

Assessing small firms business networks – Banks evaluations of market positioning

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Abstract

In regional development, banks play an important role in emerging clusters and in business networks. They are however, not always very good at analyzing complex business networks, particularly as they extend the border of the local or regional network. Banks often find small businesses to be hard to analyze, in particular if these businesses are deeply embedded in industrial networks that are difficult to interpret from the outside. In this study we aim to analyze why bankers tend to find small firms in complex business networks difficult to assess. Our study reveals business networks based on four different small firms' market/product combinations. The outcome illustrates the frustrations of many expanding small firm owners in convincing banks to support strategies that for the small firm seems to be obvious. In the banks perspective however, the more complex the market/product combination becomes, the more uncertain they become regarding future performance of the firm. In order to reduce the uncertainty, bankers tend to play it safe and go for the traditional, stable enterprise rather than the fast moving, opportunity-seeking enterprise. In this way, bankers tend to support simpler business networks even if complex networks appear to be more lucrative.

Keywords: Regional network, SMEs, positioning strategy

Introduction

Banks are a predominant form of external finance for small- and medium-sized enterprises (SMEs) in most industrial countries. In regional development, banks play an important role in emerging clusters and in business networks. They are however, not always very good at analyzing complex business networks, particularly as they extend the border of the local or regional network. Banks often find small businesses to be hard to analyze, in particular if these businesses are deeply embedded in industrial networks that are hard to interpret from the outside.

In terms of market positioning small firms have a unique set of advantages and disadvantages that distinguishes them from their larger counterparts. Positioning is consequently an attempt for a small firm to distinguish its business from its competitors in order to be the most preferred firm for a certain market segment or prospect. From a marketing perspective, many small firms find profitable markets by positioning themselves in a niche unattainable by larger firms. Finding a niche strategy is imperative for small firms in order to gain long-term profitability. Small firms unable to find a niche, in terms of having key personnel features or specialized product lines, will often find themselves in a long term price war. Different strategies are used in different industries, but small firms are invariably dependent on having a unique business network to ply their trade in. In this network the small firm will be able to flourish if other actors in the business network perceive it as competitive. For banks however, the survival technique of the small but flexible organization is generally harder to analyze in terms of future performance than their larger, more immobile counterparts. In this study we analyze why bankers tend to find small firms in complex business networks hard to analyze. We will investigate business network positioning based on four different small firm positioning strategies. Based on the small firms' position in the market and their product complexity we aim to analyze how the bank is able to follow the small firm in its development. In each of the four situations we will present an actual case, and the interactions that follow with the bank.

Small firms and the need for market positioning

A firm's ability to develop and maintain a unique position in the market is strongly influenced by the type of relationships the entrepreneur is able to establish within the economic environment. The difference between survival and failure for an organization, embedded in social context, (Granovetter, 1973; 1985) is consequently depended on the entrepreneur's ability to establish a network of supportive relationships. Networks can be defined as a set of nodes (Fombrum, 1982) or patterned relationships between individuals, groups and organizations (Dubini and Aldrich, 1991:305). These nodes function as conduits for information, provide access to scarce resources and also provide legitimacy (Larson, 1992). This means that networks can help a small firm generate trust and social capital within the network (Zahra *et al.*, 1999). This in turn results in a reduction of transaction costs for the firm and a lower price for products or services during subsequent interactions (Gulati, 1998).

To be embedded in social context implies that economic action and outcomes are affected by actors' dyadic relations and by the structure of the overall network of relationships (Grapher, 1993). Indeed, as Granovetter (1985) concluded, people and organisations are influenced by a large number of actors in their social networks. It has also been argued that firms, in particular those developing and marketing complex goods in international markets, will be more successful collaborating closely with other organization than those operating independently (Jorde and Teece, 1990; Langlois and Robertson, 1992; Teece, 1992). This means that collaboration in networks is important for the success of any businesses, but might be even more attractive when key development and marketing know-how is dispersed among different organisations. A unique position in the market, important for the survival of a small business, can thus only be achieved by the help of other actors in the same network.

