

# **The Components of Networking for Business to Business Marketing: Empirical Evidence from the Financial Services Sector**

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## **Abstract**

The purpose of this paper is to present the empirical findings of a recent qualitative study of the networks within which venture capital firms are embedded. The findings indicate that 60% of management buy-out managers' time is focused on networking activities in order to procure MBO deals through their network contacts. In addition the grounded findings generated uncover the components of networking, within the venture capital industry. The paper begins by presenting a discussion of the venture capital industry and identifying the research problem, it then continues with a review of the relevant literatures, which is followed by the presentation of empirical findings. The paper concludes with a discussion of the implications of the research study.

## **Introduction**

The theme at the centre of this study is the impact which the networks, within which venture capital firms are embedded, have upon the Management Buy-Out Industry. This is an exploratory study of social networks, where the grounded findings are generated implementing a qualitative, inductive approach using a theoretical sample of a venture capital firm, which is a major player within the British and European MBO industry. The research findings of this study clearly demonstrate that MBO networks are the principal means by which Management Buy-out deals are procured. This type of less traditional form of marketing is used widely throughout the industry, mainly due to the legal restrictions of the Financial Services Act 1986 which states that financial services firms cannot solicit or entice a prospective management buy-out. Consequently, those financial services firms involved in this type of financial provision tend to procure deals through network contacts and networking activities. This paper attempts to further understand these networks, by revealing the components of networking.

The UK venture capital industry is now the largest in Europe, accounting in 1995 for 47% of the total venture capital investment: as such it is second only to the United States in world importance (Bannock 1991). Consequently, the UK venture capital industry has made a

major contribution to the UK economy and continues to provide the capital which enables entrepreneurs and management teams to start new businesses, expand existing ones or buy the companies they already manage to allow them to fulfil their full potential. The significance of the venture capital industry's contribution to the financial sector British industry and small to medium sized enterprises (SMEs), led to the consequent establishment of British Venture Capital Association (BVCA) and Management Buy-Out Research Centre at Nottingham University. Venture capital firms and the contribution which they make to the British economy have more recently been recognised not only from an economic stance, there has also been an increasing amount of attention focused on to the contribution which venture capital firms make towards the understanding and explanation of the processes adopted in the provision of capital within the financial sector. In particular the stance adopted by management buy-out managers, and the role, which they play in the market demand for finance by British industry.

### **Management Buy-Out Literature**

Previous research shows that the majority of studies carried out on the MBO industry have tended to focus on the mechanics of the MBO deal rather than the underlying mechanisms and operational aspects of the MBO industry (Chiplin, Wright and Robbie CMBOR 1998, 1997, 1991; Robbie and Wright, 1997). Whilst this body of literature is extremely diverse and offers a breadth of research topics, it has tended to produce studies which not only concentrate on the mechanics of the MBO deal (financial and legal aspects), but which in addition involves the collection of quantitative data (Hodges and Wright, 1994; Wright, Thomson and Robbie, 1997; Thompson, 1992; Burns and Whitehouse, 1996; Wright, Ennew and Starkey, 1991) However, although these research studies have been invaluable to the understanding of the MBO phenomenon, researchers have been inclined to focus less on the relational activities and network dimensions which are implemented by MBO managers in order to secure MBO deals.

### **Network Theory**

The roots and lineage of the development of social network analysis, can be traced from its early conception in the 1920s from the sociometric analysts who proceed many technical advances by using the methods of graph theory, the Harvard researchers of the 1930s, who explored patterns of interpersonal relations and the formation of cliques and the Manchester anthropologists who built on both these strands to investigate the structure of community relations in village tribal societies (Scott, 1992). The Manchester anthropologists, developed an image which conceived that social configuration consists of a web of relations through which people interact and then conceptualised this framework as an overlapping network of interrelations (not dyadic). The Manchester group therefore, considered that by conceptualising networks as overlapping relationships which are embedded in concrete social life as a way of closing conceptual gaps. Following on from this work, Mitchell then conceptualised social networks as possessing morphological and interactional dimensions, which take account of the social networks of the actors, involved. The author proposes that these relational characteristics as described by Mitchell (1969) be implemented for the purposes of developing an understanding of the networks within which venture capital firms are embedded.

## **The Study and Method Adopted**

The theme at the centre of this study is an exploratory study of the social networks within which venture capital firms are embedded. The grounded findings are generated implementing a qualitative inductive approach, which is suitable for collecting and analysing relational data (Grounded Theory) using a theoretical sample of a venture capital firm, which is a major player within the Management Buy-Out Industry ( 3i ). Grounded theory is a research methodology that systematically generates theory from the data. The data concerned being systematically obtained using a social research approach (Glaser, 1978). The goal of grounded theory is to generate a theory, which accounts for a pattern of behaviour that is relevant and meaningful to those involved, as such the methodology takes account of all aspects of the research process including the researcher. Initially developed in the 1960s by the American sociologists Glaser and Strauss grounded theory has traditionally been confined to sociological studies, (see Glaser 1993, 1994). The method has however been brought to the attention of management researchers by Gummesson (1991) and Easterby-Smith et al (1991). The underlying philosophical approaches, which underpin the theory, suggests that the analyst believes that the social organisation of the world to be integrated, and as such the role of the grounded theorist is to discover these processes of socialisation. The process of data collection and analysis was of in-depth interviews, with access to both the case company and interviewees being negotiated through the researcher's ' access contact' within the organisation. Eighteen in-depth interviews were conducted at the case company's regional offices throughout the U.K, interviews were then transcribed and analysed and coded adopting the grounded theory method.

