



Blueprint for Starting Business Networks:

*A Strategy for Rural
Community Economic Vitality*

Encouraging Resource and Risk Sharing

Module II



Prepared by Terry L. Besser, Peter Korsching, Nancy Miller, Brandon Hofstedt, Ryan Orr and Bridget Welch, with assistance in layout and composition by Jean Friestad.

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Encouraging Resource and Risk Sharing

Objectives

- ◆ Demonstrate the importance of trust, shared values, and shared vision to resource and risk sharing.
- ◆ Provide examples of techniques used by successful business networks to create trust, shared values, and shared vision.

Introduction:

Present the following example or a similar local example and use it to generate discussion about the advantages and hazards of resource sharing in business networks, and the role of trust in facilitating resource sharing.

It's Hard to Find Good Employees

Kirby Nursing Home and Adventa Assisted Living Center in Big Riverton, Iowa are both independently owned small businesses. Kirby employs 86 part time and full time staff and Adventa has a smaller staff of 55. Both require the services of an activities director. Neither has the resources to hire a person full time for the position and it is difficult to attract and retain a capable professional for a quarter time or half time position. Administrators

for the two businesses meet to work out arrangements to share a full time activities director position.

- ◆ What are the advantages to the two businesses in this arrangement?
- ◆ What are the risks and disadvantages?
- ◆ What conditions are necessary to make this arrangement work?
- ◆ Do you know of other examples of businesses that shared employees, equipment, services, or worked together on a large complicated project?

We refer to networks as formal organizations of businesses one of whose goals is facilitating business success.



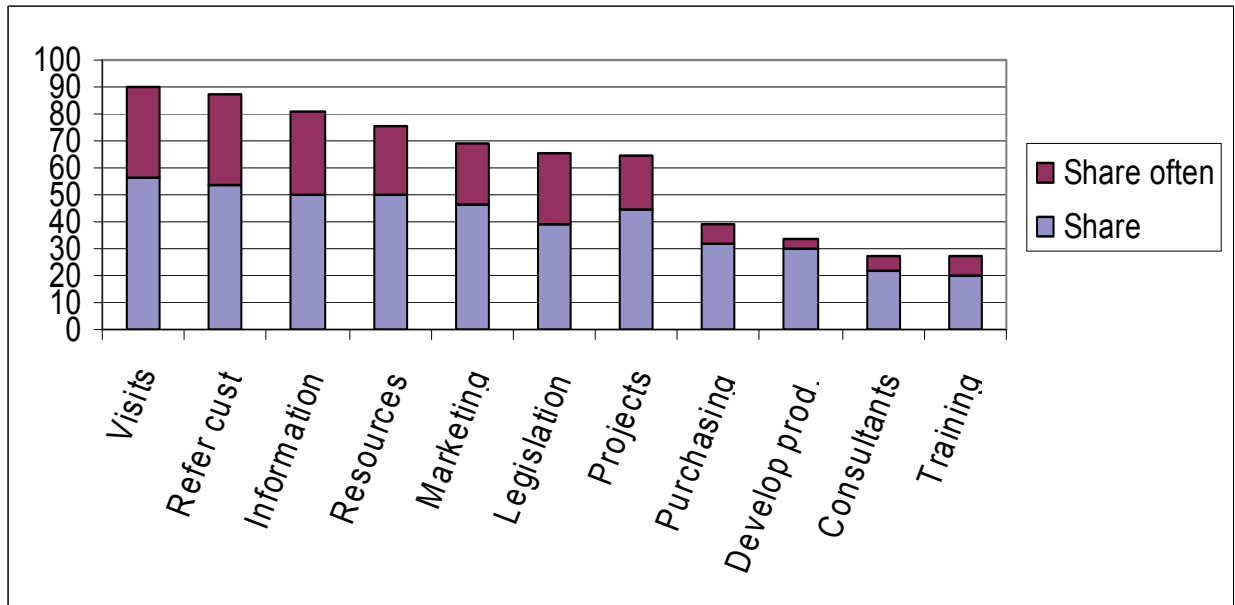
¹ Formal business networks are often called business associations. We use the term network in this project instead of association.

