Skillnets Network Series
No.5

Barriers to Participation in Networks

In this Guide we present an overview of the barriers to effective participation in networks. and examine the three main ones in detail: trust, sharing knowledge and the presence of competitors.

Barriers to Effective Participation

An overview of the range of reasons why firms, of all sizes and in both services and manufacturing, feel inhibited from becoming involved in networks was shown in an Australian study which found that information disclosure was the top concern closely followed by a desire to remain independent. Significantly neither size nor geographic distance were considered as important inhibiting factors. This list of concerns in order of the importance attributed to them by manufacturing firms were:

- Concern with information disclosure.
- Desire to remain independent.
- Uncertain what assistance the network would be to the firm.
- Distrust of other firms.
- Lack of suitable partners.
- Increased risk to firms.
- Lack of suitable information/guidance.
- Uncertainty with initiating network.
- Type of manufacturing/service.
- Financial resources.
- Lack of personal contacts.
- Size of business.
- Geographic distance.

Form of Ownership

The form of ownership may influence how a firm behaves in a network. More complex forms of ownership (multiple owners, wide range of shareholders, foreign-owned, family-owned) may make it difficult for the firm's representative in the network to be as decisive at certain stages as other members. This needs to be recognised and flagged for all the members early in the life of the network so that appropriate allowances can be made.

Size of Firm

To be successful, networks among companies of substantially different size frequently require the fostering of a special environment. Although the network may have members from small firms and particular business units or divisions of larger companies (as opposed to the large company as a whole), the differences in bureaucratic cultures and operational practices may still stifle the network and overwhelm the smaller partners.

Network representatives from large firms may find it more difficult to be as open and participative (in certain situations) as owner-managers of SMEs. This needs to be recognised. What is important here is that (a) the large firm representative is a senior manager and is mandated to make decisions, and (b) the wholehearted and fully-informed commitment of senior management has already been given to the network.

Age of Firm

Research shows relatively long established and successful small to medium firms may encounter difficulties with networks. Because of their relative commercial stability they may not be as actively seeking growth as relatively newer firms and may have fairly rigid operating systems and practices which do not easily gel with the network concept. Such firms need to be clear about how the network functions from the very start and what their role in the network will be.

Resources

The cost of network participation and the time involved can also serve as a barrier, especially for SMEs. There are no easy solutions here. The best scenario is one in which the firm has a crystal clear understanding of what it hopes to gain by network participation, understands and is able to quantify what that will cost in terms of time and money, and is happy that the anticipated results justify the investment. Careful facilitation by the network broker at the formation stage to ensure that this level of clarity is achieved is therefore vital.

Legal Rights

Though it may not often arise in developmental networks there needs to be a way in which the ownership of products or services of a commercial nature which are developed either by the network or under the auspices of the network have their ownership rights clearly delineated. It may, or may not, be appropriate for the network itself to take on legal rights. The point is that such an eventuality is provided for at the beginning and incorporated in the Network Agreement (see Skillnets Network Series: No 2).

Conflict of interest

There must be no conflict of interest regarding the management or ownership of the network, which might lead to unfair dealings and distrust among the partners.

Confidentiality

All network members must maintain confidentiality, an important factor in building trust. Information sharing is a key factor in successful networking. Resolving issues that may arise between confidentiality and openness requires good judgement on the part of all concerned. However, depending on the scope of activity of the network, there may be a need for formal arrangements for the protection of company-specific knowledge or information that is shared in the context of the network. This could be, for example, knowledge related to management skills or organisational procedures which might be of value to a competitor. Members should feel free to share such information knowing that it will be treated in confidence and not divulged to a third party. This protection needs to be stipulated in the Network Agreement and backed up with appropriate sanctions. It is important also that member firms educate employees about the type of information they can share within the network.

Attitudes

Confidence breeds confidence. Positive attitudes towards the network should be maintained at all times by all network members.

