

Skillnets Network Series
No 4:

Problem Solving and Evaluation

In this guide we explore the various problems which are encountered in network management and discuss how to overcome them, as well as looking at the issues of evaluation and termination of networks.

Conflict Resolution

Conflicts will undoubtedly arise in the life of a network. In general these seem to revolve around personality issues, tensions created by the existence of competitors in the network, and disagreements over process-related matters. Creating space to air problems and concerns is key to dealing effectively with conflict. Evidence tends to suggest that the more dynamic, active successful (or at least progressive) a network is the fewer the conflicts. Stagnant or slow-moving networks or those without clear objectives tend to have more difficulties. Building trust between network participants is important, but this takes time.

Ground rules are essential to allow space for discussion of issues which arise, and these rules need to be agreed at the outset. Some degree of conflict is to be expected as the network develops, but it does not need to be feared. As long as everyone agrees on procedures, both formal and informal, for conflict resolution, it should be possible to move matters forward. The downside of not clarifying roles at the beginning is that partners can come into conflict about basic matters, like money¹ !

Business networks often involve partners with different cultures, capabilities, and ultimate objectives. A certain amount of conflict, therefore, is inevitable. In fact, a moderate degree of conflict in an alliance can be quite healthy and a stimulus to creativity, and improved performance. The key is to have a process in place that will keep conflicts from getting out of hand and causing serious disruption within the network. Where a high degree of conflict is anticipated, it may be best to start with a highly focused network and a simple structure and build the relationship from there, working to find solutions to potential conflicts before attempting a more complex arrangement².

Having a mutually agreed upon and comprehensive Network Agreement (see Skillnets Network Series: No 2) for the network also helps. Many of the conflicts that arise within business networks are the result of misunderstandings or unclear or misread signals among the partners. Clearly defined and widely understood management procedures and well-defined responsibilities can avoid some of the problems.

In the end, a formal method for resolving disputes will be beneficial and should be outlined as part of the agreement. This mechanism should be consistent with the nature of the network and the resources of the partners. It could include a designated independent mediator as a means of final recourse where disputes cannot be settled within the network structure.

Management of Change

A critical aspect of network management and implementation involves the management of change. Numerous studies have shown that successful networks undergo dramatic changes in the first two years as a result of changing economic conditions, new competitors, new technologies, revisions in partner goals, changes in capabilities and circumstances, and the loss or reassignment of key managers³. Managing a business network requires paying close attention to internal and external changes within the participating companies that can affect the network as a whole.

Network management involves a continuous process of negotiating and reaching agreement on the nature and value of current arrangements. Any ideas about rigid planning and control should be tempered by the reality of the network's competitive environment. Partners unwilling to change or be flexible are unlikely to enjoy much success from their business network.

The key issue in the management of change is managing the departure of old members and the arrival of new ones. Time spent carefully managing these exits and entries will have considerable benefits for the long-term stability of the network. Members will leave networks for many reasons. Whatever the cause their departure must be handled sensitively. Their contribution to the network must be acknowledged. Both the firm and the remainder of the network members need to have a "good feeling" about the event.

The arrival, or recruitment, of new members requires even more care than the initial selection of members at the beginning of the network. Compatibility, though not necessarily total similarity, with existing members is very important. There should be an established procedure for welcoming and introducing new members. It should be remembered that the induction process will take much longer than just the first meeting - in general it may take up to a year for a new members to find their feet and for the rest of the network to be comfortable with them.

Traps and Pitfalls⁴

Not all networks are successful. Some do indeed fail or have to be dissolved. Understanding where they fail in the overall process and the reasons for this may help your network avoid the same problems.

Experience with networks in several countries around the world identifies four critical stages at which network failure can occur:

- **Strategy development**
Potential network participants cannot agree on which strategies to adopt.
- **Partner selection**
Companies are unable to find suitable partners.
- **Formalising the agreement**
Partners abandon the process at the point of drawing up a formal agreement.
- **Implementing the network project**
Even after formal agreement has been reached, partners may disagree on how to manage and operate the network.

Research also indicates that one of the biggest threats to a business network is the lack of a focused, committed facilitator - a business network advisor or broker - who can tend to the myriad of details of the network, thereby allowing the partners to devote most of their energy to their prime businesses.

