

Implementing a Relational Capability Framework through an SME Network

Dr. Thomas O'Toole, Head of School of Business,
Waterford Institute of Technology,
Waterford,
Ireland.

Tel: +353 51 303025
Email: totoole@wit.ie

And

Ms. Helen McGrath, Researcher,
Department of Management and Organisation,
School of Business,
Waterford Institute of Technology,
Waterford,
Ireland.

Abstract

The purpose of this article is to report the findings of a study designed to implement six relational capabilities in an SME network. The six dimensions are defined through the application of the Actor-Activity-Resource (AAR) network model. The empirical research entailed an intervention case study approach to action the relational capability components to assess theory fit to practice. Findings suggest that although the SME participants engage in relationship marketing, prior to this study they did not realise the importance of their relationships, manage them or view them in terms of knowledge acquisition. Additionally the participants did not perceive them as a fertile source of opportunity, in terms of processes, adaptation or innovation.

Keywords: Relational Capabilities, SME marketing, Networks, Relationship marketing

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Introduction

The purpose of this article is to report the findings of a study designed to implement six relational capabilities in SMEs. With the evolution of SME relationship marketing and SME networks there is a need to define the capabilities necessary to conduct marketing through such avenues. Whilst it has been established that that networks are important and suitable in terms of SME marketing (Gummesson, 1994; Möller and Wilson, 1995; Gilmore et al., 2001), the process through which SMEs engage in network activity, how they interact and are connected, has been under researched. This is noted by O'Donnell (2004: 207) where she states:

As such, less attention has been paid to the process of networking by small firm owner-managers.

O'Donnell (2004) describes the process of SME networks in terms of the level of networking; networking pro-activity; and strength of network tie. Her findings reveal that SME network involvement is an activity that owner-managers shape to suit their circumstances and the needs of their firm. In terms of SME networks, where they are positioned along a continuum in terms of "limited" to "extensive" networks, "reactive" to "proactive" networks or "strong" or "weak ties" is dependent on factors such as relationship type, potential relationship benefits and the personality of the owner/manager.

Consistent with O'Donnell, Ostgaard and Birley (1994) argue that although SMEs exist within varying networks, it is how they engage in the process of network practice that ultimately derives benefits. In linking the network literature to the strategy literature they found that small business owners differ in their network activities according to the competitive strategy pursued by the firm. Research by Ostgaard and Birley (1994) and O'Donnell, (2004) have significantly contributed to the literature in terms of establishing measures to gauge SME network activity. This paper aims to go further and bridge the literature gap to understand the process through which SMEs engage in networks. In understanding that "networks do not emerge without considerable endeavour" (Birley et al., 1991: 58), this paper looks holistically at the process of SME network activity beyond the classification offered by O'Donnell and Ostgaard and Birley. This study argues that SMEs need to build a set of capabilities to effectively utilise and operate with their networks. Such capabilities are termed relational capabilities and describe the process by which SMEs are connected in a network setting.

This paper is set out as follows. The following section examines and integrates elements of capability literature from a strategic management and marketing perspective to define the overarching construct, that is, relational capability. The proposed dimensions of the relational capability construct have been extracted through the analysis and application of the Actor-Activity-Resource (AAR) model of networks as depicted by the International Marketing and Purchasing (IMP) group of researchers. The methodology employed to discern whether the nurturing of SME relational capabilities can improve SME marketing efforts, followed by a report of the findings comprise the subsequent two sections. Finally, in the last section of this paper the authors offer their conclusions, including implications for management and suggestions for further research.

Relational Capability and its Dimensions

Capabilities have been defined in many strands of literature. From a strategic management perspective ‘dynamic capabilities’ are defined as “the firm’s ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments” (Teece et al., 1997: 516). From a marketing perspective, marketing capabilities “relate to the ability to ... seek out and identify new opportunities and market niches, to develop interactive relationships and to adopt customer relationship management practices” (Grandinetti et al., 2007: 217). Such definitions involve a relational element through the incorporation of external resources and interactive relationships; however ‘relational capabilities’ remain largely under explored.

Relational capabilities are the result of a gradual process in which one or more companies decide to broaden their vision of relationships in order to improve their competitive position in the market (Webster, 1992; Lambert et al., 1996). Factors such as commitment (Dwyer et al., 1987; Moorman et al., 1992; Morgan and Hunt 1994), trust (Spekman and Strauss, 1986) and communication (Mohr and Spekman, 1994; Olkkanen, 2000) are widely recognised as being key determinants and the glue that binds high-quality relationships. As relational capabilities are viewed as capabilities to continuously interact with other firms the ability to interact and share significant knowledge is driven by relational capabilities (Lorenzoni and Lipparini, 1999). Therefore relational capabilities are associated with ‘organisational routines’ (Lorenzoni and Lipparini, 1999). This is in line with the idea that since institutionalisation is the process by which an inter-firm relationship achieves a taken for granted status within a system of firms, ‘institutional relational capabilities are in turn the capabilities to institutionalise some particular kinds of inter-firm relationships in the system of firms (Dagnino, 2005: 117).

