



Blueprint for Starting Business Networks:

*A Strategy for Rural
Community Economic Vitality*

Why Networks?

Module I



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Why Networks?

Objectives

- ◆ Define Networks.
- ◆ Present the benefits and costs of networking.
- ◆ Introduce this series.

Why Network?

Strength in Numbers

Gerald Lewis is the owner of a general store operating in a small Nebraska community who could not gain price breaks for his merchandise due to his small-size orders. He joined a network that:

- ◆ Shares product and pricing information from vendors to get lower merchandise costs.
- ◆ Provides mentoring.
- ◆ Encourages technological advances
- ◆ Generates ideas for improving small business marketing and management.



“We also share information on vendors, or if you have problems with returns and refunds. When you aren’t hooked up with anybody else, you just don’t know. Salesmen don’t tend to throw baloney at me when I come up with a [network membership] sticker.”

Access to Benefits

Home-based business owner Jessica Rubin could not access desired benefits through the traditional chamber of commerce format. Partnering in a home-based entrepreneurship network has provided her with:

- ◆ Discounts in travel services, cell phone plans, printing, photocopying, web-site programming software, radio advertising, and chamber of commerce events.
- ◆ Affordable health insurance.

Gain Industry Information

Construction company owner Jacob Polisky wanted to be up to date about industry advances and news, and learn about his competition. He joined a network of construction company owners who have organized to provide members:

- ◆ Continuous updates of industry related information.
- ◆ Exchanges of information and ideas with other construction businesses
- ◆ Ideas for improving business strategies and overcoming challenges.

Expanding Customer Base

Several small businesses in a small Midwestern community enjoyed their independence, but needed a system for generating business referrals that would improve their business success. They created a community business network that operates to:

- ◆ Promote all members' businesses.
- ◆ Plan and implement collaborative marketing and advertising effort.
- ◆ Save advertising expenses.
- ◆ Provide a chain of referrals that ultimately adds to the members' business profit.

What Is a Business Network?

Networking occurs when individuals form groups to pursue a common purpose. In daily language, we often use alternative names for the word 'network' such as association, alliance, or organization. Networks can be informal, such as 'old boy' networks linking high powered executives, or a group gathering for happy hour at a local tavern on Friday nights. Networks can also be formal. Formal networks have a powerful history rooted in craft guilds of the middle ages and are evident today in chambers of commerce and farmers' cooperatives. Thus, how individuals define and discuss networks and networking can vary.

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

Networking is everywhere and most of

us network formally or informally in one way or another. Most business owners agree that they sometimes meet for coffee with other business owners in the community, discuss current business trends with vendors or suppliers, try to stay current with technology by asking for or offering upgraded information, or exchange strategy ideas with other business owners. How many would be willing to ask for specific detailed information about business matters if they were certain that they were sharing the information with others they could trust and who were operating in a similar non-competing situation? Probably all would. This is the opportunity offered by business networks.



The Benefits of Networks

Results from a 2003 study of networks in four Midwestern states (See Appendix I-A for more information about the study) indicate that networking provides many benefits to member businesses. Among a list of seventeen potential benefits presented to business network members, the top five benefits identified by business owners and managers included:

- ◆ Influence over favorable legislation.
- ◆ Enhanced market knowledge.
- ◆ Improved marketing.
- ◆ Improved management skills.
- ◆ Greater access to technology.

Networked business operators reported that networking is an effective way to secure technology, marketing skills, and capital, and the benefits provided by their network consistently improve over the years of membership.

Below are the specific ways that networks contribute to business success.

1. What You Don't Know Can Hurt You – Networks Facilitate the Exchange of Information

Business owners indicated that they gather valuable information at social events such as network conferences and meetings. Business network magazines or newsletters are highly valued sources of information and some business operators reported that



they tapped into the association's web site.

Results from a study in New York showed that manufacturers who belonged to networks had a better awareness of their own competitive capabilities and experienced a substantial increase in the amount of information exchanged with other manufacturers after they joined a network. One manufacturing owner said:

“It's easy to go through your career looking through your own vision...If you can experience other people doing the same thing, it's a dose of reality and it broadens your knowledge base about yourself and others” (Human & Provan, p. 246).

One successful US business network that has been in existence for more than 45 years is an organization of small apparel retail store owners who operate their businesses in Midwestern communities of less than 10,000 people. Members are highly independent and place great importance on maintaining their individuality. This group of store owners possesses a strong desire for independence and at the same time a strong belief that sharing information with network members is a benefit that has made a difference in their business success.

One member commented about the confidence-building aspect of networking:

“You can't realize unless you are in this business, what a comfort it is to have this network out there – For whatever kind of information you need.”

2. Innovation and Improved Productivity are Essential in Today's Global Economy

Research consistently shows that networked businesses are more likely to develop and adopt innovative processes, products, and strategies than non-networked businesses. This is especially important in the new global economy where cut-throat competition and consolidation makes it very challenging for small businesses to succeed. For example, one study of Indiana businesses conducted by I.A. Baird and his colleagues showed that:

- ◆ Networked businesses developed more new products and patents than non-networked small businesses.
- ◆ Networked businesses had greater success in securing technology, market skills, and capital.

