature that the entrepreneur is the key actor both in identifying market opportunities and in exploiting these opportunities. The entrepreneur is also highly involved in various search-processes to suitable partners for future co-operation and also in the role as network establisher. As seen in the SSMG case three to four key individuals were responsible for the initial steps in the formation process. Some of these

individuals had earlier experience from establishing tight networks between small firms, a process that ended up in one new business unit into which three companies merged. The informal discussion among this group was constantly present, they identified a number of external threats in the region, and they ended up with an idea to form a new network. In this sense these entrepreneurs served as '*vision catchers*', i.e. they expressed their visionary opportunities with networking to proactively deal with external threats.

As true entrepreneurs, the step from identifying these business opportunities, to taking real action was short. Consequently, the group launched a formal network, registered a limited company, and formulated the main task for the SSMG group. The priorities along with the business concept were expressed as common marketing and sales activities for the six partners. And, subsequently, a responsible CEO was appointed. Also relevant is the fact that the CEO was one of the original significant actors with extensive experience from management, sales and marketing in large companies. With these actions the formal co-operation started, a visionary development project materialized into a loose co-operative unit (Varamäki and Vesalainen 2003). The extrovert and experienced CEO was assigned a new role namely to function as a *mediator*, to externally market the new business settings and the system supply concept, but also internally establish and explain the advantages with the co-operation via SSMG.

During this period discussions about how to develop the first embryonic structure for co-operation were started. Analysis of sales figures and the economic results from the co-operation so far were not encouraging and the initiators, the vision catchers, expressed ideas and arguments for a more far-reaching and extended structure for the network. The focus on the market and sales function was not sufficient and a number of complementary functions were highlighted, e.g. purchasing, production, pooling of manpower, and seen as areas where co-operation also could take place. Occasionally they expressed very far-reaching ideas how

to over time develop and strengthen the network and successively transform six individual companies functions and cultures to an overall company – the SSMG AB.

The core group of entrepreneurs continued to dominate and influence the course of events with the purpose to facilitate and stimulate the transformation process. A number of project groups were assigned, within the field of purchasing, information technology, quality and marketing/sales, but these temporary groups were not guided with explicit instructions, goals and time limits. In each group at least one of the entrepreneurs participated and sometime also served as the project leader. Afterwards this process can be characterized as fumbling with a slow progress but with considerable implications for the SSMG organization and its structure. The SSMG organization is represented in Figure 2 below.