Relational capabilities enrich the bundle of the firm’s resources in an evolving manner. They emerge and deepen as the firm both develops existing capabilities and explores new ones (Powell 1998: 229). In a highly uncertain situation, relational capabilities are nurtured as the firm interacts more with external parties in order to get access to the relevant knowledge and resources (Powell 1998: 229). Singh and Zollo (2004) suggest that experiential learning and institutionalised learning develops relational capabilities and integration capabilities that are crucial to the success of both alliances and acquisitions. Therefore they are developed and facilitated through learning for them a key element of superior relational capability is knowledge management. Relational management refers to the ability to coordinate alliance activities, manage conflict, foster trust and encourage information exchange between partners. It is an important capability given the intrinsic dependencies that exist among partners and the possibility of conflict between them. Well developed relational management skills afford firms the capability to pursue integrative agreements. Firms with such capabilities are adept at searching for differences and interests in order to trade off on their differences and create a larger pie (Gulati et al., 2002). In adding to this Lorenzoni and Lipparini (1999) state that start-ups have excellent relational capabilities. They have little choice, as the option of doing everything in-house is hardly feasible. They rely on their partners for a large

number of competencies such as money, advice, marketing, managerial expertise and legal advice. Relationships are used and extended to obtain access to these complimentary inputs.

Little research has focused on the process through which relational capabilities are formed, particularly in an SME marketing context. Rodríguez Díaz and Espino Rodríguez (2006) state that relational capabilities are constructed through process integration between companies so that processes and their activities constitute the basic unit of analysis. Dyer and Singh (1998), in identifying relational capabilities as a source of competitive advantage, do so from a strategic management perspective describing the ‘rents’ emanating from effective and efficient strategic alliances. They define a relational rent as a “supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners” (1998: 662). They state that firms with greater relational capabilities have alliance screening processes that assess both positive and negative complementarities. However they do not examine the means and procedures that must be followed to achieve and develop relational capabilities, the measures that can be used to determine the level of generation and development of relational capabilities between firms cooperating with one another, nor what methodology should be used to detect opportunities to create relational capabilities.

Building on prior literature the authors of this study provide the following definition:

The capacity of an SME to interact proactively with a wide range of connected actors to purposefully exchange knowledge, create opportunities and joint process improvements including adaptations and innovations.

In recognition that a single statement cannot capture the full importance, benefits and processes of relational capabilities, six dimensions of the relational capability construct are proposed and depicted conceptually utilising the AAR Model introduced by the IMP group of researchers. They are illustrated in Table 1 and form the basis of the conceptual framework which has been constructed during the course of this work. The framework was implemented to determine the relevance and usefulness of the relational capability framework for the small business sector.

The AAR model embodies three substantive layers, actor bonds, activity links and resource ties. This paper argues that dimensions of relational capability are formed at each layer of the network model through process integration between SMEs. At the actor level it is argued that in order to create identifiable marketing based advantages through networks SME owner managers must possess the relational capability to realise that they are part of a web of networks that can enhance their marketing efforts. This is inclusive of their ability to differentiate between social and industrial relationships. Actors must also assess their networks to proactively manage the building, dismantling and rebuilding of networks in a way that mirrors the continuous transformation of the enterprise as it develops and grows. Relationships must generate additional benefits through the application of a new operation that represents a know-how that is difficult to imitate because it is based on a unique relationship between the SMEs in a network. Therefore activities must ensue between actors. Activities involve a process, a series of actions between the SME actors with a network that produces a change or development. Activity links refer to the connections among operations that are carried out within and between firms in networks. Within an SME context this occurs when mutual adaptations in activities take place between relationship partners. Resources are commodities that actors use during activities to produce their goods and/or services, and are tied through the production process as inputs and outputs (Håkansson and Johanson, 1992). Resource ties develop as companies exchange or access each other’s resources in carrying out their activities, in the process often transforming and adapting existing resources and creating new resources.

Relational	Definition
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Capability Dimensions

Realisation Capability	The ability of SMEs to map out and realise that they are involved in business-to-business networks that could enhance their marketing efforts
Assessment Capability	The ability of SMEs to proactively manage their networks to; allocate time based on usefulness; strengthen worthwhile bonds; realise the benefit of weak ties; and expand their networks
Access to knowledge	The ability to generate, integrate and utilise knowledge from network flows emerges as a distinctive marketing oriented relational capability
Access to opportunity	The ability to extract and exploit opportunities in a network and improve the exchange process between SMEs in a network.
Co-Adaptation	The ability to proactively adapt products and services through interaction within the network setting.
Co-Innovation	The ability to tap into the pools of technologies and human resources in SME networks in order to jointly innovate.