Kinds of Resource and Risk Sharing in Business Networks

The benefits businesses realize from belonging to a business network¹ are made possible by sharing information, resources, and risks; and collectively working together for common interests (such as in public relations campaigns and legislative lobbying). Below are the kinds of cooperative

jects. The riskiest kinds of exchange arrangements; purchasing resources or equipment together, sharing employees, sharing the cost of training and consultants, and developing products together are engaged in less frequently. But still, more than 20 percent of members report that they've participated in these risky exchanges during the year prior to the interview.

Figure 1: Percent Who Share Resources in Business Networks



activities engaged in by the businesses in our study of networks (for more details about the study see Appendix A). As you can see from Figure 1, the most common cooperative activities of businesses that belong to networks are visiting each other's businesses, referring customers to each other, and sharing information. This is followed closely by sharing resources and working together on marketing strategies, legislation, and on large or complicated pro-

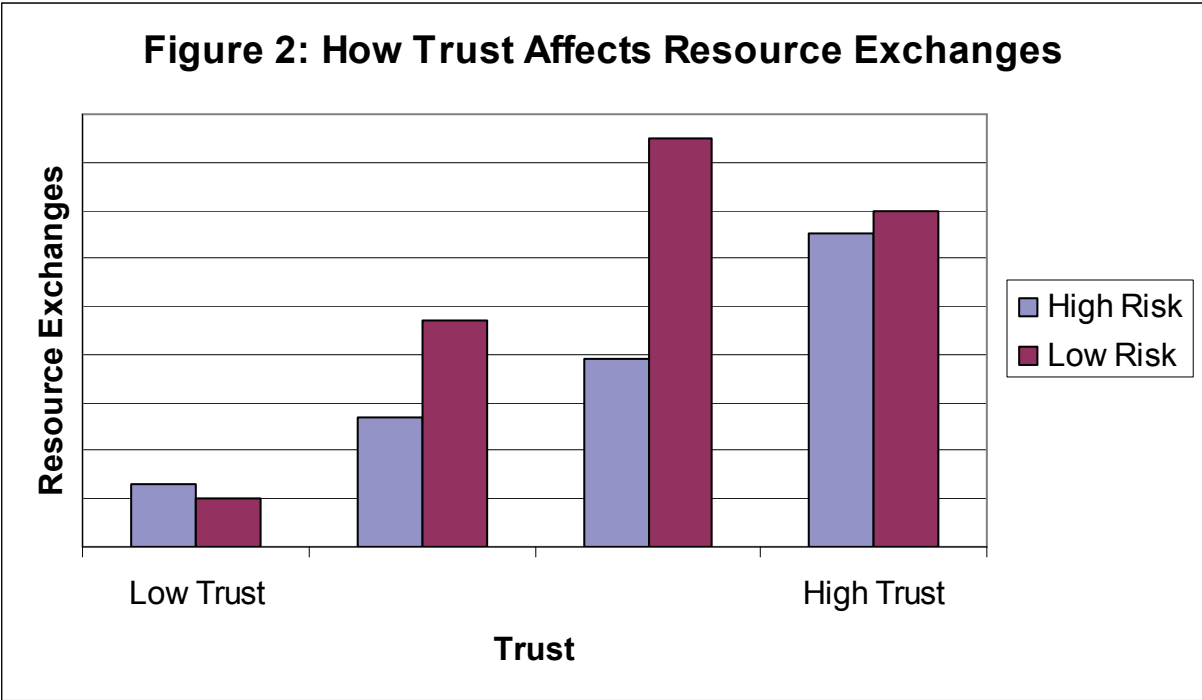
The Importance of Trust

As noted in the discussion generated from the introductory example, sharing information and resources may entail substantial risk. One business may take advantage of the other in the sharing arrangement. Without trust that others will reciprocate and not take advantage of information or resource exchanges, the benefits from formal networks will not happen. Networks

with high levels of resource exchanges and common interest projects are characterized by an atmosphere of trust and shared vision among members. In circumstances of mutual trust, members are convinced that others will keep their word, reciprocate, and will not take advantage of an opportunity to realize gain at the other's expense. In our study, we tested how trust is asso-

ciated with resource exchanges among the 29 sampled business networks. We divided resource exchanges into the two categories mentioned previously: high risk and low risk exchanges.

