

Why Networks ?

In this guide we look at what business networks are and what they are used for. We also look at the different types of networks and how they function and the benefits of networks for firms.

It is the creation of boundary-spanning networks of firms, big and small and big with small, that is the important new trend- "the single economic experience of our era." Business advantage in the new world order is gained through flexibility, the key to flexibility is new forms of networked organisations within and among firms¹.

What is a business network?

A business network is a group of three or more enterprises that decide to cooperate as a group in order to undertake a project or activity that individual members of the group would be unable to undertake as well by themselves.

Networks, as a form of industrial organisation, are not new. In one form or another they have been around since the turn of the century. But their rapid increase in popularity among firms since the 1980s is seen as a response to the need for change in order to remain competitive.

"The bottom line is that firms can no longer be good at everything they must do to meet their customer's needs; they must specialise and learn to combine their capabilities with others. There is simply too much to do, too much to know and too much to learn. Networks allow firms to combine resources to gain knowledge, achieve economies of scale, acquire technologies and resources, and enter markets that are otherwise beyond their reach²."

In other words, a business network is a group of already successful businesses which cooperate and collaborate to seek a new business opportunity. It involves cooperation among the enterprises in order to undertake projects - and also involves collaboration to achieve objectives that each could not achieve acting independently³.

Networks have emerged as the new response to competition - a way for firms to develop joint solutions to common problems. "The nature of competition is changing. New competitive conditions are demanding new strategies. Global niche markets are replacing mass markets. To compete effectively firms must specialise and combine their capabilities with those of other firms and organisations⁴".

Why Networks ?

The benefits of networks can be summarised as follows⁵:

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.

The co-operative (rather than competitive) business approach of networks which capitalises on complementarity of skills, resources, capital, processes and management demonstrates the maxim that "the whole is greater than the sum of it's parts".

Business Networks can create power in the market place by leveraging⁶:

- image - achieving impact and a higher profile through critical mass
- capability - ability to undertake bigger contracts
- faster innovation - combining the wealth of ideas of member companies
- intellectual capital and property - capturing the new methods of doing business
- analytic and strategic thinking - achieving superior results using combined inputs of members, mentors and Brokers
- increased capacity to enter new markets - through sharing contacts and intelligence
- reduction in costs - by combining purchasing power
- wider horizons, increased knowledge base and broader management behavioural skills

12 Good Reasons For Firms to Form Networks

Firms work together in networks for a variety of reasons. Among them are the opportunity to:

1. reduce costs
2. achieve economies of scale, scope and speed
3. enhance their competitiveness in both domestic and international markets
4. increase sales and turnover
5. reduce uncertainty
6. reduce isolation
7. learn from others and absorb best practice
8. raise the profile of the company
9. jointly recognise and improve standards
10. stimulate new business opportunities
11. innovate and commercialise new products and services
12. form new capital bases and create new businesses

The growth of networks allows firms

"to combine resources to gain knowledge, achieve economies of scale, acquire technologies and resources and enter markets that would otherwise be beyond their reach".

Networks act as a source of competitive advantage especially for small firms and help smaller firms to overcome the disadvantages of their size⁷.

Types of Networks

In the past two decades the rate of growth of networks across all sectors has been dramatic.

These include:

- strategic alliances,
- partnerships,
- coalitions,
- joint ventures,
- franchises, and
- various forms of network organisations (both formal and informal) *involving collaboration in areas such as: research and development, production, marketing, training, exporting, financing and knowledge-transfer.*

Four main categories of networks have been identified⁸:

Informal Networks: This is the most basic form consisting simply of firms helping other firms. It is closest to simply networking.

Membership-Based Networks: This includes traditional industry associations and chambers of commerce where members pay dues and commit themselves to a certain level of joint problem-solving, but where their business success does not depend significantly on the actions of other members.

Developmental Networks: This is close to the previous category but involves firms collaborating for specific purposes, such as joint training or management development activities, where the result of the activity will have some identifiable impact on their

business. These can also be *learning networks* in which firms seek to learn collectively about some of the complex changes essential to improving their competitiveness.

Inter-dependent Networks of Firms: These are small, formal groups of sometimes competing firms who carefully select each other and agree to co-operate significantly with each other (often involving a high level of trust), in order to achieve some benefit not available to them independently.

Examples include:

- *customer-supplier networks* where firms co-operate with each other to meet the needs of a large customer, who can often set up and facilitate the collaboration;
- *co-production networks* where firms co-operate in manufacturing components, assemblies or finished goods;
- *co-marketing networks* where firms jointly market their products;
- *research networks* in which firms pool resources to develop a new product or process.

Characteristics of Networks

The key characteristics of most business networks are⁹:

- Reciprocity - a willingness to exchange information, know-how, propriety knowledge and goods.
- Trust - a willingness to risk placing faith in the reliability of others.
- Learning - a recognition that knowledge develops and best-practice should be learnt.
- Partnership - a preparedness to solidify reciprocal relationships preferentially.
- Decentralism - a realisation that centralised information and decision-processing is inefficient.

Networks are collaborative, bottom-up organisations. Unlike many other formal relationships among businesses, networks are flexible and non-hierarchical with members sharing in decision making and the design and implementation of strategies.

Networks can vary in size, objectives and structure. Membership can range from fewer than five members to more than one hundred. Objectives vary widely according to the needs of the members. And the organisational structure may be very formal, or so informal as to be almost non-existent, or anywhere in between¹⁰.

What do networks do?

There is no limit to the possibilities for inter-firm collaboration. Here are some of the projects commonly undertaken by business networks falling into three broad categories¹¹:

Input projects including:

- joint purchasing
- joint training
- joint financing

- research and development
- sharing resources, skills and information
- identifying market opportunities, subcontractor and supplier linkages.

Operations projects including:

- joint processing
- joint manufacturing
- technology transfer and diffusion
- achieving quality standards
- cost reduction projects
- productivity improvement
- world-class bench marking.

Output projects including:

- innovation and design
- commercialisation of new products or services
- import substitution
- marketing
- exporting
- problem solving.

End Notes

¹ Harrison, B (1997) *Lean and Mean*, The Guilford Press, Boston.

² US Net (1997). Information available from Regional Technology Strategies, Inc, Chapel Hill, North Carolina, USA.

³ Canadian Business Networks Coalition (CBNC) (1999). *How to Network*, Toronto, Canada.

⁴ O'Doherty, D. (1998) *Networking in Ireland - Policy Responses*, in *Sustaining Competitive Advantage - Proceedings of NESC Seminar, Research Series, March*. Dublin: NESC.

⁵ O'Doherty, *ibid.*

⁶ AusNet Review Seminar, (1997) Report compiled by Anne McCutcheon, The Business Centre, AusIndustry Business Networks Program. Adelaide, October 1997.

⁷ Brown, B and Butler, J.E. (1995) *A Study of Entrepreneurial Networks in the U.S. Wine Industry*, *Journal of Small Business Management*, July, Vol 33.No 3.

⁸ Partly based on O'Doherty (1998) *op cit.*, and on the elaboration of those definitions contained in Doyle (2000), *Making Networks Work*, Skillnets, Dublin.

⁹ Cooke, P., Morgan, K., Price, A., (1995) *The Future of the Mittelstand: Collaboration v Competition*, in O'Doherty, D, ed (1995) *Globalisation, Networking and Small Firm Innovation*, Graham and Trotman, London.

¹⁰ CBNC, *ibid.*

¹¹ CBNC, *ibid.*