

Skillnets Network Series

No 2:

# ***Network Formation***

*This guide looks at how networks are formed, how partners are identified and selected, and what structures and agreements need to be put in place.*

## The Idea

The best network ideas are those that are based on a clearly defined business need or perceived opportunity. A network provides a firm with the opportunity to meet an identified need or pursue a business goal in collaboration with other firms. The key question is: can the company meet this need or achieve this goal acting solely on its own or can the goal be better reached through collaboration with other firms? When the answer is in the affirmative a network idea has been formed.

The underlying motivation for most firms to engage in network co-operation has been summed up<sup>1</sup> as the desire 'to gain more efficient use of internal resources through access to external resources'. Six motivating factors have been identified which influence the decision of firms to network<sup>2</sup>:

1. The quest for personal or organisational learning,
2. The need to achieve cost savings,
3. The need to gain critical mass,
4. Observed or perceived synergies with other firms,
5. The desire to find and develop new businesses, and
6. The desire to gain credibility.

The fundamental "motivating force" at play is likely to be the force of change in the market and how firms can rapidly adapt their structures to respond to those changes and thus remain competitive.

Network opportunities generally arise wherever firms draw on similar sources of information technology, capital equipment, labour supplies and materials, or face similar problems of distribution and marketing. Firms that participate in a network, however, are still separate independent entities which compete freely in the market place.

Building on similarities is often a major motivating force in setting-up networks. This is the case even where firms are competing with each other.

A means to assess opportunities for establishing a network is for firms to ask themselves if they are in agreement with either of the following statements<sup>3</sup>:

The performance of my firm in the market in relation to such issues as sales volume, attracting new customers and satisfying the needs of existing customers' satisfaction would be improved by entering into a co-operative relationship with other firms.

The internal performance of my firm in relation to such issues as cost of operations, employee productivity and matching capability to supply to customer demand would be improved by entering into a co-operative relationship with other firms.

## Partner Identification

Some companies know which businesses they'd like to cooperate with almost as soon as they get the network idea. Other companies are enthusiastic about networking as a concept, but have no idea what to look for in a partner, or where to start looking. Some approach the partner search in a casual way, through friends, colleagues and other personal contacts. Others take a more formal approach<sup>4</sup>.

Finding candidates that meet your search criteria can include a review of:

- Public and Commercial databases of firms
- Directories of business associations and chambers of commerce
- State and Semi-state business support agencies (Enterprise Ireland, FAS, County Enterprise Boards)
- Advertisements
- Private Consultants
- Searches on the Internet

The role of a network broker (see Skillnets Network Series: No 5) can be particularly useful at this stage. The broker should:

- Have a clear focus, and know:
- What is the main goal of the proposed network? (Write it down).
- Establish Partner criteria
- What do we need from our network partners in order to meet our objectives?
- Identify possible candidates
- What companies are able to meet these needs?
- Select partners
- Of the companies that meet our needs, which ones do we want as network partners?
- Commence the screening process
- Meet the potential partners.
- Make clear to the candidates that the process is one where you select suitable candidates for the network.

## Establishing Compatibility<sup>5</sup>

### Expectations

What are the company's expectations in terms of time, commitment, cost and outcomes?  
What are the expectations of the potential partners?

### Values

What attitude does the company have towards networking?  
What aspects of the company's corporate culture or values must be taken into account when seeking network partners?  
Is the company able and willing to change to accommodate the needs of potential partners?

### Core expertise

What are the areas of core competence that give the company its competitive advantage in the marketplace? Resources? Expertise? Relationships?  
Is the company looking for a partner that reinforces their areas of core competence, or one that complements them?

Recruiting network partners is both an evaluation and a **selling** process. Be prepared to articulate what you have to offer to potential partners. You may be trying to assess their suitability but they will need to be convinced that this is a good idea for them also. Good information on what the goals of the network (even at a preliminary level) is important and you

must be able to point out what the likely benefits from network participation will be for the candidate firm.

## Partner Selection

Once a list of potential partners has been prepared and initial contact has been made a selection process can commence.

Start by ranking the candidates according to how well they can contribute to the goals of the network. To do this you need good information. You may get candidates to complete a detailed questionnaire aimed at eliciting information about the business strategy and organisation of potential partners. Such details can also be gathered (or expanded upon) through meetings with business owners and managers, and through contacts in the relevant industry.

Other good sources of information about potential partners are the candidate's close associates, such as customers, suppliers and competitors, trade associations, chambers of commerce, trade unions, the candidate's employees, and business advisors.