As shown in Figure 2 below, networks with higher levels of trust have greater amounts of both kinds of resource exchange.



High risk exchanges entail considerable potential for being taken advantage of by an opportunistic partner while low risk exchanges involve minimal or no risk of opportunism. Examples of high risk exchanges include sharing equipment, excess inventory, or employees; and purchasing raw material, supplies, services, or equipment together. Among low risk exchanges are practices like referring customers to each other and marketing together.

The director of an Ohio business network in our study aptly summarized how networks can encourage trust and enforce sanctions when trust is violated among their members:

“One of our major challenges is to get members to support each other’s businesses. Well, one of our members was not supporting the other businesses. He would lie and say that he would start purchasing from them soon or support the restaurants, but he didn’t. When the other members realized this, they quickly stopped supporting his business.

Well he got the message real quick and started purchasing from members. It took him awhile to re-establish himself with the other members, but eventually they started patronizing his business again. In my estimation, it was the lying that brought him down. Members have to learn to trust and depend on one another. This was the lesson that he learned very quickly.”

The Problem of Common Interest Benefits

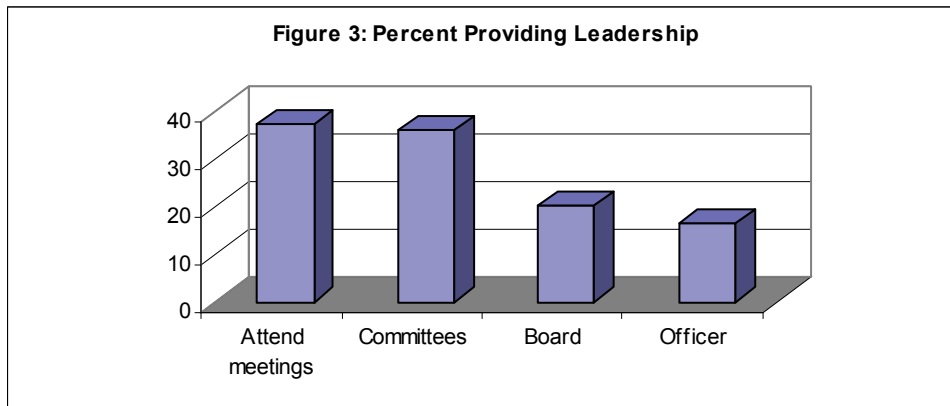
Due to the nature of common interest benefits, all members (and even non-members when it comes to public relations and legislative advocacy) gain from the efforts whether they contribute to the project or not. Under these circumstances, members may decide it is in their best interests to reap the benefits of the group effort without contributing to it.

Providing leadership to the network is one kind of common interest activity. The group as a whole benefits from individuals who generously contribute their time and energy to arrange network events, plan activities, and take care of other network business. These good citizens anticipate that others will step in and help with the common interest responsibilities in the future, but that is not assured. Others may free load, realizing the benefits without ever contributing to their creation.

It is in this way, that providing leadership and other kinds of common interest benefits entail risk for contributors and are especially problematic for business networks. In the short term, a few altruistic members may contribute more than their fair share to the realization of common goods. But altruistic members may eventually tire of carrying the burden of leadership or retire or leave the network for other reasons. Therefore, sustainable business networks require a significant proportion of members who are motivated to work for network continuance and the common interest for reasons other than their individual business gain. The president of a Nebraska industry network describes how important member involvement is to network survival with these words:

“The main thing is that you need to get your membership committed and willing to do some work. If everybody’s just going to come and be the user and not the giver, you’re not going to succeed.”

Figure 3 shows the percent of network members in our study of business networks who reported providing various kinds of leadership for their network. On average, fewer than 40 percent of members attended the last network general meeting, with attendance ranging from 18 percent to 90 percent for



different networks. Only about one in six of the surveyed members have ever been an officer of the network.