Table 1: A description of the relational capability dimensions

Methodology

To action components of the relational capability framework to assess theory fit to practice, a qualitative case study research approach was selected. The choice of a case research approach follows the view of Easton et al. (1997) who argued that case research methodology is particularly appropriate in industrial networks research where complexity and dynamism of relationships limit the applicability of positivist research based on inferential methods. The method of research took the form of three semi-structured in-depth interviews with eight case participants to compliment an intervention case methodology. The SME owner managers were interviewed on commencement of the programme to; familiarise the participants with the researchers; discuss the nature of the study in more detail; and assist the researchers to discover the owner managers perceptions of networks in addition to their current level of network activity centred on the six dimensions. The same protocol was utilised at the end of the research period to show relational capability changes. The participants were also interviewed mid way through the action learning sessions to enable the researchers to gain more in-depth knowledge of issues mentioned in the participatory learning session and to clarify issues discussed.

The intervention case study was conducted by a process approach using participatory action research. A network was created by the authors comprising the eight individual SME owner managers. Each individual SME represents a case, with the network representing the learning vehicle through which relational capabilities emerge. The rationale for the interventions was the fact that previous research suggests that networks are not easily observed and consequently are rather difficult to analyse and measure (Birley et al. 1991). Therefore whilst relational capability as a theoretical construct may not be readily observable or measurable, the six variables linked to relational capability can be derived and analysed. Case selection was based on meeting key criteria such as having less than 20 employees, being past participants on an entrepreneurship programme, non-competitors and in operation for more than one year. Regarding case duration the six interventions necessitated seven network meetings. A brief overview of the six interventions and measures utilised in their analysis are described below.

As an intervention strategy for the realisation dimension, the researcher asked the SME participants to discuss their networks in terms of connections with suppliers, customers, competitors, manufacturers, distributors and other key stakeholders in the business and graphically depict them. The rationale for this exercise was to try to enhance the SMEs realisation of networks in an industrial sense exclusive of connections which are based purely on friendship and kinship ties. Key qualitative measures focused on; the participants experience in dealing with relationships and networks; the general benefits accrued through their use; the average length of relationships; and their perceptions of networks. To gauge their level of the assessment dimension the SMEs were asked to describe their position within their networks and expand their ties through their existing networks. This allowed the researchers to determine whether the SMEs viewed their networks strategically and determine the process of network expansion. In order to measure the access to knowledge process, the participants described the process by which they have acquired and integrated knowledge through networks in the past and provide a plan in which to do in the future. For the access to opportunity dimension qualitative measures included the participants' ability to use networks in both accessing and realising opportunities. The SMEs also detailed opportunities that they would like to pursue and matched the process with the network actors that could facilitate its favourable outcome. As an intervention for the co-adaptation the researchers asked the participants to focus on their adaptation process and highlight network support received at each stage of the process. This intervention was useful as a measurement technique as the researchers could accurately measure the value of network contacts through the adaptation process. For the co-innovation dimension the researchers discussed each SMEs innovation processes in detail in a bid to help them understand that it is not a process that they conducted alone.

Action orientated research, due to its collaborative nature, was deemed suitable for this research study as the authors aim was to analyse the evolutionary nature of relational capabilities as the SMEs developed through participation in the study. The setting allowed for each SME to learn from and share experiences with each other. The process of relational capability building involved iterative cycles best captured by the authors through direct involvement in the process. This longitudinal research approach enabled the researchers to obtain a sounder understanding about the relational capabilities that can present themselves through SME network settings.

Findings

Data collection for this study commenced in June 2007 and concluded in Feb 2008. This section provides an analysis of the data collected during the research period and is organised around the six dimensions of the relational capability construct at an aggregate SME level.

P1 SME actors must realise that they are part of a web of networks that can enhance their marketing efforts.

Findings suggested partial support for the realisation dimension of the relational capability construct. Two key themes emerged informing the researcher that low realisation existed from an Irish perspective. The first theme, networks as social structures, highlights that the Irish participants view networks primarily as friendship based personal ties which may or may not have an effect on their business and networks. Aware that they were embedded in relationships, the types of interdependency that tied the individual actors together were based on kinship and friendship. Additionally dyadic relationships and networks were viewed synonymously, as in discussing networks, the SME owner managers were in fact describing one-to-one relationships with individuals that they interact with.

The second theme, networks as a vehicle for sales emerged through a description of the value that the SMEs noted emerged through their networks. When attributing the importance of networks to SME marketing the participants discussed the importance of networks as a vehicle for sales more than a

means to conduct or enhance their relationship marketing. In terms of the proposition this illustrated that the participants a) had a low realisation of networks; b) held a narrow focus in relation to marketing thinking merely in terms of potential sales; c) short term view of networks; and d) often viewed sales and marketing as the same construct. The main driver of their networks is not on building an interconnected web of long term relationships; rather they are trying to use potential networks members to increase their sales in the short-term.

Post intervention realisation enhanced. The SME participants began to view networks as relationships within the value chain, however it emerged that trust and the willingness to cooperate were limited hindering the attainment of network benefits. The participants at this point realised the role that formal networks, including academic institutes and government agencies had on their business growth. In the same vein the participants realised the importance of building relationships to ensure customer loyalty and retention. With reference to customers one participant noted:

Following a referral to a potential customer, I have a 90% chance of securing the deal.