Banks' credit-risk assessment process

Banks conduct credit risk assessments in order to decide whether to extend loans to businesses. Credit-risk assessments in banks usually include quantitative as well as qualitative information. The core of quantitative information in decision-making regarding other business enterprises lies in the analysis of financial statements (Svensson, 2000, p. 9) and the use of balance sheets and income and cash flow statement (Clemenz, 1986, p. 7). In the quantitative measurement, the mathematical assessments of behaviour and circumstances are in focus (Bazemore, 19997), whereas the qualitative measurement deals primary with personality evaluation (Borrego, 1994). Generally, it can be said that

the quantitative measurements aim to present an objective picture of the firm, whereas qualitative measurements are by necessity subjective.

In short, the credit risk assessment needs to appreciate a given business ability to survive long-term in its marketplace. This is by no means a trivial task for a banker, since bankers are generalists by necessity and often are unable to appropriately predict future scenarios in a given market. And yet, the prediction of a firm's survivability depends, not only on the entrepreneur's ability to develop supportive relationships, but also on the bank's ability to assess the position a firm occupies in a marketplace. This means that the credit analyst often needs to establish some kind of knowledge about the applicant's context. A complete analysis of the environment or the network of the business can result in a massive amount of information, which indeed can support the credit-risk assessment process for the banks, if analyzed properly. Thus, it is necessary to have a contextual awareness of the environment influencing the firm, as well as an understanding of the nature of the business that the firm is operating (Delaney, 1959, pp. 286-289) if a bank is to avoid the pitfalls of personality evaluation.

The analysis of networks can consequently be seen as important complement or even as an alternative to the traditional, quantitative measurements. Thus, an alternative approach for banks in resolving uncertainty is to rely on the management of social dimensions of networks in structuring relationships (Podolny, 1994; Elg and Johansson, 1997; Provan and Sebastian, 1998). In particular, market positioning becomes important, as the banker needs to appreciate the risk of firms failing to generate cash flow over time. The ability to analyze market positioning is also important for the bank in terms of finding cross-selling opportunities, that is, ways to sell additional products to existing customers. In addition, the bank needs to analyze the product. Again, a product may have qualities that few competitors can match, which on one hand makes it easier for the firm to prosper, but which may also prove to be hard to analyze for the bank as they lack the insight to determine quality aspects as well as customers and suppliers. Simpler products with no inherent qualities may prove less worthwhile for the firm, but are usually easier to understand for the bank.

Bankers have a far more difficult time in assessing businesses commercializing complex goods in international markets. Even worse is the problem they face when the market in which the small firm exists can be considered as complex. In some business networks small industrial units can make a handsome return out of supplying specialized goods for large industrial giants. In these cases the bank will have immense difficulties in assessing how well the small firm will do in the future, and if its market position is sufficiently protected. In other cases, the product manufactured by the small firm is hard to understand for an outsider. There are also markets where small firms sell to niche market segments, and here the bank faces difficulties in assessing how and why the customers prefer one product above another.

Credit risk assessments of business networks – transparency or opaqueness

The credit risk assessment of business networks is dependent on the ability of the bank to understand the function of the network and the position of the firm in that network. An easily understood and assessed network can in this sense be termed as a transparent network. A transparent network can be measured using primarily qualitative analysis on behalf of the bank. An opaque network on the other hand is hard to penetrate for the bank. The reason for this being that either the product or the market is too complicated to assess. In a credit risk assessment where the network is transparent the bank can easily understand the potential for market penetration and long-term profit. In a credit risk assessment where the network is opaque the bank finds it hard to measure marketing properties and profit, making any cash-flow analysis uncertain and thus creating uncertainty for the bank.

Research method

In this study we have chosen to present four cases out of a total of 45 interviews performed during spring 2003, with small- and medium- sized firms, based on four different types of business networks. The interviews have been made in Norrtälje, a smaller city in Sweden with approximately 50 000 inhabitants. The interviewed firms were established in different industries and the majority of them had fewer than 50 employees.