Network members who have a commitment to a common set of values and a shared sense of identity, will be more likely to participate in common good efforts and network leadership. Research shows that ethnic business networks owe much of their effectiveness to members' common experiences, shared cultural background, and the perception that they face obstacles and challenges due to their common ethnicity. Jewish diamond wholesalers and crafters, Cuban American business owners in Miami, and Korean American entrepreneurial networks are examples. However, common interests and

threats are not restricted to ethnic business owners. Businesses operating in rural towns and independently owned businesses facing conglomerates and global competition (e.g. hardware stores and banks) are examples of other categories of beleaguered businesses facing common threats from the outside.

The challenge for network organizers is getting independent minded business owners to recognize their commonalities with other

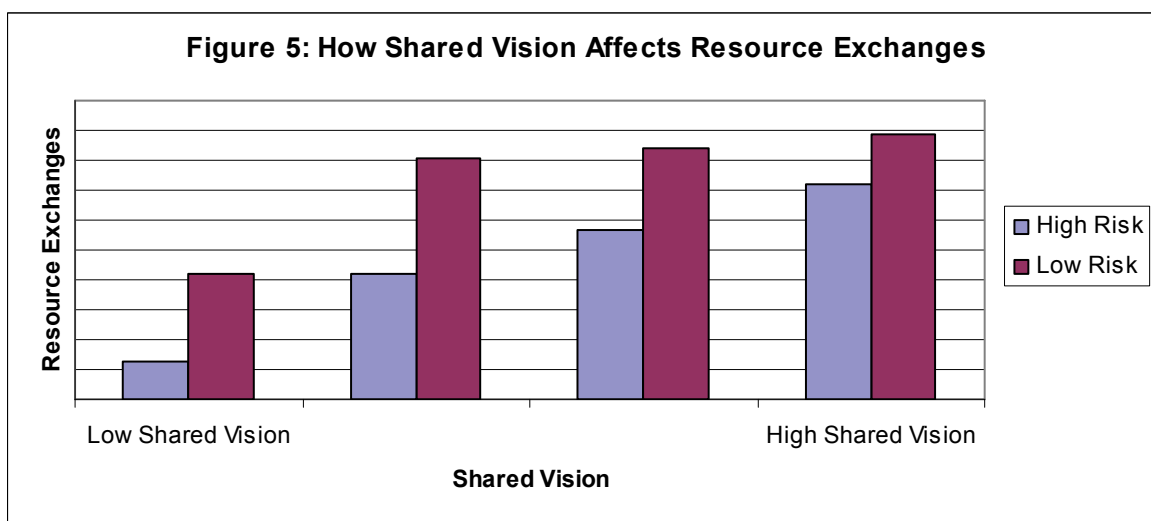
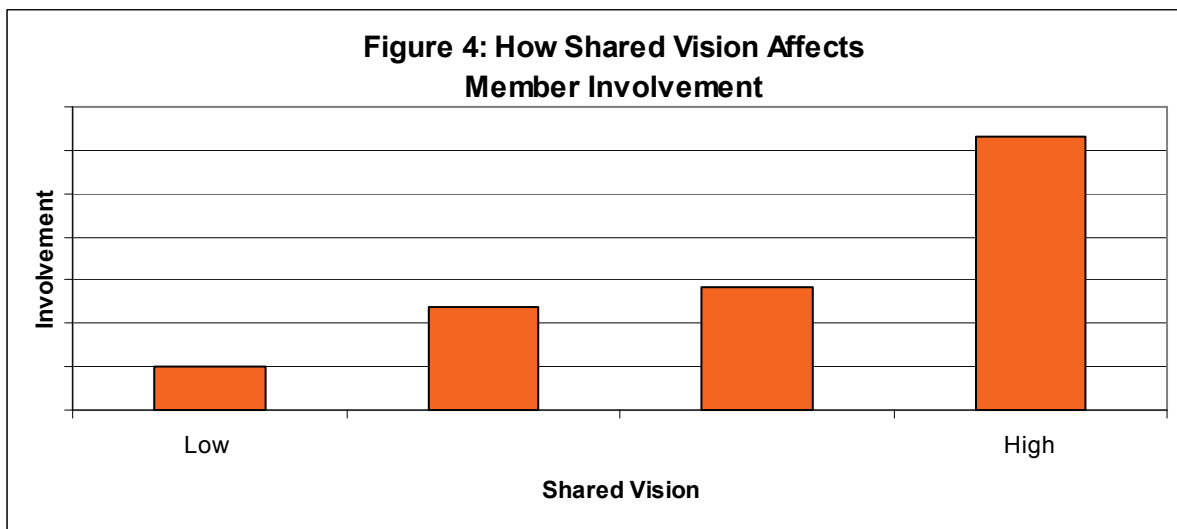
business owners and to understand that they can more effectively deal with these threats by working together than they can by each working alone.