Trust

All the evidence points to the importance of trust in building and sustaining effective networks. Where partners are suspicious of each other the level of trust needed to engage in co-operative activities takes longer to develop or, in some cases, may never be achieved.[2] Trust in the context of a business network has been defined as “an expectation of a manager that his (potential) business partner will not act opportunistically - even if he holds no power over him to ensure that he behaves[3].”

Building Trust

The process of building and sustaining trust in networks can be seen to take place in a number of ways:

- The initial trust between participants to a network may result from their personal knowledge of each other, their common membership of a local association or even sports body, social or business references, or even credibility built-up from media or word-of-mouth awareness.

- Trust may initially be embedded in formal agreements, contracts, rules of behaviour, or the mediating and facilitating role of a broker or co-ordinator. The support or influence of a professional body, state agency, business association, chamber of commerce, or large and well established company may also be important.
- Trust can be sustained by social interaction, the behaviour of the participants towards each other, the achievement of “openness” in communications, the absence of undue conflict, and the achievement of the desired results.

- A carrot-stick approach also serves its purpose. For example, participants may be more inclined to trust and seek trust from their network partners when they consider the ‘cost of leaving’ and the loss of the ‘sunk cost’ investment in initiation and maintaining the network. Peer pressure also plays a role.

- Locality and the importance of geographic proximity is influential in retaining trust in a network.

- A real cost, or value, may also be attributed to trust: “If managers trust each other not to act opportunistically, economic action (co-operation) is “lubricated”. Such trust is of economic value, because it allows agents to initiate and maintain co-operation - without making costly safeguards. If trust is common or “social” amongst a whole group of agents, widespread, flexible co-operation is a real option. The importance of trust for economic action and co-operation applies both on principal - agent relationships within firms; relationships between firms and customers; and between managers of independent business firms (both in vertical and horizontal firm relations). Because trust is both valuable; non-ubiquitous; and specific, it can be seen as a capability or higher-order capability[4].”

- Synergy effects are closely related to issues of trust in various forms. In addition the ‘social milieu’[5] is thought to be particularly important in reducing or moderating different types of uncertainty faced by firms[6].

- As trust builds among the members their identity with the network as an entity in itself begins to develop. Once the initial level of trust is built, there is a willingness to submerge individual corporate identity into the network management structure. Any narrow individual company focus which may have existed is usually left behind. At the same time the relationships between the companies themselves strengthen significantly, as individual relationships grow even stronger[7].

- Trust can often depend on “good personal bonding” between the individual company representatives in the network. Where this fails to develop the network may never achieve maturity.

Sharing Knowledge

Almost every strategic alliance between firms carries with it a series of risks. In more formal long-term networks there can be shared investment in physical and human assets, which if co-operation breaks down, can only partially be recouped. The other form of risk, which is most evident in Developmental and R&D networks, is that of sharing proprietary knowledge.

Throughout the literature there is evidence of fear around the sharing of knowledge and information among network partners. Martin[8] found that some members of the Medisa Group were reluctant about sharing information with other members whose activities overlapped with theirs. Cooke[9] has shown how this was a major barrier to the development of networks among small firms in the Baden- Wurttenberg region of Germany. De Laat[10] deals exhaustively with the issue of sharing knowledge within research and development alliances. He points to the fact that as well as the formal sharing of knowledge (formulas, designs, manuals) in such alliances, there is the informal sharing of knowledge, which is common to all networks. This he describes as of a tacit kind in which knowledge is transferred simply by people working together. The solutions centre on building trust and confidence between the members of the network over time.

De Laat and Cooke show how the use of third parties and guarantees with regard to confidentiality and intellectual property and other rights are important.
The role of a broker in helping firms to overcome concerns in this regard is crucial and is dealt with in detail in Skillnets Network Series: No 6. The high level of credibility of business associations and chambers of commerce may allow them to play the role of ‘trusted third party’, especially in less formal networks.