Networks can fail for a number of other reasons as well. For example, network members go into competition with each other, or the network may move away from its core objectives. Also, sometimes network members won't share business opportunities or lack the effort and commitment needed to make the group a success.

Ways to Avoid Problems

There is a clear corollary between the benefits that members perceive from network participation and the length of time they stay in a network. Even though it may be difficult to show 'hard' bottom-line results in the early days it should be possible to maintain enthusiasm for the network concept. Effective, regular and meaningful interaction between the member firms is essential, especially in the early days. A wide range of activities planned and delivered on time will help to cement network relationships.

Very stable networks, will tend to be those where the members have old and strong ties. But, except in the special case of strategic alliances, very stable conditions with tight and strong ties within a group, may also create difficulties in the long-term. Basically, the danger is that the network members become complacent and economic lethargy - in terms of the approach to market conditions and changes - sets in with the result that the network fails to achieve benefits for its members and ceases⁵.

Strong personal bonds between network members can be both favourable and possibly disadvantageous at the same time⁶. They will lead to a cohesive network but the danger of cliques emerging ('networks within networks') needs to be guarded against.

Companies can also stabilise relationships in a network by trying to further "bind" the partners to them⁷. In sub-supply networks or those based on formal commercial interactions the strategy of binding a partner is an attempt to limit the choices a partner can make in terms of leaving the network. This can be done by increasing the "cost for leaving" of the partner, or at least by pointing it out. This is equally true in developmental networks though the "cost" may be calculated more in social terms, or in the loss of influence or contacts, than in hard financial terms. Networks owe it to their members to clearly spell out such consequences both as a vehicle for retaining membership and for encouraging the fullest participation of members in the network.

Network Evaluation

Proper and continuous evaluation of the outcomes of network participation both for the companies and the network itself is crucial but not easy.

To evaluate networks a variety of measures have been used, such as

- extensiveness (number of members),
- density (number of actual links between members compared with number of possible links),
- activity levels (frequency and length of links),
- stability (number of joiners and leavers) and
- centrality (number of members who can be reached and the number of contacts needed to do so).

Obviously a part of the evaluation of how well a network has or is performing depends on the impact which network participation has or is having on the members. Many factors influence business strategies, economic development and the effectiveness of organised interventions of the type employed to promote interfirm collaboration⁸. At the network level therefore, a number of measurement and evaluation methodologies can be identified, as follows:

- Benchmarking the status of companies, the region or sector at the commencement of the network and at regular intervals;
- Recording and tracking systems within the network to monitor the delivery of activities and services (including attendance records, etc);
- Recorded observations of participant learning at meetings and other events;
- Assessment Forms completed on a regular (at least quarterly) basis by the participants;
- Case study analysis of firms or mini-networks of firms within the network;
- Company Surveys;
- Group and Individual participant interviews;
- Specific evaluation workshops;
- Independent evaluation studies conducted by persons or organisations from outside the network.

At the company level three variables in the assessment of the impact of network participation on company performance have been identified⁹:

- **Material Benefits:** Firms can increase sales and lower production costs by working together.

- **Psychological Benefits:** As firms eliminate their isolation they learn that their problems are shared by others.
- **Developmental Benefits:** By promoting interaction with other firms, networking increases learning and the ability to adapt to the changing economic environment.

Assessment of Material Benefits

The key issue here is for networks to identify 'output' measures which can be used to relate improvements in company performance to network membership. Clearly such measures are difficult to implement not least because of the considerable amount of time required for any change to have a noticeable impact on a business. However, evidence of a general feeling that companies are enthusiastic about their involvement with the networks is not enough. There needs to be hard evidence that there have been direct benefits from their memberships of the networks¹⁰.

Objective measures need to be established for such areas as:

- Turnover;
- Sales volumes;
- Level of Profitability (including profitability of individual costs centres);
- Numbers employed;
- Number of New Customers;
- Number of Retained Customers;
- Number of new customer contacts.

It is accepted that it is sometimes quite difficult to say, for example, which sales are due specifically to co-operation and which are simply due to general economic development. A key step is to establish some quantitative benchmarks across various functional areas of the business at the commencement of the network participation. Monitoring on, at least, a quarterly basis is also essential.

