

Skillnets Network Series
No 3:

Network Management and Consolidation

In this guide we look at the various functions that have to be performed for effective network development, management and consolidation.

Network Development

The nuts and bolts of effective network development come down to adopting the same strategies that any good company would in the conduct of its own business affairs. That means that every network should have a sense of vision and commitment which is shared by all the partners. But bringing together a group of firms who may not have worked collaboratively before is a challenging and often time-consuming task.

A network will only really begin to function effectively when the partners involved:

- understand one another's aims, and appreciate the key factors and limits underlying their activities;
- understand one another's working culture and commercial contexts;
- are familiar with one another's organisational structures and procedures;
- have agreed and tested means of communication;
- have established good personal relationships.

Much can be achieved by the network, as long as it has come to an agreed mission statement or vision, with a working understanding of common goals, which encapsulates the collective nature of the individual partners' aspirations. Otherwise, partners continue to operate on their own single-issue agenda, or an element of competition might be introduced, both of which would be to the detriment of the work of the network. That is not to say, of course, that the mission statement is agreed once and for all – it must continue to evolve and be redefined as the network grows and develops.

Broadening firm representation beyond the level of the manager and including a combination of employees from different elements of the business can be particularly beneficial. There is, therefore, a way of feeding in the broad base of the experience of the "whole enterprise" rather than solely the management perspective.

The cultural dimension is also important, especially for new entrants to the network. That is how do new entrants penetrate or get access to the network. This is a very strategic point to get access to the right people, and get accepted by the first and centrally placed members¹.

Involving all the actors in an inclusive way and making a project's outcomes as visible as possible will add legitimacy to a project, and bring recognition to the work of the network.

While it is obviously important that the network should gain legitimacy and recognition in the eyes of decision-makers, it is equally if not more important that members of the network and the people which it seeks to serve also have confidence in its work.

It is therefore, a good idea to plan to achieve a concrete result early in the life of the project, as this will help to engender confidence and team spirit and will create a sense of momentum in the work.

The role of the co-ordinator, consultant or broker is of critical importance in obtaining commitment and maintaining interest and involvement in the network.

Network Structure

Successful networks have a formal structure. However, structures need to be as lean as the circumstances allow. Co-ordination and stability are the key objectives to be attained by the use of formal structures.

This structure will be embodied in the Network Agreement (see Skillnets Network Series: No 2). Key issues to be considered in agreeing the structure are:

- How many members will form the network?

- What criteria should each network member fulfil (size, sector, etc)?
- How will new members be admitted?
- How many members will form the management committee?
- How will the management committee be chosen?
- What will the functions of the management committee be?
- How will the members be consulted and involved in decision making?
- How will decisions be made within the network?
- How will the Network operations be supported - by its own staff or a broker or through some set of arrangements between the partners themselves?
- How will the network be funded?
- What Rules and Procedures are needed?
- What will happen if a member decides to leave the network?
- How will disputes between the members be resolved?
- How and in what circumstances will the network be terminated?

Network Consolidation

The core objective at this stage is to build trust and confidence among the members of the network.

This will be helped by the depth and frequency of interaction between member firms which recognised as important for network consolidation and development. Meetings should be held at least monthly where the members get to discuss all issues to do with the management and development of the network. This allows for a cohesive structure to be built up and often strong loyalty links will develop between group members. The degree of interaction can play a powerful role in helping member firms to determine who they can trust and consequently who they can do business with².

It typically takes up to two years for a network to function effectively; the first year is usually taken up with the members getting to know each other and developing an agreed agenda, and the second year with implementing group activities.

Taking on too much too soon can be a problem. Initial enthusiasm should not be allowed to set objectives that are unrealistic or unreachable in the short-term. Early success in reaching targets is an excellent way to build confidence and ensure commitment within a network.

Start small, think big. There are many examples of networks³ which started with a limited agenda, such as sharing information, and subsequently expanded into more ambitious activities. Network development is a process of constant change, the most essential ingredient of which is staying focused on agreed goals.

Members and broker alike must constantly assess where they are in terms of the beneficial outcomes for the participant firms. Strong networks are those which deliver measurable results for their members.