Competitors in Networks

Entering into collaboration, or even joining informal networks, with competitor firms is undoubtedly a major inhibiting factor for most companies. The existence of competing firms within networks can be both a barrier to participation by others and, ultimately, can constitute a potential strength of the network. The commercially astute firm will see the potential advantages and will also be aware of the stark reality - sharing knowledge with a competitor firm in a network relationship may give that i competitor a commercial advantage. But true and lasting networks involve a mutual exchange of knowledge, rather than a one-way transfer of knowledge.

The wheel of the acquisition of knowledge must always turn faster for companies to remain competitive. Companies integrated into a network more often leave the search for knowledge to the internal organisational units and the other network participants. Competition forces companies to continually adjust to the changing circumstances by further developing existing knowledge within the : companies and adding to the pool of knowledge of the network. In simple terms, the existence of competitor firms within networks sharpens the competitive edge of the network as whole[11].

In industries that have one or more large, well-established competitors, small firms may have to “band together” and share informational and physical resources and/or create enough market presence to compete effectively. However, it is easy to imagine a situation or industry in which the most valuable use of competitor networks would be to create a market presence. Research and experience shows that there is an innate and strong resistance among firms, especially small firms, towards involvement in networks where competitors are present. In many cases this has prevented networks from being formed or resulted in existing networks losing effectiveness.

Resistance to collaboration with competitors from within the same sector is particularly prevalent. For example, in the case of a sectoral based network for R&D, it would be unlikely that technical secrets, particularly in relation to failures, would be disclosed. Neither would one expect any significant sharing of market information. In trans-sectoral networks the companies do not see themselves as rivals and a deep sharing of information and pooling is possible.

Other issues can impact a decision for competitor firms to collaborate: confidentiality of firm-specific strategic information, fear of losing competitive advantage, and what have been termed “shadow issues” to do with interaction between employees of the different firms. These can include the trading of information by employees on wages and whether as a result of their interaction they will become discontented with their own organisation[12]. In fact Neville found that the opposite was the case with employees recording a higher level of satisfaction with their own organisation post-network involvement. Firms from the same sector who are not involved in the domestic market but in diverse export markets and so are not likely to share common customers have been able to collaborate effectively[13].

Managing Competitor Networks

It is clear however, that when managed well competitor networks yield a high return for participating companies - the effort is likely to be handsomely repaid in terms of network strength, durability, long- term sustainability and positive outcomes for network participants.

The key seems to be in effectively facilitating competitor networks, but one cannot underestimate the practical difficulties in supporting and facilitating networks of competing companies which are inherently more challenging to develop and maintain. Competitor networks do work and in fact have a greater potential for significant learning by network members[14]. Once again the role of the broker as facilitator is vital. Such a broker should be committed to exploratory learning, direct involvement and communication between network members and should strongly encourage and facilitate open interaction among the members. This is dealt with in greater detail in Skillnets Network Series: No 6.

The most effective way of overcoming this barrier to effective network participation is for the network manager or broker to tackle it head-on. If competing firms are seen as an essential element of the network the broker must overcome resistance to exchange knowledge and even fear among the members.

Practical Example from a Competitor Network

‘There was a tremendous sense of paranoia and fear about the competitor...a lot of people were afraid to talk to other people.’ To help overcome this fear the broker acted as a ‘buffer’ during monthly meetings between existing members and new or potential members who might be reticent to talk with other competitor members. The broker in question argued that even though it might present more of a challenge to co-ordinate competitors within a network, ‘it is the socialisation process (among competitors) that is the single most crucial difference between networks and non-networks.’ The approach adopted had greater benefits in terms of organisational learning for the participants than in those networks were competitors were not included[15].

Co-operative Competition

Co-operative competition is a term used by Richter[16] to describe a new competitive paradigm found in strategic networks, where, to compete means to position one’s own company in a strategic network rather than to penetrate markets with aggressive strategies. The generation of knowledge through horizontal learning processes occurs in an area between co-operation and competition: co-operative competition, which “corresponds to the government form of democracy that simultaneously grants security and freedom”. He describes it as a state, in strategic networks, between strict altruism and strong antagonism (what he refers to as “Darwinism”). Altruistic behaviour would be an unanswered sacrifice of competitiveness to the benefit of the co-operating partners. Darwinism would be linked to egotistical behaviour that is disrespectful of the abilities, requirements, and wishes of other network market participants.