In the quote below, the president of a Minnesota network describes the critical nature of shared vision to the success of his network:

“Our organization has survived for one simple reason. And that is that the majority of the members believe in the same thing. We all are working hard to maintain this network because we understand that our businesses thrive and depend on the same customer base. So, we have to make sure that we all are of one accord...if that makes sense.”

Drawing on prior research about the importance of shared vision to the effectiveness of ethnic business networks, we compared the networks in our study with differing amounts of shared vision regarding how much members were involved in the network. The results of the comparison are shown in Figure 4. Shared vision was determined by responses to questions such as “Most members of the NETWORK are not enthusiastic about pursuing the association goals and mission,” and “I hold the same ambitions and vision as

the other members of the NETWORK.” Member involvement consists of ways members can contribute to the network like working on committees or serving as an officer and an assessment of their general involvement in the network. Networks in which members have a higher degree of shared vision also have more involved members. Thus, creating a sense of shared vision appears to be one way to involve more members and overcome the risk that a few members will have to carry the full responsibility for network functions.



Networks with members who have a greater sense of unity and shared vision also report higher levels of both kinds of resource exchange, as shown in Figure 5. Our findings provide strong support for the importance of trust and shared vision to resource exchanges among members and member contribution to common good benefits like network leadership.

Advice from the director of a Minnesota community business association summarizes the importance of shared vision to network success in general:

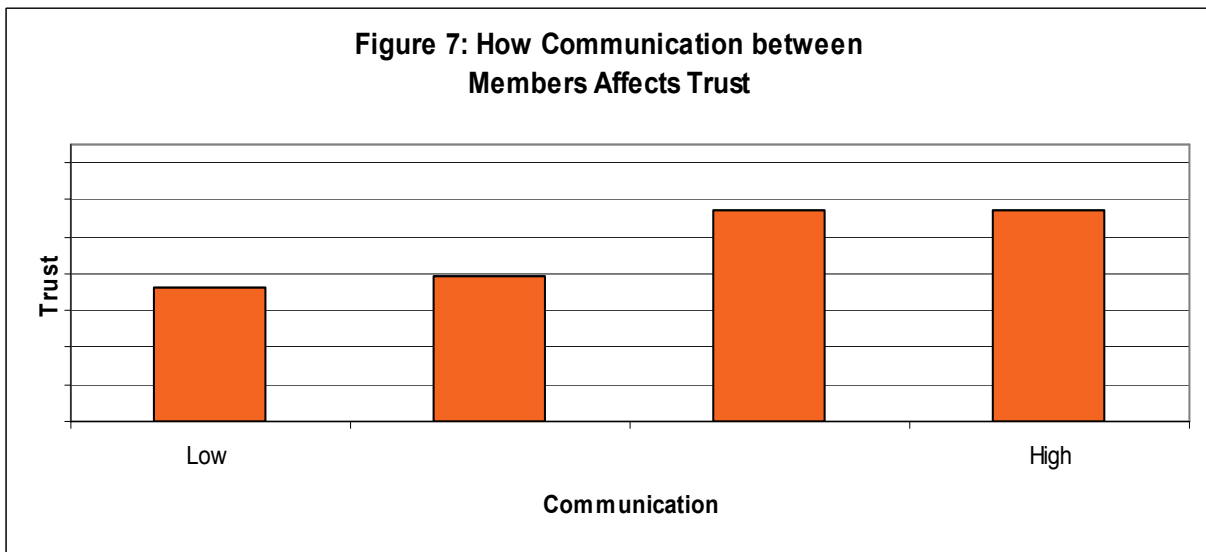
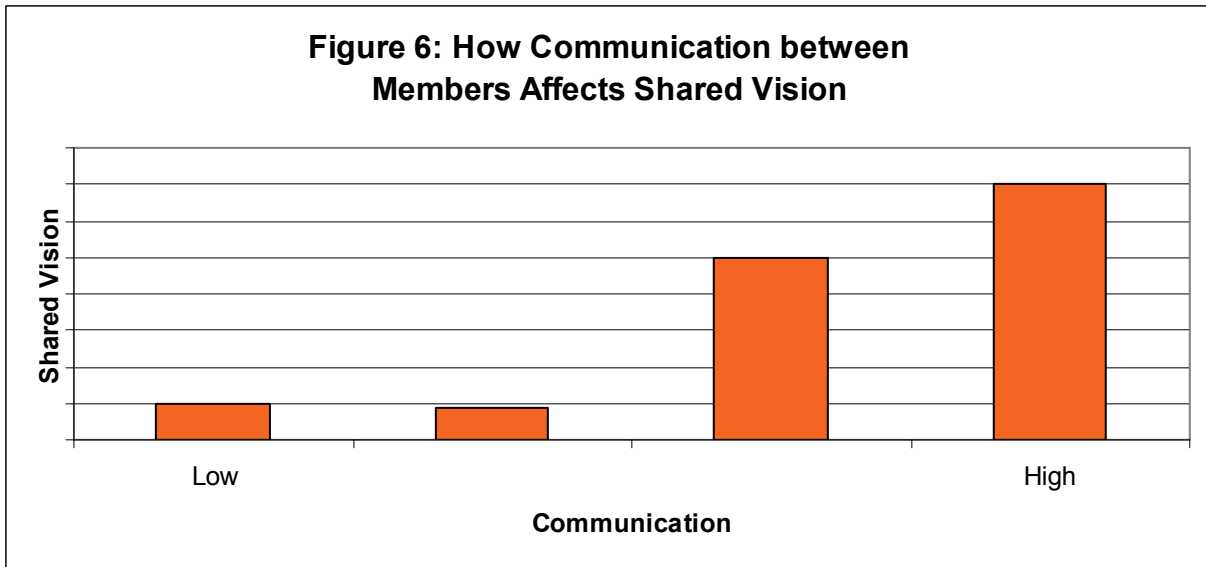
“I think they need to have common and specifically defined goals, and most of all, they need to know, not only what they’re doing, they need to know why they’re doing it. So you need to have common, defined goals that allow you to start prioritizing. This is our first project, we need to do ABCD and this is our second project, we need to ABCD in it, and if you can, if you have a really solid outline, that will give you the direction you need to be successful. You’re not just going out in fifteen different directions. Doing a little bit of everything but accomplishing nothing.”



How to Develop Trust and Shared Vision in Business Networks

1. In the beginning, there are relationships...

Trust and shared vision are generated when members become acquainted with each other and gain experience working together on small non-risky projects. Figures 6 and 7 below show how communication between members of networks influences the level of shared vision and trust in the networks.



Practices to Encourage Relationships between Members

◆ Establish and maintain democratic principles for decision making

◆ Discourage cliques

1. The director of a very successful Ohio association of agricultural producers provided this advice about starting a new network:

“Most importantly I would say that you need to make sure that you maintain a democratic program. And avoid those pitfalls of letting little cliques gain total control of the organization.”

◆ Present workshops on topics that attract member attendance

1. Discussions among a core group of diverse members and potential members is a good source of ideas for workshop topics.
2. Visits to the businesses of potential members are another way to get input about what information is most desired and needed by members. Workshop topics can then directly address member needs.

◆ Encourage attendance at network meetings²

1. Create a welcoming atmosphere
Name tags, refreshments, get acquainted opportunities, and child care services will communicate to new and potential members that they are valued and welcome.
2. Set the tone right away that business owners who want to belong to the network must make a commitment

to attend meetings.