P2 SME owner managers must proactively manage their networks to; allocate time based on usefulness; strengthen worthwhile bonds; realise the benefit of weak ties; and expand their networks.

Although the participants recognised that it might be a viable strategy to proactively manage their networks, they noted that they lacked the time to assess and manage their networks. Networks were not part of their business strategy, and therefore not something that they considered they had to refer to, think about or manage on a day-to-day basis. Regarding customer and suppliers in particular, they were reactive in their relationships, waiting to be contacted by them. In addition, the participants noted they sought new connections and relationships as they required them, which for the most part was too late.

The SME owner managers' perceptions of value within relationships varied greatly, having a significant impact on the means through which they would assess their networks. Value was not limited to financial and sales motivations, rather reflected their own and wider generalised value systems. For example, for some participants 'being known' was prioritised as a motivation for engaging in networks. Constantly striving to elevate their stance in formal networks, in particular with state bodies, through attendance at all formal events highlighted this point.

From an Irish perspective, the fact that the majority of their network expansion occurred virtually further strengthens the point that a) networks are predominately social in their view and b) they have a preference to detached relationships built in virtual space rather than nurtured through face-to-face interactions. However, although to a lesser degree, the value of network expansion through customers and distributors was noted by the participants indicating an enhanced realisation of networks as opposed to networking. Findings also revealed that the Irish participants were capable of assessing the worth of networks that were either time or resource heavy (conferences/trade events), or containing a degree of formality (BNI network/ Innovation Relay Centres).

Regarding network expansion, the participants focused on strengthening relationships with government agencies, attending events which yielded no concrete benefits as opposed to concentrating on building relationships with their customers, suppliers and distributors. The SMEs also expanded their networks virtually placing their profiles on a business orientated social networking site. This expansion further highlights their social orientation in networks.

P3: The ability to generate, integrate and utilise knowledge from network flows emerges as a distinctive marketing oriented relational capability

Findings highlighted that the Irish SMEs have accessed valuable knowledge through their networks of relationships. The participants viewed networks as a source of knowledge in addition to a facilitator to use this knowledge as they were aware that collecting information is only one step in the access to knowledge capability.

Information comes from talking to different people, however it is up to me to digest and collate the information in terms of relevance to my business.

For the SMEs, the integration of knowledge was largely confined to value chain members inclusive of suppliers, distributors and customers. Close ties were in place and the knowledge integrated was mutually beneficial for all parties involved in the process. The SMEs core expertise facilitated the converting of general or abstract knowledge into knowledge specifically useful for them and they were competent in coordinating very specialised and technical knowledge emanating through relationships. Additionally, the participants recognised the value of network information and as managing directors of their own enterprises constantly strived to use it to its maximum potential. Therefore, the benefits stemming from the access to knowledge dimension was due to the SMEs ability to recognise knowledge, to receive it and the ability to use it. However, findings have shown that from an Irish perspective the co-creation of new knowledge through joint integration of each actors knowledge was inhibited to a small degree by the fear that important knowledge would reach the actors competitors. Whilst networks were the vehicle by the participants gathered knowledge about competitors including their movements, prices and offerings they were aware that their competitors could potentially engage the same strategy.

P4: Access to opportunity is a relational capability that can improve the exchange process between SMEs in a network.

During the initial interviews the participant spoke about opportunities through networks solely in terms of referrals. However, over the previous three sessions their understanding of industrial networks had improved and on commencement of the session they each spoke about opportunities that had presented themselves through networks in the past.

In terms of distributors the participants noted that close relationships with them led to many opportunities. Three participants had gained international market access by placing products with recognised distributors in targeted markets. They stated that they would not have the opportunity to export to so many countries without the assistance received from their distributors. The distributors make the processes more efficient by dealing with customers on their behalf and chase payment. The distributors also facilitate sales through suggesting their products. As one stated:

Our distributors sell other components that are used in conjunction with ours. When a customer calls them they will ask if they have a supplier for our product.

The same participant highlighted the importance of maintaining a close relationship with them to continue to receive these opportunities. He noted:

With a complex product the customer will work directly with us for design purposes. However, I will always give the distributor 10% of the sale price as they made the initial connection. This ensures that they will continue to recommend our products. Similarly if a customer contacts us directly I will involve the local distributor to keep them motivated.

Close relationships with customers also led to opportunities for the participants. One company noted that he was trying to organise a meeting with a large corporation for three years. Once they signed

Sony as a customer in the same country it led to ease of access to the other company. They had previously been perceived as too small to work with. In terms of customers another SME, through an existing customer had the opportunity to gain access to a wider network of potential customers. For example as a supplier to one Irish Enterprise Board he was offered the opportunity to present his offering to other Enterprise Boards nationwide. Through this opportunity he now supplies two thirds of the organisations. Similarly, according to the participants, once you successfully supply one University, sister organisations are more likely to adopt the product. Therefore their reputation as a service provider is a huge marketing asset.