Firms drop-out of networks for a variety of reasons. Lack of time, a failure to identify with the network, lack of clarity as to the goals of the network, changing business circumstances, perceived lack of benefit, and, personal and family matters, are among the most prevalent reasons. The drop-out rate is normally highest in the early stages of development. Static membership is not always a healthy sign. Depending on the structure and nature of the network it is desirable for members and brokers alike to be on the look-out for potential new members.

10 Things to Watch

Research in Finland⁴ has identified ten "prerequisites" for effective network co-operation: These are:

1. Similarity of resources and skills,
2. Equality of resources and skills,
3. Compatibility of resources,
4. Commitment and activity of entrepreneurs,
5. Limited number of participants,
6. Careful selection of partners,
7. Injurious consequences of conflicts inside the group,
8. Insight into the other partners' economic conditions,
9. Possibility for external consultants to contribute, and
10. Need for an external network broker.

Network Bonding

Trust between the members is one of the key success factors in networks. There are no magic formulas for creating trust - it has to be built it, and it can take time, but it will be well worth the effort. The first ingredient is to set a high trust example from the beginning, require a high level of integrity in all dealings between network partners. This will set the tone for all future network relationships. Broker's should listen to negative as well as positive views and show that they understand the partners' fears and concerns. Loss of control, information sharing, working co-operatively with competitors, and the uncertainty of a new venture are threatening to many business owners⁵.

Members should be facilitated to share information about their business experience in order to encourage an insecure partner to feel more comfortable about the process. Details about how other members have dealt with problems can be very helpful.

Social interaction should be encouraged and facilitated as part of the network activity rather than assuming it will take place automatically. Social ties are recognised as a factor in consolidation or 'bonding' network members closer together.

The most commonly used technique to build network identity and strength, thus creating a strong bond between the members, is group facilitation. Enabling individuals to communicate openly in the group context, and thus feel comfortable and capable of fully participating and committing to group decisions and activities is the core objective of this exercise. Group facilitation can be very useful in breaking down barriers and building a group identity. This is a specialised field and should be carried out by a person trained in group-work facilitation skills.

But some researchers argue that in the context of business networks they should only be used as an initial or occasional tool and not as an on-going device for managing the interaction of members. Managers may be more comfortable with more formalised methods of interaction as the subject matter gets more serious. There may be some risk of staying too 'informal' in network groups⁶. Since most firms tend to be reluctant to share information with others, especially with competitors, it is difficult for managers to share valuable information about their competitive weaknesses (especially with their competitors) in a purely informal context, and certainly not in the initial stages of network building. The early stages of network consolidation (group meetings) should aim at the establishment of a broader and more effective set of

motivations - issues such as how the participating companies are going to benefit from the activity.

Ultimately the nature, quality and extent of the interactions between the participants in a network will determine the level of loyalty and trust and lead to the long-term stability of the network. The use of language (e.g. "we are expanding our relationship with company X") and rituals (e.g. celebrating the five-year existence of the network) are helpful in cementing networks. Real experiences in effective collaboration are also essential - "past interactions act to cement future interactions". Essentially, loyalty and trust between the partners to the network are important emotional ties which serve to bind the network together, especially in times of crisis, thus giving it a fighting chance for long-term survival⁷.

Finally, keep in mind that as the network develops, the people involved may grow farther apart instead of closer together. Without the necessary trust and motivation, the network is much likely to fail. In this situation, it may be best for the group to split up.

Decision-Making Processes

Decision-making and the balance of power in networks should be based on equality and consensus. The broker should facilitate equal participation in decision making and decisions should be made by consensus where at all possible. Where there is no broker a member firm must take on the co-ordination role.

Decision-making processes need to be agreed, to be inclusive of all partners, and to ensure that all decisions are taken on the basis of collective responsibility. Processes need to be particularly respectful of small partners who may have fewer resources to contribute to the network but which still have a right to "have their say". Issues which need to be considered include co-ordination, finance, staffing, resource management and evaluation. Sharing "ownership" of these various elements of the network's work is vitally important, if all the partners are to feel valued⁸.

Democratic principles are essential in all types of network if good working relationships are to be developed. However, theorising on democracy is not enough. Mutual respect and participation must be given real expression within the network. This will lead to effective networks where all voices are equal and heard. Sufficient diversity creates energy, leading to synergy and then to positive outcomes⁹.