Assessment of Psychological Benefits

In this area we are dealing with the impact of the network on the attitude, confidence and approach primarily of the Manager but also of employees throughout the enterprise. Therefore we need to see how has their participation in the network influenced:

- Their understanding of their own role in the business;
- Their vision of the business and where it is going;
- Their ability to share their concerns about the business and cultivate trust and a sense of partnership with other member firms;
- Their openness to new ideas and their capacity to be innovative;
- Their ability to be flexible in response to market changes;
- Their approach to the development and participation of employees;
- Changes in the way they conduct themselves in a business context.

Of their nature these benefits will be based on the subjective judgement of the individuals themselves. This should not present a problem as to reliance on their veracity provided that the means of eliciting the opinions are conducted effectively. Usually this involves questionnaires and/or individual or group interviews. How questions are phrased is always a crucial issue and expert advice from professional researchers may be necessary to devise the right format.

Assessment of Developmental Benefits

Some of the core issues to be assessed here are the ways in which firms have:

- Utilised the skills of other member firms to fill skills gaps in their own skill base;
- Shared Information and Knowledge with other participants;
- Engaged in joint activities with one or more of the other participants - e.g. joint training or joint research;
- Stayed focused on their own core capabilities and used other network members to fill gaps which, without the network, they would have been required to expand to fill themselves;
- Learned new approaches or techniques (inter-organisational learning);
- Become better able to assess and respond to the changing economic environment.

These benefits can be assessed by a mix of objective, and quantitative measures, as well as the subjective measures outlined above. What will be helpful here is the system of recording and monitoring of the work of the network as a whole where some of these benefits can be identified as they occur. One of the difficulties of post-operative assessments which depend on the individual or collective memory is that some key factors may simply be forgotten or have become so much a part of the fabric of the firms' operations that they are no longer attributed to their participation in the network.

Network Termination

Surprisingly many networks have no specific plans for handling their own cessation. It is inevitable that the network will come to an end, at least in the form in which it was originally initiated. Arrangements for what happens then should be agreed at the beginning.

Generally a network ends either because it has failed to meet its goals or because some or all of the members can no longer see the benefits of participating any further. A network may also be terminated for less tangible reasons, such as a lack of trust among the members.

Regardless of the reasons for ending the network, a successful termination, if it does come, should meet some basic criteria¹¹.

It should:

- cost the network participants as little as possible to terminate,
- be fair and should not preclude further co-operative ventures,
- not jeopardise the member companies' relations with customers, suppliers and investors,
- provide for the smooth and equitable return of assets (or personnel) to the member companies.

Before dissolving a network completely, the members might wish to discuss other possible strategies:

- Can the network be revived by replacing partners who wish to withdraw, or by bringing in new members or new ideas?
- If a network project is losing money, can cost savings be found or alternative (even temporary) sources of finance be located?
- Can the network move out of its activities and into a new range of activities?

End Note

¹ Europs 1998.

² Canadian Business Networks Coalition (CBNC) (1999). *How to Network*, Toronto, Canada.

³ CBNC, *ibid.*

⁴ CBNC, *ibid.*

⁵ Monsted, M (1994). *Processes and Structures of Networks: Reflections on Methodology*, paper presented at the 8th Nordic Conference on Small Business Research, Halmstad University, Sweden.

⁶ Johannisson, B (1994) *Entrepreneurial Networks - Some Conceptual and Methodological Notes*, Paper presented at the 8th Nordic Conference on Small Business Research at Halmstad University, Halmstad, Sweden. 13-15 June. Vaxjo University/Lund University.

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

⁸ Shapira, (1997) *Firm Connections*, Newsletter of US Net, Regional Technology Strategies, Inc, Chapel Hill, North Carolina, USA.

⁹ O'Doherty, D. (1998) *Networking in Ireland - Policy Responses*, in *Sustaining Competitive Advantage - Proceedings of NESC Seminar, Research Series*, March. Dublin: NESC.

¹⁰ Lee, G and Oakes, I (1996) *Networking for Best Practice - Ideal and reality*, Paper presented at the 26th European Small Business Seminar, Vaasa, Finland.

¹¹ CBNC, *ibid.*