3. Schedule meetings at the same time and place every month.

Try to find the time, day, and place that is most convenient for everyone. Experiment with different arrangements to determine which members favor, but then keep the same meeting schedule as long as possible.

4. Send meeting reminders and send out agendas in advance.
5. Make sure you have well planned agendas and efficient meeting facilitation.

Start meetings on time and stick to the agenda. Everyone is busy and people will stop coming to meetings if they think their time is wasted.

Included in the suggested materials accompanying the leadership module are references to several leadership training packages that provide guidance on how to facilitate an effective meeting. They are a “must read”.

6. Provide incentives for attendance, e.g. raffles, discounts.
7. Require meeting attendance as a prerequisite for other member benefits such as the newsletter, insurance, or discounts on supplies.
8. Utilize round robins where one or two members have the opportunity to present a business problem and get advice from others.
9. Develop a “business showcase” at meetings where a member presents in depth information about his/her business.
10. Members should leave each meeting with a sense of accomplishment.

²Some of the ideas are from *Staying Connected: Building Entrepreneurial Networks* by the Aspen Institute

◆ **Establish mentor programs**

Coordinate mentoring arrangements between owners of new and owners of established businesses. This is an excellent way to facilitate relationships between members and provides a valuable service for new business people.

◆ **Restrict new members**

Restrict membership to those nominated by another member. This will encourage trust among members since a current member has to “vouch” for the trustworthiness of new members.

◆ **Develop a web page that facilitates posting of questions and answers**

◆ **Invest in leadership development**

Assist willing and interested members in gaining leadership skills. See the leadership module for insight into the value of leadership and ideas about how to develop leaders among the membership.

Plan for leadership succession

◆ **Recruit members and potential members to work together on small action projects.**

According to the president of a successful Iowa community business network:

“I’d also encourage (a new network) to find a couple of simple things for them to do that will provide them with some relatively simple successes. Some successes early on are very important.”

Ideas for action projects include:

1. Organize a member workshop
2. Responsibility for a component of the regular meeting
3. Organize a mutual marketing project
4. Organize a product or business fair
5. Conduct an assessment of member interests and challenges
6. Set up and maintain the network webpage
7. Develop and coordinate a mentoring program
8. Design packages of member benefits such as insurance discounts, discounts on member products and services, free newsletter, free or discounted advertising in the newsletter, vendor discounts, rotating loan programs, and joint advertising programs.
9. Design an exhibit of the member products or services at a public venue like a community festival or an industry show.
10. Design a newsletter



More action projects are detailed under the shared vision section.

2. Next Comes Shared Vision....

Belonging to a formal network requires members to publicly agree to a set of expectations



(the rules and by-laws of the network) when they join the group. Networks formally and informally disseminate information about members' compliance to the standards and by that method reward compliance and punish non-complying, untrustworthy behavior. The possibility of having one's reputation tarnished acts as a deterrent to untrustworthy behavior. Members are motivated to be honest and fair because untrustworthy behavior might damage their reputation and harm their business.

Creating a formal organization (this includes by-laws, leadership structure, and membership dues) for the network helps to build trust by developing an agreed upon code of behavior and set of rules for enforcing the behavior. Similarly, a formal organization requires members to craft a mission statement and a set

of objectives for the network. In order to do this they must identify and come to agreement about their mutual interests, challenges and concerns. This process will not by itself create a sense of shared vision, but it is a necessary step to that objective.

Other ways to create a shared vision among members are to engage them in action projects that require the group to discuss and agree on the network's goals and values. Examples of such projects are:

- ◆ Plan and design network promotional material or a campaign
- ◆ Draft mission, vision, and shared values statements for the network.
- ◆ Draft a set of bylaws and standards of conduct for the network.
- ◆ Develop a network logo.

Resources

- ◆ Template of a business network set of by-laws (Appendix VI-A) and mission statement (Appendix II-A).
- ◆ Examples of successful resource and risk sharing arrangements between businesses in networks (Appendix II-B).