The firms were selected through a snowball-sampling technique. It means that the first respondents interviewed were asked to give suggestions to other entrepreneurs that they believed could be of interest for us to interview. The only criteria we had was that the firm should have been established for a number of years so that the entrepreneur had some story to look back upon, which means that start-ups were not of interest for us. The interviews were made with the owner of the firm and the majority of them were also the ones who have been founded the business. The major advantage of interviewing the founder of the firm is it gives us the possibility to gain the whole story of the business from the very beginning. The length of each interview varied between 1.5-2 hours and were if possible recorded and later transcribed to avoid any misunderstandings. An outline of questions was used in the interviews as a guideline for us interviewer. However, the questions were not strictly followed; instead the respondents were able to tell us relatively freely about the development of the firms and their background. This was a deliberate attempt to make the entrepreneur to tell us his/hers own story without any misguiding from us. The interviews were consequently made at the entrepreneurs' premises and could be classified as unstructured, although some aspects were penetrated in depth. In this study we have focused on the firms' strategy, their products and their markets.

Four cases on small firms' positioning strategy

In the following four cases concerning the small firms' positioning strategy are presented. The firms share a common feature in that they all have been depended on bank financing. However, the banks attitude towards the firm differs depending on the firms' business positioning. As the business networks becomes harder to understand the bank generally becomes more sceptical, even if the potential may be higher. In the end, if it becomes virtually impossible for the bank to understand either the products potential or the market potential, the bank becomes reliant on the entrepreneur. For venture capitalists this is a relatively common situation, but for bankers it is a definite problem.

Case 1

Elektron is a small firm with 11 employees, owned by Anders Marklund. After some years at sea, Marklund decided to come home to Norrtälje and to look for a job as electrician, which he had an education in. In 1986 he started to work at Elektron, which at the time had about five employees. After some years Marklund was asked by the former owner whether he was interested in buying the firm. Without any hesitation he accepted the offer and in the beginning of 1990 Elektron had a new owner.

Unfortunately the industry, which had been growing during the 80's, was faced by a recession just some months after Marklund took over the business. Marklund consequently had to start working as self-employed in headwind. Marklund who had no experience of being self-employed could only go on plodding and hoping for an upswing in the business cycle. The bank took the family house as a security for the firm's loans. The relationship with the bank worked well as long as Marklund had the house in mortgaged. The bank did not care about the fact that the business had negative results. Marklund run the company with negative results in almost five years. When a supplier demanded payment immediately, he was forced to put the business in liquidation.

With 500 000 Swedish crowns in private debt Marklund was determined to try again by starting the business from the very beginning. He sold his car and trailer for 45 000 Swedish crowns, which was enough to buy what was left of the business. The bank did not care that the business was liquidated, as they had the house as security. However, Marklund did not need to pay for the interest that arose during the bankruptcy, which he today is very grateful for. Still today Marklund perceive his bank contact as satisfying, but he has a policy to keep the loans from the bank as low as possible and to keep the bank in distance. Marklund who prefer to be loan free did not want to have a credit at the bank, but the bank persuaded him to take a credit, as they told him that few firms could survive without a credit. Marklund was persuaded and took a credit of 300 000 Swedish crowns. The business was soon in operation. This time Marklund was lucky, the recession was over and the firm got new jobs immediately.

The business today includes more than just electrician installation. To make the company less vulnerable the firm decided to broaden the business by establishing a new department within computer network. The industry, which is in the maturity phase, is very responsive to the business cycle and the owner found it therefore necessary to broaden the business. Elektron has private- as

well as business customers. In the recent years the firm has focused more on their business customers, as they have more jobs to offer. However, the private customers tend to be more loyal and less price sensitive. The majority of the firm's customers are though loyal and they are mainly local situated.

