

# HOW TO AID ENTRY TO BUSINESS NETWORKS USING COLLECTIVE SOCIAL PROCESSES

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## Abstract

The role and benefits of business networks has long been recognised. One of the main difficulties faced by businesses is identifying which networks to enter, and then finding a way to gain the entry desired. This problem is particularly acute for Small Medium Enterprises (SMEs) as many managers do not appreciate how important networks are to their business success, and where many managers do not know how to gain entry to appropriate network(s). The research used the Activities, Actors, Resources model (AAR) as a theoretical base.

This research addressed a tourism area on the Sunshine Coast where SMEs predominated, and where casual observation had identified a long-term problem of SMEs gaining entry to appropriate networks. The technique studied was the use of a collective social process, called network nights, to which local tourism operators were invited, predominately SMEs.

The results showed that these network nights were beneficial in facilitating interaction between SME operators by assisting the nurturing of relationships, and thus providing the opportunity for network entry. There are three main contributions by this study, firstly the application of the AAR model to a service industry, secondly the use of collective social processes rather than dyadic processes to promote business networks, and thirdly through a modified version of the AAR model reflecting collective social processes for SMEs.

## Introduction

Business networks are 'sets of connected firms' (Anderson, Håkansson, & Johanson 1994, p. 1). Through a 'network' of close business relationships, a company may become more efficient and competitive, ultimately leading to a stronger competitive advantage (Baba & Imai 1993). While significant research has been conducted into industrial networks for manufacturing based businesses (for example: Snehota 1993; Håkansson & Johanson 1993; Johanson & Mattsson 1994; Håkansson & Snehota 1995) many world economies have evolved from a strong manufacturing foundation to a more service-oriented industry base. There is potential for more research into the role of marketing relationships and networks in these growing service industries. Business networks can be generally defined as 'a group or structure of individual units that are linked in the extended relationship marketing structure that exists between more than two business units'. The generalised connectedness of business relationships 'implies existence of an aggregated structure, a form of organisation that we have chosen to qualify as a network. Because of connectedness the relationship is part of a larger whole' (Håkansson & Snehota 1995, p. 19).

Small Medium Enterprises (SMEs) find being competitive increasingly difficult. One aspect of business in which SMEs are at a disadvantage to larger firms is in the area of business networking. Many SMEs find it difficult to enter business networks (such as lack of time, lack of realisation of the usefulness of networks, lack of knowledge of which networks exist

and which are appropriate for a particular business), or may not even realise the many benefits to being a 'member'. Business relationships in a network evolve in a way described as 'organic' (Håkansson & Sharma 1996), formed step-by-step through interaction processes that incorporate 'social exchange, adaptations and institutionalisation' (Håkansson & Sharma 1996, p. 116). While it is easy to state the above, realising these aims in practice is difficult for many, the 'barriers to entry' can be perceived as overpowering to many SMEs.

This study focuses on one technique successfully used in the tourism industry that brings a number of SMEs together on a regular basis at functions known as 'network nights'. These nights provide an opportunity for local business people to meet and form relationships, which in turn can lead to opportunities to enter an appropriate network.

## Network Relationships

Networks are not simply the domain of the study of business, sociology, or any single discipline or endeavour, but appear to be a universally recognised principle, where individual units become a part of a larger system to achieve a purpose that an individual could not achieve. Humans appear to interact in a system that is described as a network, and the human networking creature often interprets natural occurrences as being organised into the system that humans understand – networks. Humans inevitably interact in relationships that often lead to a network format. Human networks give rise to the study of relationships between people, a study covered in the field of Sociology. Maguire (1987) described networking in the sociological context as 'a purposeful process of linking three or more people together and of establishing connections and chain reactions among them' (Maguire 1987, p. 13). Table 1 shows a number of attributes of social networks.

TABLE 1 - Attributes of social networks

Social Network Attribute	Explanation
<b>Symmetry</b>	Balance of power or profit
<b>Intensity</b>	Degree of commitment in a personal link
<b>Multiplexity</b>	Number of roles or relations (for example) that connects two people
<b>Range</b>	Number of actors connected in a link
<b>Density</b>	Extent of interlinkage among the actors (usually expressed as the ratio of the number of existing links to the number of possible links)
<b>Reachability</b>	Average number of links needed to connect any two actors to the shortest route
<b>Clustering</b>	Total network is divided into distinguishable cliques or groups

Source: Developed for this study from Maguire 1987

Relationship marketing and the resulting business networks also begin with the individual interpersonal relationships and have the attributes of social networks illustrated, which start as a basic social exchange between at least two parties, normally a supplier and a customer, who enter into an interaction with each other (Gummesson 1994), and which Blau described as a:

... slow process, starting with minor transactions in which little trust is required because little risk is involved and in which both partners can prove their trustworthiness, enabling them to expand their relations and engage in major transactions. (Blau 1964, p. 454)

One of the difficulties faced by many firms, and especially Small Medium Enterprises (SMEs), is to gain access to the 'right' network(s). The existence of 'barriers' to entering business networks has been established (for example, Shackleford & Ward 2001) as has the role of a network catalyst who can facilitate interactions (Purchase 1999). Barriers to entry act to slow (or even totally inhibit) entry into a network, while the network catalyst acts to break down barriers to entry as an individual unit within the network, and is an 'actor that initiates or alters the speed of the relationship forming process' (Purchase 1999, p. 303).