When ranking the candidates, consider their corporate culture, the results of previous co-operative ventures, their stability, decisiveness, management, and ownership structure as well as the quality of products and services and their competitiveness and core competencies<sup>6</sup>.

### **Companies**

interested in the network concept should:

- Be favourably disposed to the network concept.
- Be financially sound.
- Be capable.
- Be aware that being part of a network requires senior management commitment and time, and will incur costs.
- Be willing to commit to the network for the long-haul.
- Be oriented towards growth.
- Have sufficient resources to allow for effective network participation.
- Be able to add value to the network.

### **Individuals,**

managers or those who will represent the company in the network should:

- Be at a senior level.
- Be in a position to transfer the learning from the network to the companies own work situation.
- Be enthusiastic about the network goals.
- Be sufficiently flexible to respond to the challenges of working in a network.
- Not be motivated by personal material gain.
- Possess an open management style and personality.
- Have a willingness to collaborate with others.
- Show a strong inclination towards exchanging information with others about alternative solutions to common problems
- Understand the benefits of using networks for determining future strategies and business plans.

## 5 Points to Watch

1. In some cases, previous contacts may “cloud” partners views of each other, and, wherever possible, intended partners should be encouraged to leave any “baggage” behind and to start their network work with a clean slate<sup>7</sup>.
2. There is a natural tendency in partner selection to go for homogeneous partners (mostly from the same ethnic group, gender, educational level, status, and age)<sup>8</sup>. However, a balance needs to be struck between complementarity, homogeneity and uniformity on the one hand and the learning opportunities to be gained from collaboration with firms and individuals from different sectors, backgrounds, cultures, and with varying skills and capacities.
3. Close proximity of network partners can be a help in network formation, but is not an absolute requirement for success. However close proximity facilitates interaction between the members, helps to build trust and quickly resolve tensions. Not having to travel long distances to meetings can also be important in the early stages of network formation where members may have difficulty seeing tangible benefits and thus wish to minimise their time investment<sup>9</sup>.
4. Good personal chemistry among the key players and a sense of compatibility are important parts of the business network success. Personal relationships may ultimately make or break the network. While there is no hard and fast rule to evaluate this part of the equation, spend time trying to get to know the candidates on their own turf - their character and compatibility with other potential network members<sup>10</sup>.
5. Commitment from the operational staff in the various companies who will actually carry out the implementation of the business network is important. Companies must sell the venture to their own staff and ensure that equal support is present in their partner firms. Sufficient effort must be put in place up-front to bring the employees on board and to channel their energy into supporting the partnership.

## First Steps:

### ***For the Companies***

The Partner Companies should carry out an analysis of their current situation. This can be done as part of a benchmarking exercise or by means of a strategic analysis with SWOT analysis. This stands for Strengths, Weaknesses, Opportunities, and Threats, a simple management technique for providing a snapshot of a company's strong points and the ways that these competitive advantages and core expertise can best be utilised. It also uncovers areas where the company might have critical weaknesses and shows whether there is potential for improvement.

The following are questions that a company can ask in order to get a good picture of its current and projected strategic position<sup>11</sup>:

### **The industrial sector**

- What are the conditions in the industrial sector we operate in?
- What determinants (natural resources, technology, capital, human resources, knowledge) are affecting us?
- What are the important demand factors in this sector (volume, mix, customer profile)?
- What is going on with related industries - the suppliers and service companies that serve this industrial sector?
- What are the conditions in the competitive arena?

## **The competitive situation**

- What is the competitive situation in the industry?
- What conditions are influencing our suppliers? Our customers? Our competitors?
- Are there any potential newcomers?
- Are there potential substitutes for our products/services?
- What is our competitive position regarding our products? Our market areas?
- What are our strategic core competencies?
- What are the resources, expertise and relationships that give us an advantage in the marketplace?

Arising from this analysis the company can amend or draft its business plan which will be its core guide in network participation. A short business plan should answer the following questions:

- What is the company's business idea?
- What is the company's main corporate goal?
- Which products/services should be given priority?
- What are our market priorities?
- What are the important purchasing criteria?
- What are our core areas of competence?
- What technology is most important to us?
- What are the critical success factors for us to achieve our goal?
- What projects will allow us to achieve our goal?