Networks of affiliation have led to opportunities for the participants. Through Enterprise Ireland two participants have been given the opportunity to collaborate with the academic sector through the provision of innovation vouchers. Another stated that a business plan competition run by the Institute of Technology in conjunction with a national bank gave him the opportunity access funding from the financial institution which would not otherwise have happened.

Opportunities have been presented through outsourcing. Two companies outsource partial development of their products online leading to enormous cost and time savings. The SMEs use the same service provider continually and the same people within that organisation. As a result of repeat custom, relationships closeness and trust accelerates. One of the participants noted that he has a new online product which he is going to develop wholly through such means.

P5: Proactive product or process adaptations are a relational capability achievable by SMEs through networks. Such adaptations may occur between SMEs or within one SME based on discussions within the network setting.

Through the initial discussion the researchers was able extract the factors positively affecting the current adaptation process of the SMEs involved in this study, potentially facilitating co-adaptation. For example, the strength of the relationships had an impact on the type of adaptation sought by and/or achieved by the SME actors. In terms of adapting product price, although it had an impact on the relationships within a value chain, the ability to adapt prices was not dependent on relationships. Conversely, adapting products for foreign markets was great facilitated by strong ties with distributors, customers and their respective networks. Internal business procedures also affected co-adaptation whereby some of the participants engaged in mass customisation and therefore co-adapted their product for each customer based on specifications as set out by the customer. Although dyadic, this structure enabled the SMEs to provide tailored products to meet each customer needs; making it difficult for the customer to compare prices with competitors; and therefore the focus is shifted from price to benefits.

Our products change all the time and are customised on a customer by customer basis. We offer 'mass customisation' providing a custom solution for all devices in the market.

Co-adaptation through dyadic relationships was commonplace where few, larger companies represented the client base. Co-adaptation strengthened the relationships between customer and SME as a result of the coordination and communication mechanisms in place for product development and testing. Mutual trust characterised the co-adaptation process as; the SME has to ensure that the customer would accept and pay for the product; the customer had to trust that the SME was competent in his/her ability to analyse information; search for sound adaptation solutions; and trust the competence of the SME in product delivery. This was particularly important where the customer provided financial support during the co-adaptation process.

Through the intervention exercise it was revealed that none of the participants felt that they were fully supported in the adaptation process through their networks. The researchers graphically

depicted the support that the SMEs stated that they had received in the past in their adaptive behaviour, which revealed gaps, particularly in the area of co-financing. Therefore, regarding future co-adaptation through networks, the participants focused on the adaptation of their adaptation strategy in lieu of co-adapting their products or services to include network actors through the whole process. Interestingly none of the participants discussed possible adaptations with their competitors. In fact this session highlighted that the majority of the SMEs had an adversarial attitude towards their competitors and no trust existed between them.

P6: SME networks are a proactive means through which the individual firms can tap into the pools of technologies and human resources in order to jointly innovate.

The majority of the participant SMEs had innovated products/services since the inception of their own companies. Whilst the participants noted that the innovation process was not conducted alone, discussions with the participants showed that innovation ensued from a series of dyadic relationships as opposed to within a network context. For example, the majority of participants mentioned relationships with customers in their innovation process. Although more than half of the SME owners noted that the customers' main role was the provision of an idea for some participants assistance in testing innovations was of considerable benefit. Referring to the customer's role in idea generation the participants noted that where strong relationships are in place, they can approach their customers and ask them what new products they would like to see.

To a certain degree we rely on our customers to either tell us or imply what innovations they would like to see. Through frequent meetings with them we increase our chances of discovering their needs and innovating to meet them. On occasion this has been merely a passing comment by a customer which has sparked an idea for us. We offer our larger customers a day of free consultancy each year, at which we discuss possible innovations on our part to assist them in their own innovative capabilities.

Similarly, regarding distributors, for the SMEs that use their services, the main value derived during the innovation process was information leading to the innovation process. That is information regarding other products that exist on the market in competition to theirs as well as new products emerging that they could potentially supply a component for. In terms of co-innovation with customers the SME owners highlighted that the customers innovate through approaching them with a particular requirement/problem which they jointly build to meet their requirements.

Often a customer will not know exactly what they need. They will have a good idea of the desired outcome for a particular piece of software but little understanding of the best way to input the data for this result. Therefore, through continual interaction we jointly work on the idea until we have a high quality specification to operate with.

Therefore, although the participants were discussing co-innovation, their description was dyadic in nature with only two parties to the transaction. Strong relationships bound the SMEs with their main customers where together they designed; tested; adjusted and developed the final product.

