



Blueprint for Starting Business Networks:

*A Strategy for Rural
Community Economic Vitality*

Transforming an Informal Group into a Formal Network

Module VI



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Transforming an Informal Group into a Formal Network

Objectives

- ◆ Provide the rationale for transforming an informal network into a formal network.
- ◆ Outline the important elements of a formal network.
- ◆ Provide references and example materials for creating a formal organization and a nonprofit corporation.

Introduction

We all have had the experience of meeting people with whom we have a strong common interest and therefore form a relationship with them – a group – in which we share activities pursuing that interest. Some of these groups may last a lifetime, but most, especially if there are more than a handful of people involved, eventually languish and expire. Over time members of the group experience changing interests, changing obligations, changing needs, and changing commitments, and they go their own way.

How can we keep members of a group who share what is not only a strong interest but also a life's necessity (such as operating a business) interested, committed, and participating? The obvious answer is that the group must meet some important needs of its members (Johnson and Johnson 2003). A network with a central expressed purpose that is formally organized will more likely be able to meet the needs than an informal

group of semi-transient members with differing goals and uneven commitment.

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

A Tale of Two Networks

Lauren and Avery, two women who worked for years for others in various aspects of the retail industry, finally realized their dream of owning and operating their own businesses. Each now has a shop in a small community: Lauren has an antique shop and Avery operates a gift and craft store. In getting their businesses off the ground each had many questions about practical day-to-day problems of running a business.

As Lauren visited other antique shops searching for items she could purchase and resell, she would visit with the dealers about some of her problems.

She quickly realized that most of the problems she was experiencing were not unique to new businesses. After further conversations she and five other dealers decided that they could help each other in addressing some of their common problems. To facilitate mutual assistance they agreed to meet once a month in a round-robin fashion at the owners' businesses or homes and to recruit other dealers to join them. Although some suggested arranging some type of leadership to organize the effort, most felt more comfortable keeping the group informal.

There was considerable enthusiasm at first, and after six months the group had grown to 18 with a dozen or so dealers at each meeting. Businesses took turns hosting meetings. In addition to socializing and having a general discussion of problems and issues, they also attempted to build a more formal element into the meeting – a presentation by either someone from within the group who had special expertise relevant to other members or an outside speaker. This seemed to work until two months in a row the meeting host had just been “too busy” and not had the time to think about the program. Another dealer found he was not able to provide the special speaker part of the program because the desired speaker was from out-of-town and at a minimum needed her expenses reimbursed.

One dealer who had paid the expenses of an out-of-town speaker was upset when only three other dealers attended the meeting. Several dealers said they

would have made the time to attend the meeting had they known about the speaker, but the group had no regular communication system to keep everyone updated. Attendance began to slip, and when no one could be found to host a meeting three months in a row, the group died. Lauren visited with the other dealers to revitalize the group. Although the other dealers continued to express interest, no one was willing to make a definite commitment because of past experiences and she finally gave up.

Avery was having lunch during one of her buying trips to the Kansas City Gift Mart and struck up a conversation with another woman sitting at the same table. It turned out the other woman, Micayla, was from a town about 30 miles distant from Avery and she also had a gift shop. They discussed some problems they had in common and the Micayla mentioned that the florist in her town belonged to a network that helped its members in various ways. Perhaps they could organize a network of gift and craft shop owners in their part of the state. Both thought it was a good idea and they set out to interest others and create a network.

Avery and Micayla identi-



fied gift and craft shops in the area from telephone directories and newspapers ads, and with the help of the regional Small Business Development Center and the Extension Service they contacted about 30 gift shops and organized an initial meeting. Nine shop owners were present for that first meeting. The extension educator told Avery that unless there were definite commitments by those attending the meeting to work toward a formal organization, any initial enthusiasm might soon wane. A temporary chair, co-chair and secretary were elected, with the understanding the informal group would develop into a formal organization in the near future. Micayla volunteered to periodically write and distribute a newsletter and every member contributed a few dollars to offset her expenses. Like the antique dealers' group, businesses took turns hosting meetings that included socializing, discussing problems and issues, and usually having a speaker on some relevant topic.