Rules and Procedures

While rules are necessary they must not be allowed to dominate or inhibit the operation of the network. Rules that are based on practice (even as solutions to conflicts) are best. In general a handful of rules are enough. They should be short and clear and avoid using jargon or legal or terms. If sanctions are included they should be explicit. It must always be remembered that rules and procedures are aids to the process of networking not ends in themselves.

Accurate records of membership, dues, meetings, agreements, events and activities should be kept by the network broker - or some member designated for this purpose. Records are a resource of the network and can be important in a variety of ways.

Funding and Costs

While networks may be able to attract grant-aid or generate finance from their own activities or resources, a core determinant of the strength of a network lies in the level of financial contribution being made by the members of the network.

There is no business network that does not involve costs to the participants. Firms and networks need to have or develop effective systems for monitoring such costs and relating them to the benefits accruing from network participation. The long-term credibility of networks among businesses is likely to be enhanced where a realistic cost-benefit analysis can be arrived at in determining the usefulness of network participation.

Activities

Successful networks are those which are heavily activity centred. The activities will be unique to each network but evidence suggests that activities which work particularly well appear to be events that combine work with pleasure. The facilitation of both formal and, mainly informal, contacts between network members are made possible through casual or planned meetings, information exchanges and customer-supplier relationships.

Some examples of network activities include:

- Hosting meetings in others premises
- Factory visits
- Group attendance at domestic and foreign Trade Fairs
- Group stands at Exhibitions
- Study Visits
- Trade Missions
- Specific partner-matching or Networking events
- Golf Outings
- Picnics
- B-B-Q's
- Pub Nights

Communications

The exchange of information and effective communications within networks is an essential element in their success and in building and maintaining the commitment and involvement of the network participants.

The network needs to agree a clear strategy for communicating **externally** the outcomes of its work, using the most appropriate media for the task. **Internally**, the partners need to agree a system of information flows, to ensure that everyone is kept up to date with meetings, minutes, decisions and work-plans. Individual partners should also take steps to ensure that the outcomes are disseminated internally within their own organisations¹⁰. In terms of external communication the key issue is to designate one, and only one, spokesperson.

Network Size and Duration

While a network should not have less than three members the maximum size is dependent on a range of variables such as resources, the availability of a broker or other support, etc.

However, intensive networks involving numbers in excess of 12-15 members may be difficult to manage.

A network will take at least two years to consolidate. A 3-5 period is a realistic network timeframe.

Company Support

It is important for the success of the network to have support from within the participating companies. Naturally this will depend to a great extent on the confidence and enthusiasm shown by senior management representing each of the partner companies. Personal involvement in network activities at the executive level powerfully demonstrates the company's commitment to cooperation.

The network project will inevitably involve change in each of the member companies, which may lead to uncertainty, and perhaps even opposition among employees. Network members should strive to create a culture of change in their organisations. They should explain the goals and strategies of the network, the background, the benefits as well as the risks. The network should be seen as a venture that will bring new opportunities for individual employees, as well as for the company as a whole.

Network deliverables

Without losing their focus on the long-term strategic objectives of the business network, managers should ensure that there is a continuous stream of short-term deliverables or medium-term achievements. These do not have to be significant achievements, even small things will do. They will help to demonstrate activity and progress, build confidence in the venture, and keep enthusiasm high for the network at both operational and senior management levels of the companies involved¹¹.

End Note

¹Monsted, M (1994). *Processes and Structures of Networks: Reflections on Methodology*, paper presented at the 8th Nordic Conference on Small Business Research, Halmstad University, Sweden.

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 Programme Steering Group, Dept of Enterprise, Trade and Employment (unpublished).

³ Including Technology West, Contract Moulders Group, and Supply Network Shannon.

⁴ Murto-Kovisto, E and J. Vesalainen. (1994) *Network Management and Interfirm Cooperation*, Proceedings of the University of Vaasa, Finland, Discussion Paper No 172.

⁵ Canadian Business Networks Coalition (CBNC) (1999). *How to Network*, Toronto, Canada.

⁶ Tejada, A. (1999). *Critical questions that we should ask about networking*. School of Management, Georgia Tech. Internet Program, USA.

⁷ Richter, F-J. (2000) *Strategic Networks: the Art of Japanese Interfirm Cooperation*, The Haworth Press, New York.

⁸ Europs, 1998.

⁹ Murto-Koivisto and Vesalainen, *ibid*.

¹⁰ Europs, 1998.

¹¹ CBNC, *ibid*.