Discussion

Relational capability as an overarching construct provides a novel conceptual framework for observing and understanding SME networks. Findings support the contention that SMEs utilise relational capabilities to varying degrees. Whilst the term 'relational capability' has not been cited widely in the literature, strong theoretical support exists for the five of the six dimensions of the relational capability construct from a marketing, strategic management and network literature

perspective. Although not empirically supported by the literature realisation proved an important construct as the basis for all other capabilities. Findings revealed that relational realisation stemmed from personal contact networks. This has implications for policy as ensuring a full understanding of industrial networks and its dimensions should be at the core of any Irish network/entrepreneurship programme to ensure the maximum derivation of benefits.

Previous literature by Ritter et al. (2002) which suggests the appropriateness of labelling a firm's network ability as 'network competence' referring to the firms' ability to initiate and maintain connections within networks of embedded inter-organisational relationships inclusive of; customer; suppliers; research institutes; trade associations; and competitors (Ritter, 1999; Ritter et al, 2002; Ritter & Gemünden, 2004) is closely linked to the assessment dimension of relational capability. However this study highlights the importance of taking a further step backwards to discover how firms', in particular SMEs, actually view their networks.

In terms of assessment the participants experience had an effect on their ability to market through networks. Hill and Wright (2001), focusing on the more positive attributes of small firm networks found that experience was a capabilities present within SMEs, which could be associated with the practice of effective marketing. In addition the participants are also now aware of the benefits associated with locating and joining relevant networks and maintaining close ties with all parties in their supply chain. Also SMEs with greater experience in a network setting may have enhanced capabilities in generating marketing value from them and learn from past experiences. This stems from the fact that they bring to the networks realistic expected gains that can be derived from their participation. The participant SMEs can now be proactive in designing their networks as they are aware of their desires and the means through which they can be satisfied in the network context.

In addition to network experience the authors also found that experience working in the field affected the participants' ability to market through networks. Those employed in the sector for more than five years prior to the establishment of their own companies had a more thorough understanding of the current key players and networks in operation. Therefore the authors agree with Zollo et al., (2002) who state that specific investments of managerial time and effort to track down, discuss, and codify key lessons learned from past cooperative experiences may be important to cultivate relational capabilities. This is consistent with the findings from a strategic management perspective that experience is a precondition for the firm to create value via the alliance function and successful formation and management of new alliances (Gulati et al., 2000; Anand and Khanna, 2000).

Findings highlighted that the Irish SMEs have accessed valuable knowledge through their networks of relationships. According to the participants this value could be partially attributed to the fact that stemming from relationships the knowledge was trustworthy and relevant due to its emergence from value chain members. This is in line with literature from a strategic management perspective that networks can act as a source of reliable information (McEvily and Zaheer 1999) and that through close social interaction, firms are able to enhance the depth, breadth, and efficiency of mutual knowledge exchange in relationships (Dyer and Singh, 1998; Lane and Lubatkin, 1998).

The type of knowledge emanating through networks was an important dimension in terms of the overall relational capability construct. Explicit knowledge did flow through the SME networks, however, although this information was valuable it did not necessitate embedded network ties. Conversely, as a dimension of the relational capability construct, access to tacit knowledge emerged as a dimension greatly facilitated by relationships and embedded ties. Tacit knowledge such as the transfer of core expertise across actors was transferred between actors in this study leading to the co-creation of new knowledge. This complex process involved the integration of the SMEs internal expertise with the network actors' external knowledge and hence required repeated interactions over significant time periods.

Additionally, the participants recognised the value of network information and as managing directors of their own enterprises constantly strived to use it to its maximum potential. This is in keeping with the strategic management literature where Cohen and Levinthal highlight the importance of the relational partners' absorptive capacity which they describe as the ability of a firm to recognise the value of new, external information, assimilate it, and apply it to commercial ends (1990: 128). Therefore, the benefits stemming from the access to knowledge dimension was due to the SMEs ability to recognise knowledge (see McEvily and Zaheer, 1999), to receive it and the ability to use it (see Burt, 1992:13).

Findings highlight the importance of the access to opportunity dimensions of relational capability however the participants were transactional in their approach. The SMEs scanned their environment for external resources and skills on a need basis rather than on an ongoing basis. Findings also illustrated that the participants built purpose specific relationships which frequently ceased following the acquisition of their desired result. The academic literature relating to opportunities through networks highlights relationships as a means to attain knowledge, facilitate adaptation and innovation. Therefore, while the literature highlight the notion that networks can be used to search for opportunities (McEvily and Zaheer, 1999) it is less forthcoming in what constitutes an opportunity. As a dimension of relational capability, the focus is the combination of network factors leading to opportunities, which are the process of opportunity emergence and the description of what constitutes and opportunity through the eyes of the participant SMEs. The transactional view of the Irish participants is evident through analysing the type of opportunity that they placed value on and sought through networks, mainly access to finance, sales and training. Although these three motivators are important and required a relational element, they require occasional interactions and do not necessitate embedded ties. Interestingly, through participation in the research programme the SMEs did access opportunities from each other, in terms of advice, finance and connections whereas up to this point their view of networks had focused primarily on value chain members and academic and government bodies. Additionally they recognised the value of creating their own opportunities through an analysis of their network members' capabilities.