The Activities-Actors-Resources model (AAR) was developed by Håkansson & Snehota (1995) as a dyadic representation of the development of business networks. In this model activities between dyad partners and the utilisation of shared resources lead to the development of bonds between two actors. More recent research has identified the concept of connectedness as a key activity in the development of relationships between dyadic actors (Purchase & Ward 2003). The concepts of connectedness and network catalyst have not clearly separated, and there are several different terms applied in the literature that encompass this area, for example, guanxi (Björkman & Kock, 1995; Chen, 1995; Numazaki, 1996), coupling (Lowe & Watkins-Mathys 2002), links (Ojasalo 2002), a process dimension (Capra 1996) and promoter (Achim 1999).

The current AAR model does not, however, consider the case where collective meetings, or social interactions, involving more than two actors are concerned. The theoretical framework for this study is thus based on the AAR model adapted to a service industry and using socially collective, rather than dyadic, processes.

**This research thus sought to investigate how a network catalyst could aid business network entry for SMEs using a collective social processes.**

Barriers to network relationships within the tourism industry have the potential of having a major effect on the efficiency of tourism promotional activities. Most local areas, such as Maroochy on the Sunshine Coast, have limited financial resources, while the tourism organisations and businesses require cooperation in activities such as promotions to ensure the region is promoted effectively. Network barriers, particularly industry conflict, often prevent the synergy that enables the effective efforts in promotions to enable areas with limited resources to compete with tourism areas in capital cities. This study thus investigated the role of Maroochy Tourism in facilitating networks through network nights, a collective social process. Network nights were held monthly and usually featured a keynote speaker who addressed a topic of general tourism interest, followed by informal discussion. Local tourism operators were invited and there was a predominance of SMEs in attendance.

## Method

The exploratory study used a participant method, as the researchers were involved with the network nights, combined with field research in the form of in-depth structured interviews. The sample comprised 37 respondents, who were stratified into three groups: commercial operators in hospitality, attractions and transport; the local regional tourism authority,

Tourism Sunshine Coast; and local tourism organisations on the Sunshine Coast, such as, Maroochy Tourism and Caloundra Tourism.

Respondents were randomly selected from a representative group of industry participants, but there is no claim for statistical representation. All business respondents were from SMEs and in most cases were to owner/operators of these firms. Tourism authority respondents all held senior positions. The questions were designed to elicit open responses of respondents' opinions and attitudes with respect to the effectiveness of network nights. The interviews required respondents to identify the benefits they obtained from the network nights, to assess how effective they were in reducing barriers to entry, and how they might facilitate network activities. The interviews were taped, transcribed and coded interpretively to identify, and to gain an understanding of, how they helped to facilitate networking contacts.

The interviewer has many years of experience in tourism, both as a commercial operator and as a tourism organisation manager. This experience was most beneficial in conducting and analysing the interviews. Researcher bias was minimised through the use of a researcher self-monitoring questionnaire following each interview, to identify any overall changes of researcher perceptions over the interview period of four weeks. No significant trends were apparent from this self-monitoring process.

## **Results**

The respondents indicated that Maroochy Tourism was identified as engaging in activities that were typical of a network catalyst. Broad activities that were identified as network facilitating activities were:

- the provision of information
- the organising of social activities for the industry to get together
- initiating marketing activities and support
- providing tourism expertise.

The most useful individual network catalyst activity identified was the Maroochy Tourism network nights that facilitated all four of the above activities. These monthly industry gatherings were identified by respondents as important activities and were described in four dimensions: as a business activity, a social activity, as assisting in the establishment of new relationships, and as assisting to reinforce old relationships.

Most respondents identified the network nights with both social and business activity and that business can be conducted through close social interactions, though the socialisation process was identified more predominantly. It can be concluded that Maroochy Tourism network nights are identified by the local tourism industry as an essential part of the local network process, mixing business with the important socialisation process identified as vital to network relationships. The activity was used to maintain relationships as well as to establish new network contacts.