Marklund is not very interested in local organizations, although he admits that those organizations can be of importance for small firms taking the contact net in consideration. Marklund is though actively engaged in the policy and through it he has been able to develop a large contact net, which has been useful for his business as well. He also cooperates with other entrepreneurs in the local community. It is mainly carpenter and plumber he cooperates with and they usually recommend each other to their customers and/or work together with a common project.

Analysis of business network transparency

Electricians belong to the type of entrepreneurs that can be termed as craftsmen entrepreneurs. Provided with an education and a certification, the electrician typically works for a company or starts a firm on their own. These firms, typically small, work together with constructors and builders in relatively set circumstances. The business is typically stable, where the service provided has basically been unchanged for decades. If the entrepreneur running a small firm in this industry is reasonably well educated and has worked for a number of years in the industry, it is relatively easy for an outsider to measure the likelihood of success. Banks cater on a routinely basis to these kind of companies. They are rarely adventurous, but tend to be almost carbon copies of each other. Since the service has remained the same for a large number of years, and since these small firms tend to work within a limited network of complementary services, it is easily to ascertain the market position of the firm. Unfortunately, the very reason for this transparency, the standardization of services and stability in the also means that it is hard to find any sustainable competitive advantage versus the competitors in the field.

Case 2

Swetech is founded in 1969 in Sweden by Nils Svensson. The firm started of modestly in the field of electronic components. It manufactured electro-mechanical components and inductive components, such as transformers, chokes and coils. This is still the main production in the firm, but new components have been introduced into the production of electronic components. Thus, the production of the firm has broaden during the years and become more complex.

Swetech had an established set of customers already in the beginning as it started. Svensson's father who worked with electronics manufacturing had an established network of customers which he mediated to his son. With an established set of customers already in the beginning, the firm grew immediately to a size of ten employees. This despite of the fierce competition the firm was faced by in the market. The firm had consequently an advantage of having well maintained customer relationships. According to Svensson, the firm was able to grow just because they had the right contacts.

In 1980 the firm continued to grow and had soon 50 employees. As the firm grew Svensson found new ways to broaden the market of the firm. Among other things the firm move into medical technology and the firm was established in foreign markets. Going abroad was necessary for the firm as it become harder and more expensive to hire employees for industrial purposes in Sweden. Moreover, the firm had already established business with foreign customers; it was therefore a matter of course for Swetech relocating some of the production abroad. In England Svensson saw a potential, not only to solve the firm's employment problem but also to develop the business internationally. A new production facility was therefore started in a city, northeast of England. At the time Swetech had no problem getting financial support from their bank. The bank was actively engaged in the business and had also a contact with banks in England. Indeed, this made the internationalization process a lot easier for Swetech. In England he found the support he needed, which indeed has ease the establishment abroad. At the time Svensson consequently had a lot of reasons moving part of the production to England. In 1990 Svensson decided to sell a part of the firm in Sweden to three key workers in the Norrtälje production facility, as he wanted to concentrate on what he found was the more interesting part of the business, which was the business in England.

The problem began when Swetech was forced to look for another bank in Sweden. The former bank they had decided to shut down the division they were customer at. Svensson decided to develop a relationship with the local bank. Although the firm had been established in the local community for many years and even received prizes for their growth as a firm, Svensson was faced by a doubtful bank manager who did not understand his business. The new bank contact was not as willing as the former one to support Swetech financially. According to Svensson, the firm had to start from the very beginning over again. Without financial support from the bank the firm was forced to be restrictive in their investment decisions and the expansion of the business was slowed down to virtually standstill. According to Svensson, the local bank has a very local perspective and they had therefore difficulties in understanding his business operating outside the local marketplace. Thus, Swetech was at the time faced by a tough period in England. However, it did not stop Svensson; instead he committed himself even more in the business in England. Today only a skeleton crew of the business is left in Sweden and the main production is now relocated to England. In 1996 a subsidiary was established in France.