## **Research Findings: Components of MBO Networks**

### **Networking**

The principal reason underlying the networking activities of MBO managers is to create, develop and maintain relationships with the network participants, Mitchell, (1969). Due to the legal restrictions within the industry, which dictate that financial institutions cannot directly solicit, potential MBO clients, the industry therefore, relies heavily on referrals from professional advisors. Consequently, the networking activities and tactics practised by the industry are in the majority of instances planned. The networking activities implemented by the MBO managers' range from a 'quick drink in the pub' to high profile corporate events, which are reported in the press. All of these activities however, have similar aims which are firstly, to increase, reinforce and maintain the reputation, corporate image, thereby maintaining and increasing the credibility of the company and secondly, as described earlier to create, develop and maintain relationships with network participants. As such the findings in relation to networking, demonstrates that it is firmly placed within social network theory. Relationships have also been identified within the context of the research study as being utilised by the MBO managers to create, build, develop and maintain relationships, Kapferer (1969) and Epstein (1969) in order to gain access to prospective MBO deals, maintain and improve the corporate image and subsequent credibility of the company which is influenced by company objectives.

### **Recruitment**

The researcher has argued in the previous section, that, the main underlying reasons for the networking activities used by management buyout managers is firstly to create, develop and maintain relationships with network participants to procure and complete MBO deals. Secondly, that the networking activities implemented by the MBO managers was influenced

by company objectives and the strength and weakness of ties (relationships). Consequently, networking has been evaluated by the researcher as critical to the MBO industry and a major finding of the research study. Subsequently, the research indicated the importance of MBO managers possessing the personality and skills required to network, with the identification of skills required to network being of significant importance to the industry and management in general. Recruitment is drawn from the Marketing and Social Network literature. According to Arabie and Wind (1995), until recently the academic and business marketing literature, paid little attention to networks and their opportunities, therefore, there is little literature in this area as it is now in the process of research and development and as such has been identified by the author as a research gap. However, the comments and conclusions which Arabie and Wind draw demonstrate, that the linkage between social networks and marketing does have value and is indeed highlighted as an area in particular need of researchers attention. According to Arabie and Wind (1995) social networks can and have provided the foundation for effective marketing strategies and the challenge to marketing scientists is to move towards a better understanding of the potential fields which social networks can offer.

### **Reputation**

Reputation was found to be of significant importance with reference to the study of networks within the MBO industry. In relation to the study the maintenance and development of reputation, credibility and the subsequent corporate image of the company within the MBO industry was seen as paramount in establishing the MBO networks participants' attitudes toward the company. Consequently, networks participants' attitude and image of the MBO company was regarded as critical in their decisions to create, develop and maintain relationships, network with, and make MBO referrals to the company. Therefore, the consequence of reputation in the procurement of deals, deal completion and the role, which it assumes in the process of networking, cannot be underestimated. Consequently, reputation and networking are intrinsically linked, and much of the networking activities implemented and the completion of deals carried out by the MBO managers is dedicated to the maintenance and development of the company's reputation. The data also established that the MBO managers are part of the image of the company therefore, their actions, financial expertise, networking skills, personal conduct and image is paramount in the activities of the company in the establishing the reputation of the company. Hence, the relationship between reputation and recruitment can be seen as, of fundamental importance.

### **Performance**

The research findings indicate that performance is a critical factor in the networks of MBO's and clearly demonstrates that performance is a significant driver of the MBO manager's networking activities. This can be explained by the need for MBO deals to be completed fees for the service collected and the potential of an MBO flotation and subsequent realisation of their investment coming to fruition. Consequently, the body of literature from which performance is embedded in, is that of social networks in relation to economics, more specifically that of transaction costs. Taking Granovetter's (1985; 1992) discussions of sociological explanations of economic activity, he argues that social actors do not behave and make decisions like atoms devoid of context, but rather their attempts at purposeful action are embedded in concrete on-going relationships; and that all action is socially situated and economic and non- economic goals, such as sociability, are typically pursued by actors at the same time. The research finding of performance whilst taking into consideration Granovetter's remarks concludes that the significance of performance within the context of the research study of networks within the MBO industry is a main influencing factor.

## **Implications for Management**

The implications of this study of the networks within which venture capital firms are embedded are that management in general would benefit from, as mentioned above, the adoption of formalising their networking practices, and activities (networking strategy) and placing them within the marketing strategy and planning of the company. This formalisation of the 'networking strategy' would allow management, the opportunity to plan their networking activities therefore, gaining more control over firstly, the process and procedures (quality, and targeting) of networking activities, secondly the time and effort in relation to network activity outcomes and thirdly, in the monitoring and control of networking activity from an economic viewpoint.

## **Implications for Researchers and Academics**

It is evident from this research study, that whilst much research has been carried out in the MBO, this has focused mainly on the mechanics of the MBO rather than the more qualitative nature (mechanisms) of the industry. The research findings indicated that at least 60% of MBO managers' time is occupied on networking activities, with the remaining 40% spent on the mechanics of the MBO deal, involved in such activities as the gearing, financing and legalistic procedures, this evidence has several implications for researchers in the field of marketing of financial services. Therefore, the research study implies that, there is a need for research specifically within the MBO industry, and more generally the field of financial services, to investigate further the role which networks and relationships play within the financial services industry and the services industry in general utilising a qualitative approach.

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