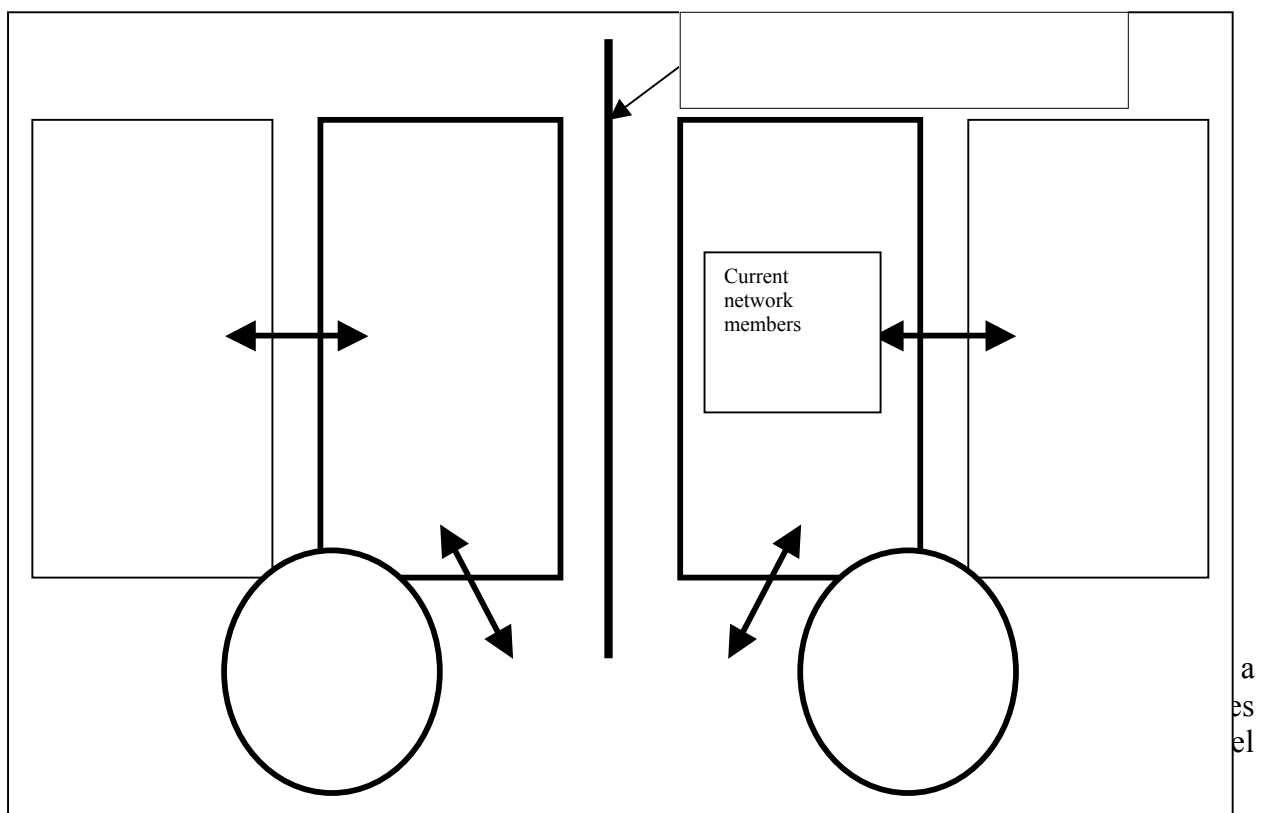
## **Discussion**

The social activity identification found supports the comments by researchers such as

Grönroos (1994) and Zeffane (1995) who described the socialisation process as the substance of the networked organisation, where individuals form the links, friendships or attachments essential to individual network relationships (Smith & Stevens 1999). Prior to activity by the network catalyst, there are no (or limited) Actor Bonds, Resource Ties or Activity Links that constitute the business relationship between potential new members and existing members of the network. The network catalyst assists in the overcoming of any relationship barriers that prevent the development of actor bonds that lead to the business activities and resource sharing of a network relationship. Figure 1 shows the overall model for a network catalyst using collective social processes to develop and maintain business networks, and is developed from Purchase (1999). The model shows a process of how a network catalyst can work around network development barriers using collective social processes, in which current and potential new network members are brought together on a regular basis. As this process proceeds the barriers will be reduced so that direct interaction between new entrants and current members can develop. The model also shows that both the potential new entrants and the current members have relationships with other businesses, and will further have the opportunity to develop relationships within their own groups. Thus, through the process of being brought together there is an opportunity for both new entrants and the current members to expand their business contacts into new areas.

**FIGURE 1**

The use of social processes as a network catalyst



## Future Research

This exploratory research clearly identified that collective social processes can be used by network catalysts in a specific situation, in this case a service industry. The research needs to be widened to encompass a range of industries and situations to determine if such collective techniques are universally applicable, as it is doubtful that every industry or situation would be suitable for this collective technique. This study used firms and organisations that can be categorised as SMEs. The development of networks in large organisations may not be so amenable to this collective technique.

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