Analysis of business network transparency

The production of transformers is nothing extraordinary as this entrepreneur testifies. In the beginning, the firm was easy to understand from the outside as the production methods were established, the market was established and the long term potential was easy to understand. When the entrepreneur chose to diversify into a new market segment, however, the bank was mystified. Going into a new market abroad was one problem in itself. But also aiming for a new type of customers became even more of a problem. The bank clearly became more and more worried over time. Finally, the entrepreneur found himself in trouble as the bank basically refused to finance further expansion. It is clear that the bank failed to appraise the market potential for the products in other countries, especially in a new field. In the end the bank backed down on a customer that had remained with them for a large number of years because of the failure to understand the market.

Case 3

The idea behind the firm SignBoards was realized in 1998 by Karl Andersson. Andersson, who is one of the founders of SignBoards, had been working as electricians for a couple of years before he decided to start his own business. Signboards are often used by electricians to mark equipment and electrical outlet and are consequently important products in the electrician industry. Andersson found it though very complicated to order signboards from the suppliers and the delivery time was often very long. Moreover, it was not unusual that signboards were delivered with fault. There were no suppliers within the industry that were specialized in producing signboards adapted to the work of electricians. Those suppliers who made the signboards were mainly engraver who saw it as a complementary work. As everybody in the industry found this as a problem Andersson got an idea of how to make the order system of signboards a lot easier for the customers.

The business idea is based on a new developed system which makes the order process easier and the delivery more efficient. With the new system the customers are able to get the signboards within 24 hours. The customers make the order in internet which is then sent through e-mail. The specification of the order is consequently made through the program the customers download from the internet. The program provides specification of the order, the invoice, the weight of the consignment and it also controls the production of the signboards. Thus, SignBoards had found a unique way to produce signboards and to solve the whole distribution channel in an efficient way.

The establishment of the firm cost about 1 million Swedish crowns, money that Andersson did have at the time. He turned to ALMI for finance, but they were not very interested in his idea. He then turned to people around him and asked if anybody were interested in investing in his business. An old friend of him and his brother-in-law believed in his idea and were willing to invest money in the firm. Today the firm is owned by Andersson, who owns 55 percent of the firm, the two financiers who own 20 percent each and by another part-owner who has an ownership of 5 percent. The firm took a loan from the bank to be able to build the building the firm is operating today. The house cost 4.5 million Swedish crowns to build, and although the firm was able to put 2 million the bank was in the beginning very skeptical and uncertain whether they should approve the firm a loan or not. Andersson is surprised by the banks unwillingness to lend out money. It demanded a lot of persuasion before the firm got any loan. Andersson though believe that it is best to avoid loans from banks. He cannot see the point of having a bank relationship that is not willing to support them also in bad times.

Andersson, who have been working in the industry for a long time, had during the years been able to develop a small network. The first customers of SignBoards actually came from his old contacts. SignBoards main customers are firms established in the electrician industry. However, the firm has also other business customers within other industries that use their products. Today more than 3 000 firms, located throughout the country, use the firm's products. The majority of the customers are small and many of them are in need of smaller series of label signs. The firm is growing and today it sells for about 300 000 Swedish crowns a month.

Analysis of business network transparency

The business idea of Signboard is fairly easy to understand. On one hand, the market for these types of products is nothing extraordinary. Label signs are bought by a large number of customers, but it is evidently not much value in each product. The firm has developed their own way of producing and distributing these label signs in a simple, yet ingenious way. The competitive advantage of the firm relies on the ability of the entrepreneur to understand the needs of the customers for a better product. By providing adaptive products with a high level of quality guaranteed the firm has been able to find a new market. The bank actually found this to be a hard firm to analyze. To the bank, the prospects looked minimal for success. Even if there was a market that was easily identifiable, it was hard for the bank to understand why this small firm's product could become competitive. The market was transparent, but the product was hard to understand. At first, the bank's analysis failed to detect the marketability of the product. Over time, the product became more understandable for the bank as they realized the potential on the market. In all, the market was identified as potentially large, but there were significant question marks about the product.