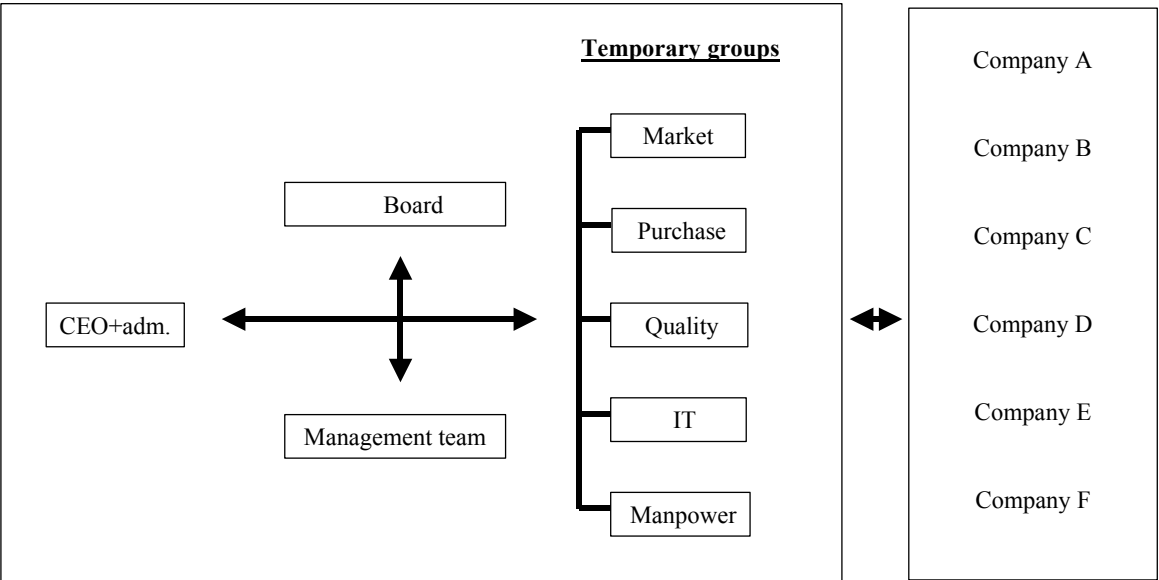


Figure 2.: SSMG organization.

Each project group was supposed to actively work together and bridging the borders between the separate companies. An important ingredient was to create a bench-learning setting where a melting pot of experience, knowledge, and expertise should push the SSMG concept forward. However, these intentions came almost to nothing, because the project groups did not meeting on a regular and formal basis, the output was never distributed to the CEO and management team, and gradually many activities ceased. Still the core group of entrepreneurs

continued to discuss the potential benefits of a formal holistic solution for future co-operation materialized in the SSMG group. During this period the first appointed CEO, the mediator, left the group and was replaced by a young and relatively inexperienced manager with engineering background.

Conclusion

From the analysis we can observe a number of salient patterns. Firstly, the presence of different role models was obvious in the process to initiate and develop multiple company cooperation. The initiative to generate the visionary concept emanates from the core group, the entrepreneurs. The role to anchor these ideas among the member companies and the local business community was assigned to the first appointed CEO. When the intentional development process came to a standstill no single person involved could move the positions forward. To sum up, the process to develop networks among small firms seems to rely on different role models at different development stages. As archetypes of process drivers we have defined ‘the vision catcher’, ‘the mediator’, and ‘the constructor’. The first two of these archetypes we have identified in the case and also discussed above, but the third type, the constructor, is identified as the missing character, the one that on a more operational level can take actions and responsibility to create new routines and structures.

Another dimension that became obvious when analyzing the case is that network development as such also are associated with different development stages. At a *discovery* stage the need for environmental scanning and tentative visions are important in order to detect future opportunities and threats. The next step will be to transform vision into actions, *design* appropriate routines and structures, and anchor the new concept among the companies involved as well as in the external task environment. Finally, the network could decide to further strengthen the ties between the companies and work along a far-reaching strategy where the network are given a dominating position vis-à-vis the co-operating partners. The

need for traditional business *development* of the organization and business functions are here of vital importance.

Process drivers	Network stages – characteristics		
	Discover	Design	Develop
Vision catcher	[Bar spanning Discover and Design]		
Mediator	[Bar spanning Discover, Design, and Develop]		
Constructor		[Bar spanning Design and Develop]	

Figure 3.: Network development. Process drivers and network stages.

In Figure 3 above the two aspects of network building are brought together and from our empirical experience we propose that the various role models involved in network development are of vital importance in respect to what is needed in different development stages. In the first stage involvement of persons with apparent entrepreneurial capacities are desirable. In the second stage, an individual with a more structured entrepreneurial talent can fulfill the role of a mediator. Finally, the last stage to develop a business co-operation to a comprehensive business body is demanding in terms of building specific routines and structures for this new unit. A constructor is needed.

Finally, from the analysis of the case study combined with theoretical considerations we have found strong connections between capabilities among individuals and the demands emerging from the various stages in network development. Following propositions can be formulated:

Proposition 1: The issues related to initialize network building are closely related to core entrepreneurial characteristics and activities – “the role of vision catcher”.

Proposition 2: Important entities to maintain and develop network building are heavily dependent on persons’ ability to communicate the network concept internally as well as externally – “the role of the mediator”.

Proposition 3: *Central dimension in transforming a business co-operation from vision to established and mature networks is strongly dependent on individuals with general management talents – “the role of the constructor”.*

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