After one year the group had grown to 22 regular members and meeting attendees plus three or four marginal participants. Avery sensed that the group was at the stage where it was ready for, and indeed needed, a formal structure. With help from the extension educator, a small committee wrote a constitution that spelled out the purpose of the network, requirements, benefits, and obligations of membership, officers and their duties, nature and purpose of regular meetings, and the dues structure. The formal structure reinforced the mutual obligations of the members

and the organization to each other and the network became stronger. After three years the network has 43 members and is beginning to expand statewide. Increase in membership also increases the burdens on the officers, and with a surplus in the treasury generated from their annual craft sale at the state fair, the network is considering turning over some of the regular operational functions to a hired manager. The network is flourishing because it is meeting its members' needs and it has a solid foundation in its structure.

Moving Toward a Formal Organization

Why did Avery's group expand in membership size, enthusiasm, and involvement whereas Lauren's group dwindled in size and interest of its members and finally died? There are many reasons that could account for the different directions of the two groups, but a primary reason among them is that in Avery's group the members had a sufficiently strong commitment to create a formal network. The informality of Lauren's group initially met the members' needs, but in the long run the lack of formal commitments and expectations resulted in failure to meet the members' needs.

Most organizations begin informally. Whether they can remain informal and continue to meet their members' expectations and needs depends to some degree on whether they are primarily affective or instrumental organizations. Affective groups exist primarily for

members' social or emotional support and specific expectations are limited. Although they can become very formal, they can also be as simple as a round robin book reading club in which the members take turns hosting book discussions. Little formalization is needed here except a decision on what book to read and who will host the meeting. On the other hand, instrumental organizations, such as business networks, are much more oriented toward the achievement of tangible, practical goals, and the members have higher expectations on how and when the goals should be achieved. In a four-state research project of 29 business networks, the director of one network stated:

“At first we operated, you know, pretty much on an ad hoc basis, but we’re now beginning to, you know, regular newsletters, and regular meetings, and regular everything.”¹

What is Formalization?

Formalization is the establishment of rules and procedures for the operation of the organization (Robbins 1983). All groups or organizations have a social structure that determines how members relate to each other. In the round robin reading club the structure is very simple and informal – everyone in the group has more-or-less equal authority, there are very few rules as to how the group operates, and what few rules do exist are unwritten. This suf-

fices for the reading club, but a business network such as an auto dealers' association or even a small-town chamber of commerce would have difficulty existing without substantial formalization of rules and procedures.

Formalization helps to create some regularity and permanency in the organization. It consists of some or all of the following:

- ◆ A constitution and/or bylaws that include a mission statement, the members' and officers' rights and responsibilities, and operating procedures.
- ◆ A group of officers who have the authority to make decisions within and for the organization.
- ◆ Criteria for membership.
- ◆ Regularly scheduled meetings and other mechanisms for communication and interaction among the membership.
- ◆ A schedule of dues or other membership fees to support the activities of the organization.

Why Formalize?

Nothing can insure the long-term survival of a new business network. The four-state business network research project, in fact, found examples of small networks that have been in existence for several years and continue to operate informally. But formal-