In another study that examined the British medical equipment industry, 26 of 34 innovations were developed by networked businesses.

3. Ultimately, Businesses Want Improved Sales and Profits

Network membership helped:

- ◆ Networked retailers in Europe achieve higher sales per employee, sales per square meter of selling

space, and greater profit (from a study by Reijnders and Verhallen in 1996).

- ◆ Swine producers in the United States network together to share both information and physical resources and to create market presence (from a study by Acs and Malecki in 2003).
- ◆ Those producers who invested the greatest amount of time in networking experienced the greatest increase in sales compared to producers not involved in networks or who invest minimal resources in networking (from a study by Brown and Butler 1995).
- ◆ Australian businesses involved in alliances with other businesses reported receiving essential benefits from cooperation. Over half reported higher profits and greater export sales as a result of cooperative endeavors (from a study by the Bureau of Industry Economics in 1995).

Why Don't All Business Owners Join Networks?

About 42 percent of small businesses are not members of a business network. Possible explanations for not joining a business network are:

1. Lack of knowledge of the benefits.
2. No appropriate network exists.
3. Lack of resource slack (employees, revenue, and/or time) to invest in network membership.
4. The belief that the costs and risks outweigh the benefits.
5. The tendency of small business owners to “go it alone.”



It is important to address the last reason because even after business owners realize the benefits of networking they may still be reluctant to join for fear of giving up some of their independence. After all, the reason many business owners are in business for themselves is to be independent. The possibility of giving up some of their independence is a powerful disincentive for joining a network.

Business Independence

To compete in today's environment, business strategies must shift from firm rivalry to business cooperation. This movement from 'go it alone' to 'cooperation' is often threatening to independent business people. Despite this perceived threat, cooperative arrangements with other businesses provide a competitive advantage over a purely market-based relationship. It is possible to succeed in business in a small community, but it can be lonely. Many business owners report that having someone to discuss their challenges with or discovering that someone else is facing similar threats from the external environment is a major benefit of networking. The owner of a networked bed and breakfast business described her reasons for belonging to a network this way:

I think the cooperation level, the fact is there's some B&B operators here in our area that have been operating their business since 1986. So they've been in the business for quite a while. They have been very generous to the newer ones, with sharing their experience of what works or what doesn't work, in trading guests. The fact that if my rooms are full, I'm still happy to tell somebody how to find a B&B, even if they're not going to be my guests. And so I think that keeping that level of cooperation is probably a real achievement. We're not competitors, we're cooperators."

Working together with the other businesses for mutual benefit often occurs unintentionally as individuals interact through networks. Examples of such developments can be seen in the telecommunications or the high tech electronic industries (details on these examples can be seen in appendix II-B). Businesses that use collective strategies for success develop their own operating or competitive strategies, but also employ collective efforts to overcome market turbulence or uncertainty. This relationship is often called interdependence rather than independent or dependent.

One kind of collective strategy is sharing information with other businesses. This creates a less threatening, more stable environment, but there is also risk of disclosing strategically sensitive information. Successful networking depends on finding a balance where users of the network band together to create a market presence to compete against larger

firms. Another collective strategy is referring customers and sharing resources. This is exemplified when, for example, bed-and-breakfast network members cooperate to compete with the large hotel chains. Therefore, a strong network is one where independent business owners can maintain their own competitive strategies but view each other as allies against larger competitor firms.

Summary: Why Network?

The merits of networking for any business – regardless of size or type – are rooted in social as well as financial connections that enrich personal lives as well as the ‘bottom line’. Networking enables members to close knowledge and experience gaps, access information, and pursue new ideas resulting in innovations and business success.

Around the country, entrepreneurial networks have played an important role in providing and supporting economic change required by communities undergoing economic transitions. Community acceptance of networks has enhanced the visibility and viability of new local business activity where development officials, investors, and service providers have attracted others to startup or invest in an industry. Networks are advocates of the independent or self-employed representing their voice in government, tackling political issues, and affecting legislation.

Businesses use networking for different purposes at different periods or stages in their life cycle. New businesses

need access to peers to overcome their inexperience. Established businesses may find the new businesses bring new technology or an infusion of new ways to address long existing obstacles. Industry-based networks may find membership brings specific knowledge about unique production processes, technology, or markets. Community-based networks include the self-employed, entrepreneurial businesses, and a variety of other businesses. Their mission is usually linked to enhancing the economic health of the community as a whole as well as facilitating the success of members.

Starting a Business Network

Keys to Network Formation and Continuance

This is the first in a series of modules about creating business networks. Each of the other modules provides in-depth information about a specific aspect of business network creation. The modules in this series are:

Module I: Why Networks?

Module II: Encouraging Resource and Risk Sharing

Module III: Communication

Module IV: Recruitment of Members

Module V: Leadership

Module VI: Transforming an Informal Group into a Formal Network

More information about this project and the participating researchers is available at www.soc.iastate.edu/ruralnetworks/

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