Case 4

Cablex AB is established in 1955 as a technical consulting firm by Karl Bergman, who had been working as technical engineer in the construction industry. The firm was established as the former owner was hired by Alfa Laval to develop the signalling system in their dishwashers. Alfa Laval was at the time one of Sweden's largest manufactures of dairy equipment. Alfa Laval needed help from outside to develop the harnesses, the system of small cables through which signals are sent between different sub-parts of the dishwashers. Cablex AB started in a very small scale with Alfa Laval as their only customer. The product Bergman developed for Alfa Laval was unique and had never been used before in the industry. Bergman wanted to develop harness as a complete product which could be install as it is in the machines, instead of cutting it and constructing it again at place.

Bengt Lundmark started working at the firm in the early 1970's. The firm was still very small and the production continued in Bergman's flat. After the sudden demise of Bergman in 1973, Lundmark decided to take over the business together with a partner. At the time few firms in Sweden were specialized in harness system production. Actually this production was generally made in-house, within each company and it was mainly conducted manually. The industry started to grow when Alfa Laval decided to invest in machines to automatize the production. This means that Alfa Laval decided to take over the production of the harness system and to make it in-house again. For Cablex AB it meant an immense loss of an important customer. However, Lundmark had luck taking over the business during economic upswing. Although Alfa Laval decided to conduct the production in-house the common for firms was to outsource the production of harness system. It become more important to automatize the assembly of harnesses as the labour costs increased. There were though few firms that found it fruitful to invest in own machines, instead they decided to put the production on other firms. In a few years Cablex AB was able to increase and replace Alfa Laval as customer with others.

As Lundmark took over the firm he completed the transformation of the business from an innovation business into a harnesses assembling firm. The main business idea of the firm is to help the customers to be more efficient in their production. It is more about offering the customers a solution than selling harness products. It is generally difficult to use standardized solutions in this industry, as the cables need to be fitted accordingly to the specific dimensions of the machines in which they are used. This means that each product is custom-made and highly adapted to a specific machine. The firm therefore usually have long relationship with a customer, and together they work to find the best harnesses solution for the specific machine important in the production of the customer. Everything in this industry is unique and the product is indeed highly complex. You can seldom use the same harness product in two different machines.

A few years after Lundmark took over the firm he moved the whole business to Norrtälje. Here he found loyal employees and the firm could grow gradually. The firm has today 31 employees and it has attracted customers throughout the country. As the market has grown the competition has also become fiercer. Today more than 80 firms are established in the industry. The market has grown fast but it is still growing. All kind of machines need harnesses and the more complex the product is the more it will need harnesses. The demand for custom-made harnesses will therefore probably increase. Cablex AB has had a long relationship with their suppliers. The most important suppliers are established in America. With some of them Cablex AB has had a relationship since 1972.