Findings suggest mixed support for the co-adaptation dimension to the overarching relational capability construct. Adaptation was crucially important for the SMEs in conducting their business activities. The SMEs were in general characterised by having fewer large customers and suppliers and as such adaptations, in line with the IMP literature (Brennan & Turnbull, 1999; Ford & McDowell, 1999; Ritter, 1999), were viewed as necessary and expected in order to cope with environmental changes and in a bid to serve each other better. However, the strategies employed by the SMEs in the process of adapting had a significant impact in the context of the overall relational capability construct as the participants engaged in predominately dyadic adaptations with their customers, altering their products and services on a customer need basis. These dyadic adaptations were often transactional in that they did not always stem from long term embedded relationships and there was never a commitment of financial or human resources in the process. Frequently the customers assisted with the re-design and/or re-development of the product or service but once it was complete the relationship was put on hold.

Support exists for the contention that SME networks are a proactive means through which the individual SMEs can tap into the pools of technologies and human resources in order to jointly innovate. However, in terms of the relational capability construct the differentiation between the SMEs willingness and ability to collaborate is important in addition to the type of collaboration sought. For example findings suggest that the SMEs had a preference for innovating alone. Although in search of financial resources to assist their innovation process, the owner managers sought financial injections from venture capitalists and government agencies more than partnership with their value chain.

The core stakeholders involved in the co-innovation process varied across SMEs. In keeping with findings from Von Hippel (1988) the participants could trace the initial innovative idea to customers who expressed a desire or need for a particular product. This innovation process could be described as transactional as often the relationship ended on completion and exchange of the product. Resource ties were limited in the dyadic relationship whereby the in keeping with Lindburg & Tell (1998) the core competencies and expertise existed within the SME with the customer providing the impulse to commence the development processes. However, on occasion the exchange of a co-innovated product represented the commencement of long term embedded relationships with customers whereby alterations and adjustments to the product were dependent on the SME owner's expertise. Additionally, for some SMEs, where co-innovation existed between members of the value chain, they ensued from a series of dyadic relationships as opposed to within a network context. This was due to the fact that the participants did not want to make their operational processes transparent to the network as a whole due to a lack of trust and a recurrent fear regarding competitor knowledge.

Co-innovation through networks of relationships is a useful tool for SMEs. Faced by the challenge of resource scarcity, networks allow for the improvement of the SMEs network capacity. Without R&D budgets SMEs must rely on external knowledge for support in the innovation process. Moreover, SMEs are less likely to conduct large scale surveys of customer needs; and hence interactions with value chain members can provide valuable innovation related information to the actors which can increase the chances of developing successful new products and technologies.

The necessity for the relational capability framework can be justified through a comparison of the key assumptions from the SME marketing literature with the current findings. Consistent with Carson (1985) each of the SMEs in this study suffered from limited resources; were specialists in their core area of expertise with a general business education attained for the most part from the academic institutes in which they were affiliated with; and for the most part were dependent on business from a small economy. Furthermore marketing was not a priority for the SME participants and hence little time was dedicated to it. Instead, marketing was a reactive activity, conducted on a need basis when business was slow and aimed at insulating the SMEs from competitors. Through the implementation of the relational capability framework and the six interventions findings showed that the participants started to use their networks as a means to enhance their marketing through networks. As a conceptual framework, findings provide partial support for the value of the conceptualisation as a marketing framework specifically suitable for smaller firms. The small number of customers, suppliers and distributors which characterise the study participants facilitate the building of close relationships and networks with industrial stakeholders. From a resource level, as owner managers, the participant actors are responsible for the overall running of their enterprises and are hence knowledgeable in all areas of their business functioning. This in-depth company specific knowledge facilitates access to opportunity through the actors' ability to convert general and abstract opportunities into those relevant and potentially beneficial to their own company. Specialised internal knowledge also facilitates the successful application and integration of network knowledge. Regarding activities the SME participants' flexibility and autonomy in changing procedures and operations enables timely co-adaptation and co-innovation.

In an overall sense, the findings suggest that as a working model the six dimensions of relational capability have great potential to facilitate SMEs in their networks. Whilst the 'relational capability' construct encompasses all six dimensions, findings indicate that each network of embedded relationships will vary in the strength of attainment of each of the six dimensions. That is, high levels of the realisation and assessment dimensions are fundamental for SME network functioning, and hence important for each relationship. The SME participants, particularly from an Irish context, benefited greatly from viewing networks through a business-to-business lens and through an enhanced ability to manage relationships. In practice, the researcher found that the type of knowledge accessed and opportunity which stems from networks depends dually on the aspirations and needs of the SME owners and the strength of the relationship ties. Knowledge and opportunities

were acquired through all networks, with valuable tacit knowledge and immediate opportunities attained through close networks of relationships. Regarding co-adaptation and co-innovation through SME networks, this study showed their emergence in a few, select networks of relationships.