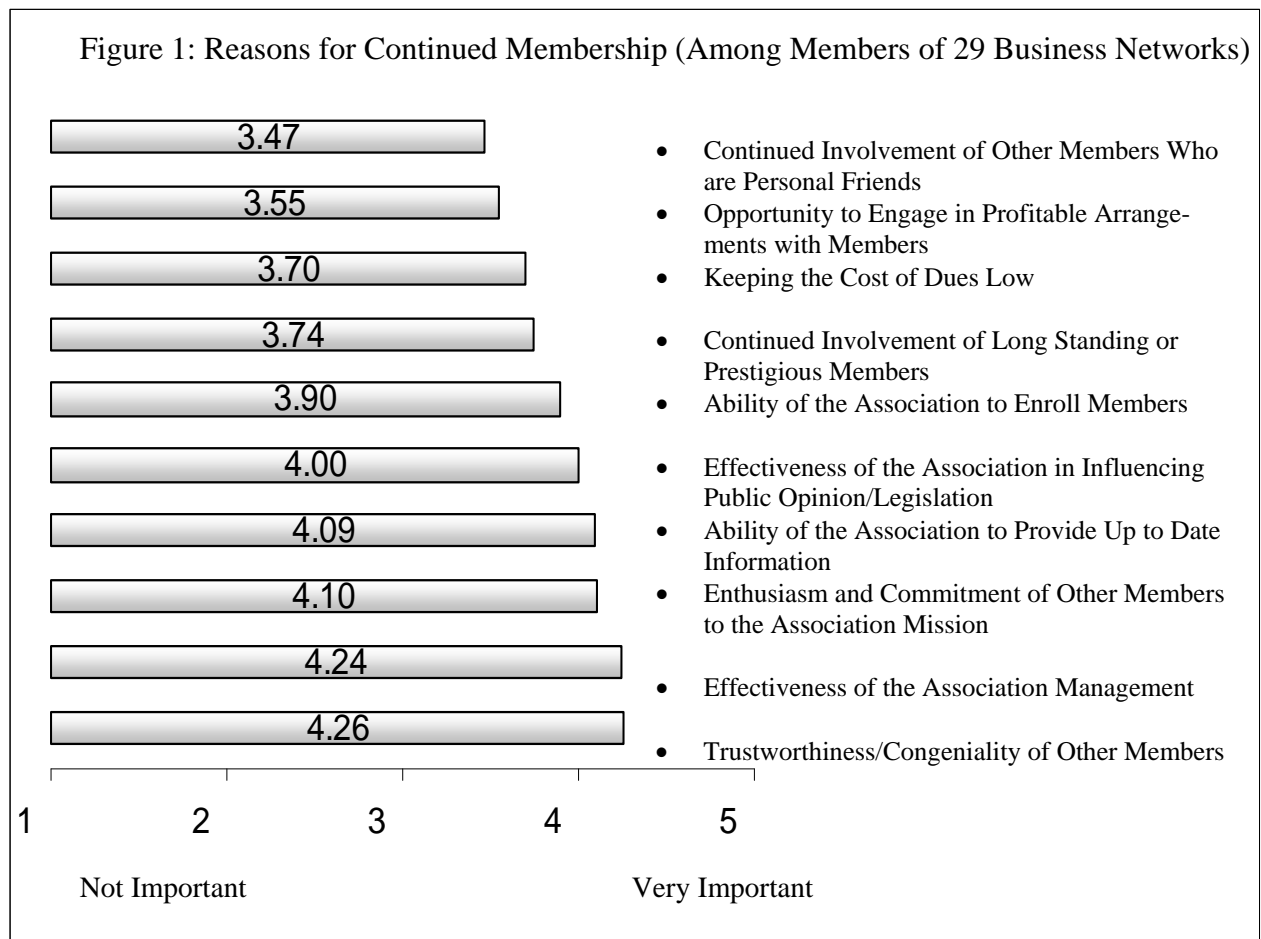
¹See Appendix I-A for a discussion of this research.

izing the network’s structure makes the network more “real” and helps create an overt commitment to it among the members. Beyond that, a formal network helps ensure achieving the goals and objectives for which businesses join such a group more so than an informal network. Figure 1 provides some of the reasons the members in the four state study of business networks continue their membership in the networks. The reasons include effectiveness of the leadership, commitment of the members to the network’s mission, influencing legislation, involvement of prestigious members, and trusting and collaborating profitably with other members. These reasons for continued

membership can be enhanced through formalizing the network.

Strength in Numbers

There is strength in numbers, especially when there is an organization behind the numbers. Two of the most powerful lobbying groups in the U.S. are the American Association of Retired Persons (AARP), and the National Rifle Association (NRA). Their power comes from the large size of their membership, and from the fact that they are organized and can mobilize their membership behind legislation they support or against legislation they oppose. Organized business networks have similar



clout. The Iowa Honey Producers Association for years had a state-supported bee specialist to assist them with their problems. Over the years the network also influenced legislation favorable to its members.

Furthermore, having a formal network can assist in purchasing supplies, services, and other inputs at reduced prices, and finding buyers for manufactured and value-added products. Volume potential in negotiating contracts for purchasing and marketing is important. Also important for businesses attempting to purchase or sell in volume is a formal entity that can act legally in negotiations on behalf of these businesses and thereby gives legitimacy and credibility to the transaction.