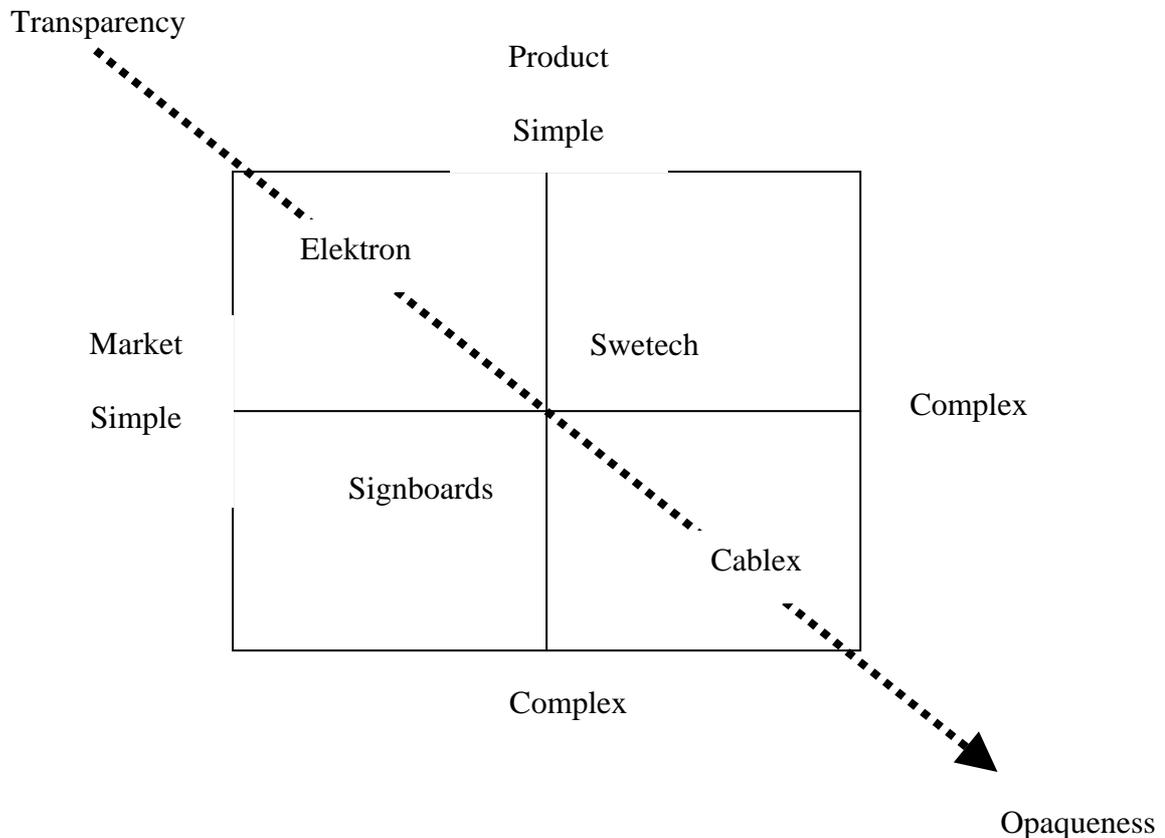
Cablex AB has during the years been able to develop a network. The network is mostly based on important suppliers and customers. Cablex AB has been able to gain new customers through the network. It is particularly the most important suppliers that have recommended them to new customers. Lundmark believes it is important, especially for new start-ups, to meet and develop relationship with other firms. Lundmark is actively engage in the local society and he tries to involve himself in different local organizations, as he finds it very important with contacts net.

The bank contact has been rather satisfying for Lundmark. However, he like other firm owners has had problem with finance. The customers often require 60 days credit, but it is unusual that firms in this industry are able to request 60 days credit from their suppliers, in particular when the suppliers are from abroad with different payment policy. This means that the firm often need to put out money before getting pay for an order. Cablex AB is therefore dependent on banks. Before accepting a customer order they need to know that the bank will support them financially when needed. The problem emerges when the customer order involve a lot of money. The banks in Sweden are very careful in lending money and because of this Lundmark have been forced to deny some customers. According to Lundmark, this has impeded the development of the firm.

Analysis of business network transparency

The harness industry is composed of relatively small companies working as subcontractors for larger production-oriented firms. This situation in itself becomes a problem for anyone understanding the likelihood of long-term success. Subcontractors are often highly dependent on a few large customers. They have always been living in the threat of the big corporations incorporating production in their own facilities. Subcontractors also typically have to pay some of the large corporations' expenses through just-in-time methodology in logistics. During the last years subcontractors in most western developed economies are constantly under threat of being replaced by other subcontractors in low-wage developing economies in Eastern Europe or southwest Asia. For a bank it is something of a nightmare to analyze the future under these conditions. Banks recognize the subcontractor problems, at the same time these types of production facilities provide ample opportunities for bank financing. In this case, it is also evident that the firm is trying to introduce an element of consultancy and adaptiveness in order to convince the big customers of the value of cooperating with the firm. The problem for the bank regarding the properties of the services added to the product is the fact that they have virtually no way of generating information about the acceptance among the big corporations regarding value added in this respect. The bank has chosen to support the company in question nevertheless as they trust the entrepreneur's ability to remain in the industry. Over a large number of years the firm has survived earlier crises, which says something about the ability of the entrepreneur. The bank would certainly not support the firm if the entrepreneur would leave his position in favour of another entrepreneur without credentials. This is a typical way of financiers supporting a firm even though the business network is very hard to understand from the outside. If this situation occurs, the financier becomes heavily dependent on the ability of the entrepreneur.