The dispute between co-operation and competition among companies is an economic reality. One will rarely find a pursuit of one of these strategies without compromises. The integration into a strategic network transfers companies into a balance of co-operative competition. Often co-operation takes place only in partial areas, such as in a certain product group or in defined market segments, while competition remains intact in others.

Co-operation has traditionally been seen as the second-best solution to increase competitive ability. By the end of the 1980s, however, an avalanche of co-operative agreements set in among larger companies so that currently almost every company has a variety of agreements. Due to the number and complexity of the relationships in a network, it is difficult to clearly distinguish which company is a competitor and which is a co-operative partner, because usually they are both. Thus, it would be better to refer to co-operative competition as an economic survival strategy. Co-operation and competition make up both sides of the same coin; they coexist.

Companies agree, in the first instance, to join networks because of the perceived benefits. By accepting the rule of the network they are agreeing to limit their individual freedom of action. Through participation in the network over time they experience how this works in practice and, how ideally, the loss of partial freedom of action not only does not inhibit competitiveness, but actually enhances it. The logic of extending co-operative competition, rather than direct competition in the marketplace, to all functional areas of the business should then become apparent. As the entire network becomes more broadly-based and efficient, the long term economic survival of the member companies is their reward.

End Notes

1. *Doyle, G.M. (2000), Making Networks Work, Chapter 11, Skillnets: Dublin.*
2. *Martin, T: and Associates with Science Policy Research Centre, UCD (1997) Survey of SME Networks in Ireland. Final Report Submitted to the Pilot Networking Prograf1}me Steering Group, Dept of Enterprise, Trade and Employment (unpublished).*
3. *Lorenzen, M. (1998) Information cost, learning, and trust: Lessons from co-operation and higher-order capabilities amongst geographically proximate firms, Danish Research Unit for Industrial Dynamics.*
4. *Lorenzen, ibid.*
5. *The concept of the social milieu is most often found in the Industrial District model to describe socio- cultural aspects, including such attitudes and traditions as the local work ethos, shared values and questions of identity [Brusco 1990J. Common cultural, psychological and sometimes political backgrounds are credited with generating "synergy effects". One example would be an entrepreneurial and innovative local social atmosphere which encourages, even demands, a mixture of competitive spirit and social responsibility from the working population.*
6. *Albu, M. (1997) Technological Learning and Innovation in Industrial Clusters in the South, Science Policy Research Unit, University of Sussex.*
7. *Neville, T & Associates (1999) Training via Networks: An Evaluation of the interaction between the network companies in the Golden Vale-Dairygold-Castlemahon Foods NOW Project, Malahide, Co. Dublin.*
8. *Martin, ibid.*
9. *Cooke, P. (1998) Enterprise Support Policies in Dynamic European Regions: Policy Implications for Ireland, Paper presented at Sustaining Competitive Advantage - Proceedings of NESC Seminar. Research Series, March. Dublin: NESC.*
10. *De Laat, P (1999) 'Dangerous Liasions: sharing knowledge within research and development alliances' in Grandori, A (ed) Interfirm Networks: Organisation and Industrial Competitiveness. London: Routledge.*
11. *Richter; F-J. (2000) Stratgeic Networks: the Art of Japanese Interfirm Cooperation, The Haworth Press, New York.*
12. *Neville, ibid.*
13. *Martin, ibid.*
14. *Provan, K.J. and S.E. Human (1999) 'Organisational learning and the role of the network broker in small- firm manufacturing networks', in Grandori, A (ed) Interfirm Networks: Organisation and Industrial Competitiveness. London: Routledge.*
15. *Provan and Human, ibid.*
16. *Richter; ibid.*