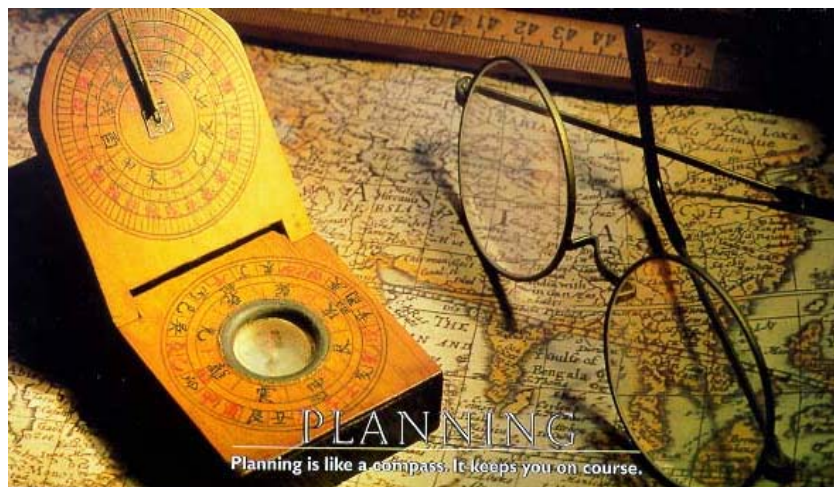
Enhanced Image

A strong organization with social, economic, and political prestige and clout can improve the image of individual businesses and proprietors. Research has shown that the image people hold of themselves often is partly derived from the organizations in which they have membership (Tyler 1999). Members who derive their identity from an organization are more likely to have a strong commitment to the success of that organization. Thus there is mutual reinforcement between mem-

bers deriving their identity from the organization and the organization's strength.

Reinforced Mutual Assistance and Reciprocity

Another reason to create a formal organization is that it institutionalizes mutual assistance and reciprocity. One of the main reasons for the existence of



such organizations is to facilitate members assisting one another with their common problems through sharing information and other resources. This can, of course, occur informally as business proprietors come to realize that they have common problems and work with each other to seek solutions. This informal process of chance or even purposive contacts, however, can be hit-or-miss in terms of the specific problems experienced and identifying other businesses with similar problems. It also suffers from lack of timeliness required for the solution of many problems.

Business network functions such as meetings, newsletters, publications,

committees, and educational programs can be organized specifically to address the problems its members are experiencing. Through the overt commitment members make to the organization and its goals by joining and paying dues they also are making a commitment to share their expertise and have an expectation that their investment will be returned. In addition, alert network leaders with available funds can provide a quick reaction to deal with emerging problems or take advantage of emerging opportunities for the membership.

Accomplishment

Lack of accomplishment is deadly for any group. If, after extended periods of time the members of a group cannot perceive any accomplishments, especially if no benefits are forthcoming, they probably will stop participating. Accomplishment keeps members involved. One network director stated:

“I personally don’t feel that we are offering a good return on their (members’) investment because we do not have a formal approach towards networking where members can particularly meet with each other like a, you know, an after hours situation. We do not have a print publication or an Internet publication where valuable information can be shared. These are some of the biggest challenges we have. How to provide a set of services that make it a worthwhile organization to join.”

This director specifically mentioned the need for a formal approach to networking. An organized group with clearly stated goals and officers that are focused on achieving those goals and have resources necessary for addressing them will be more likely to make tangible and beneficial progress for the membership than an informal group without accountable leaders and insufficient resources.

Leadership and Group Continuity

Finally, all groups eventually face the problem of continuity, especially in leadership. In an all-voluntary group there is the danger of the existence and success of the group being too dependent on the personalities and efforts of one or a small group of individuals. Should those individuals leave there is a strong likelihood that the group would fold. A constitution or bylaws that delineate the positions and functions of the officers with regular rotations of offices will expose and train more members into the leadership positions. This will not necessarily insure continuity of leadership should the founding or sustaining leader(s) suddenly leave, but it certainly will help facilitate continuity.