Findings



Simple product/Simple market

Here the small firm will find it hard to develop strategies by which they are able to reach long-term profitability. On the other hand the bank will find it easy to assess the firm's prospects. For the bank it is consequently easy to analyze a firm like Elektron that sells simple product in a simple market. As the firm is mainly engaged in the local trade the bank is able to assess the firm's position by having close relationship with the local business community. In a small community virtually all firms engaged in local trade can be assessed based on the outlook of the society in general and through the use of local networks.

Simple product/Complex market

In this scenario the firm may be able to find new channels of distribution or in finding new ways to market locally. The bank will be reasonably aware of the possibilities for the firm to succeed if the marketplace is local. However, if the marketplace is internationally located the bank will find it difficult to analyze the potential of the firm and will therefore hesitate in supporting the firm financially. The case of Swetech exemplifies this reality. The international market was found to be too complex to analyze as the business network of the firm was difficult to assess.

Complex product/ Simple market

A more difficult case is where the firm has been able to market a new product. By specializing or by improving internal logistics small firms are in some cases able to protect new products, even if the risk of copycats is ever present. As illustrated in the case of Signboard, the banks may though refrain from these types of firms as they are found as high risk project with a complex product that is difficult to understand. However, banks tend to be more positive inclined to these kinds of firms when the market

is local, as they through the use of local networks can gain important information about the entrepreneurs' trustworthiness.

Complex product/Complex market

In the best case scenario the small firm is able to sell a unique product to a unique set of customers. This scenario is not as rare as one may believe, especially not for small manufacturers of hobby items or exclusive equipment. Unfortunately, the banks find these industries virtually impossible to understand. These types of firms often need to grow internationally in order to gain long-term profitability. As financiers, bankers are distinguished by their fixed revenue from financial investments, making the incentives of growth less appealing. Thus, bankers are less enamored with high growth strategies, and typically prefer less volatile strategies. Bankers therefore have a different outlook on opportunity recognition, seeking moderate growth rather than high growth.

Conclusion and Discussion

Our study reveals business networks based on four different small firm market/product combinations. The outcome illustrates the frustrations of many expanding small firm owners in convincing banks to support strategies that for the small firm seems to be obvious. In the banks perspective however, the more complex the market/product combination becomes, the more uncertain they become regarding future performance of the firm. Some bankers deliberately decide that the entrepreneur probably knows what he/she is doing based on earlier successes, but for new firms this dilemma is real. In addition, bankers know that they earn a fixed rate while enduring the possibility of extensive losses. In more complex situations it also becomes more difficult to assess collateral. In order to reduce the uncertainty, bankers tend to play it safe and go for the traditional, stable enterprise rather than the fast moving, opportunity-seeking enterprise. In this way, bankers tend to support simpler business networks even if complex networks appear to be more lucrative.

The paradox in assessing business networks accurately is that the more advantageous a market position is, in terms of being protected from competition and in terms of product properties, the harder it usually is for banks to assess that business network of the small firm. This paradox tends to become especially important when the small firms desires to expand and tries to convince the bank to finance that expansion. The more complex the business network is, the less likely it is that the bank will accept the proposal. In order to avoid that situation it becomes important for the small firm to actually engage the bank in understanding the business network, both in terms of market and product properties. If the bank becomes knowledgeable enough, it is more likely that the bank will react positively to that proposal.

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