## **Networking expectations**

Firms need to be reasonably sure that network is right for them. These are some of the questions a company can answer to determine this:

- Are you willing to commit your time to managing the network?
- Are you able to attend regular network meetings?
- Can you accept decisions agreed to by other network members?
- Are you willing to resolve network issues and concerns according to the best interests of the group?
- Are you willing to be flexible and recognise that circumstances may change and that your agreement might also have to change?
- What attitude does your company have towards business networking?
- Is your company able or willing to change to accommodate the needs of the other potential partners?

## ***For the Network***

In terms of the network itself, the following issues need to be established at an early stage, how will the network :

- Be Structured
- Be Managed
- Be Funded
- Be Staffed
- Admit New Members

*(For answers to these questions see Skillnets Network Series: No's 3,4 and 5).*

## Forming the Network<sup>12</sup>

Once the network partners have been identified and have made a commitment to participate the network, what comes next is to establish agreement with regard to the network objective, the levels of responsibility, the expectations of the members, and other fundamental considerations. The goal here is to clarify the business network relationships.

During early meetings of the network the following agenda items should be considered and agreed:

### **Goals**

- What is the Goal of the Network?
- What are the secondary objectives of the Network?
- What targets should be set?
- What will the outcomes of the Network be?
- How will these be measured?

### **Expectations**

- What are the areas in which the individual companies expect to see positive effects?
- Are these expectations justified?
- Are they shared among all the partners?

### **Risks**

- What are the risks involved?
- Are they too great for any of the participants?

### **Commitment**

- Do the member companies understand the diversity of common network projects?
- Are the member companies committed to the concept of networking?
- Is there a sincere commitment to cooperation among the group members?

### **Conflict**

- How will the members deal with conflicts within the group?
- Are there any major differences of opinion as to how the network project will be organised and run?

### **Motivation**

- Does each members' motivation extend beyond economic factors?

### **Barriers**

- To what extent is the involvement of competing companies a barrier to participation?
- Do any of the member companies have major suppliers or customers who could stop the project?
- Are there any agreements in place which could limit the sharing of skills and market insight needed to achieve network objectives?
- Is the success of the network dependent on any key companies? If so, how certain is their participation and contribution?

### **Responsibilities**

- Who is responsible for doing what?
- How is the performance of these responsibilities monitored and controlled?

## The Network Agreement

All networks need to have a written Network Agreement which specifies the goals, actions, measurable results, structures, procedures and other matters to be achieved and observed by the network.

The Network Agreement should include:

- Names of the Members,
- Aims and Objectives of the Network,
- Structure of the Network - Management Committee, etc.,
- Arrangements with regard to staffing,
- Specific Responsibilities of Network members,
- Decision-making procedures,
- Conditions regarding confidentiality of information, knowledge, equipment or technology shared within the network,
- Conditions regarding joint ownership of any products or services developed jointly by or for the network,
- Procedures for resolving disputes between network members,
- Procedures for accepting new members,
- Procedures for the termination of the network.

## The Network Plan

On an annual basis the Network should prepare a plan which should include:

- Network Priorities for the Year,
- Annual Targets linked to the Aims and Objectives in the Network Agreement,
- Measures to Assess Network success,
- Plan of Activities which the Network intends to pursue in the period,
- Budget.

## End Notes

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<sup>1</sup> Dickson, K, Coles, A-M and Lawton-Smith, H (1995), *Successful Inter-Firm R&D Collaboration: A report on the learning issues*, Brunel University, Department of Management Studies, Paper 38, London.

<sup>2</sup> Murto-Kovisto, E and J. Vesalainen. (1994) *Network Management and Interfirm Cooperation*, Proceedings of the University of Vaasa, Finland, Discussion Paper No 172.

<sup>3</sup> UK Business Net

<sup>4</sup> Canadian Business Networks Coalition (CBNC) (1999). *How to Network*, Toronto, Canada.

<sup>5</sup> CBNC, *ibid.*

<sup>6</sup> CBNC, *ibid.*

<sup>7</sup> Europs, 1998

<sup>8</sup> Monsted, M (1994). *Processes and Structures of Networks: Reflections on Methodology*, paper presented at the 8<sup>th</sup> Nordic Conference on Small Business Research, Halmstad University, Sweden.

<sup>9</sup> Martin, T. and Associates with Science Policy Research Centre, UCD (1997) *Survey of SME Networks in Ireland*. Final Report Submitted to the Pilot Networking Programme Steering Group, Dept of Enterprise, Trade and Employment (unpublished).

<sup>10</sup> CBNC, *ibid.*

<sup>11</sup> CBNC, *ibid.*

<sup>12</sup> Most of these points are from CBNC, *ibid.*