Disadvantages of Formalizing

Formalizing an organization also has disadvantages. Not everyone will be interested in creating a formal business network. Some feel uncomfortable with

the rules and rituals of formal organizations, so they may drop out and other potential participants will not join. Formal organizations require commitments of time, money, and other resources on the part of participants. Small business owners tend to feel over-committed anyway in terms of time devoted to running their businesses and they are not searching for another activity that places demands on their time. Money also is often in short supply, and they will need to be convinced that membership benefits are worth the costs. Finally, reaching the proper balance of formality and informality to achieve order without restraining participation needs careful attention.

Creating a Formal Network

Creating a formal network from the informal network should be a measured, deliberate process with input from everyone involved. The network's structure needs to be balanced between an organization that is efficient and effective in meeting its goals, and one that also is open to input and participation of the members. Appendix VI-A is a template of generic bylaws for a business network that can serve as a model for developing a formal organization structure.

A further step in formalizing is incorporating the network as a non-profit organization. Benefits to members from incorporating as a nonprofit organization are that the dues are tax deduc-

tible, being incorporated raises the status of the network in dealing with other organizations and businesses, and members have limited financial liability for network missteps. Information sources on organizing and managing a voluntary organization and incorporating and managing a nonprofit corporation are found in Appendix VI-B.

Funding the Network

As the network's membership grows, so, too, will the volume of organizational and administrative work increase along with financial costs of day-to-day operation. Without a slate of officers with officially assigned responsibilities to take charge, the network may quickly fall into disarray. Indeed, continued growth may require paid professional assistance. Volunteer leadership is critical to emerging organizations. But as the organization continues to grow, providing both leadership and management may become too much of a burden and lead to inattention to details or burnout. The director of one network stated:

"It has the same difficulties that all volunteer organizations have in that people are giving their time, and sometimes they don't have as much time as they would like to give, or personal things happen, and so we languish in one or two areas while people get their personal lives together and that sort of thing."

At some point, for continued growth and development, the responsibility of day-to-day management should be

transferred to someone hired for that purpose with the expertise and time to do the job (Nelson 2004, Twelvetrees 1996).

Hiring someone to perform those services or contracting out those services requires funds. Funds also are needed for honoraria and expenses for speakers and educational programs, and for other services the members may wish the organization to provide. In most organizations, the primary source for those funds is membership dues, although other sources of revenue can sometimes be established. Important considerations are members' willingness and ability to pay dues. In coming to a decision on the amount of the dues, the goals of the network, expectations of the members, and members' ability to pay should all be considered. One large statewide network in the four-state business network study had extremely low dues of only \$10 annually, but the group had additional sources of revenue. The amount of dues can vary widely, even within the same network across time:

*“W*hen it first started, there were yearly dues, and it was a couple hundred dollars. Then we have gone to having no yearly dues, and what we have done is when we have a project, like when we've printed up a new brochure, then we made a division of price and everybody chipped in on an equal share. So instead of maintaining a yearly dues, we've just done our financial stuff as-needed, based on projects that came up.”

Members of networks in this study of business networks rated the importance of “keeping the cost of dues low” eighth of 10 reasons for continued membership in the network. Cost of dues was not unimportant, but it also was not high in importance compared to such factors as trustworthiness of the members and general effectiveness of the network.

Provisions for businesses to contribute in-kind (services to the network) may be made temporarily for those lacking the ability to pay the dues. Such a practice, however, should avoid creating a two-tiered status hierarchy of those who can and cannot afford to pay dues. Business networks sometimes have the opportunity to raise money by selling member donated products or services. The Iowa Honey Producers Association has a promotional booth at the Iowa State Fair in Des Moines each year. The booth promotes their network, bee keeping, and honey production. The booth also features various member-donated bee and honey related products for sale to support the network's income.

An additional potential source of funds is grants from both public and private sources. Grants should be considered as non-recurring funds that can facilitate organization start-up or special project implementation. For example, the Small Business Administration has several categories of grants to government agencies and non-profit organizations for business development. Grants should not be counted on for ongoing

expenses. Granting organizations will not give grants for ongoing, recurring expenses. Appendix VI-C includes information sources to begin the search for potential grants.

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