Conclusion

In conclusion, although the participants, through the use of interventions, gradually viewed networks through an industrial lens, the complexity and difficulty in operationalising the other dimensions pre-realisation highlighted its role as the foundation for the attainment of the; assessment; access to knowledge; access to opportunity; co-adaptation; and co-innovation dimensions, hence the conceptualisation as a whole. Therefore, in making the conceptual framework operational, the importance of its structure became apparent. The Actor-Resource-Activity Model (ARA) as depicted by the IMP group of researchers was utilised to classify the six relational capability constructs. As a descriptive tool designed to detail the three substance layers of an industrial relationship, it proved valuable in the structuring of the six dimensions of relational capability. However, a processual element emerged through the duration of the study whereby findings suggested that the attainment of one layer of the capability framework had a significantly positive effect on the next layer (see figure 1.1). That is, the research findings highlight the importance of the realisation capability at the actor level as the foundation for all other SME network capabilities. In the same vein, the co-adaptation and co-innovation capabilities (activities level) are greatly facilitated through the generation and integration of knowledge and opportunities (resource level) emanating through networks. Additionally the assessment dimension is important in determining which relationships to strengthen and which ties to maintain as weak (see figure 1.1). This highlights the value of viewing the conceptualisation as a process as opposed to each dimension existing as stand alone entities. The findings further demonstrate the overlap and interconnectedness between the six dimensions of dimensions are blurred.

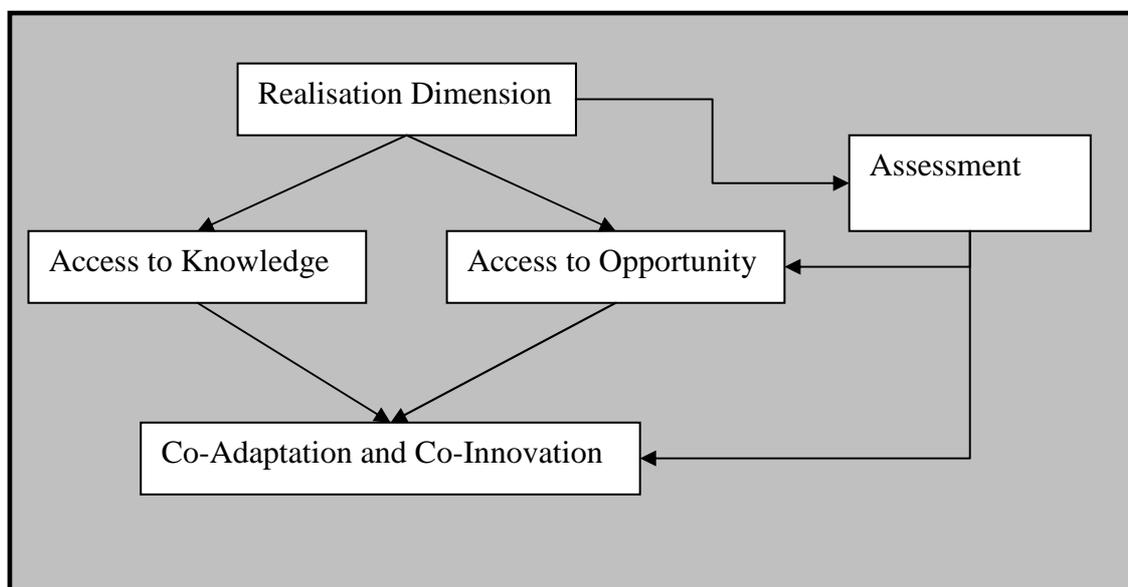


Figure 1.1 The dimensions of relational capability as a process

There are numerous references to capabilities and their usefulness without careful consideration as to when, where and how they are created and the exact benefits that accrue. The primary contribution of our study was to illustrate that through networks many relational capabilities can be realised positively effecting SMEs marketing efforts. Similar to prior observations (Carson, 1985) the significance of limitations including the lack of financial and human resources were highlighted by the participants. However the authors sense that overtime as the participants learn to build more

cooperative relationships with other stakeholders in their business environment, that such barriers could potentially be fully overcome through networks.

A potential barrier to enhanced marketing through networks is the independent mentality of the selected participants. The SMEs were unwilling to work with or share pertinent information with their competitors or similar companies working within their area. Prior to their agreement to participate in this study a condition, as set by the participants themselves, was that no other similar company be involved. Regarding growth, although desired by the case companies, only one company was willing to relinquish share capital as a means to acquire finance for business expansion. In terms of independence the authors are aware of the potential interesting insights that would be gleaned from an international comparison study. A similar study with SMEs from the Nordic countries, who have long established the network mentality would prove interesting.

In terms of practical implications, the paper might provide some way out of the resource/time pressure on SME marketing practitioners through providing them with marketing route-ways through their existing and potential networks. However, this research is not without its limitations. The conceptual framework and its components, although representing an in-depth longitudinal tracing of eight Irish SME owner/managers, could be applied in a wider empirical setting to fully evaluate their usefulness.

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