

**Developing a relational capability construct for SME
network marketing using cases and evidence from Irish
and Finnish SMEs**

Helen McGrath

PhD

Waterford Institute of Technology

Supervisor: Dr. Thomas O'Toole

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Abstract

SME relational marketing and SME networks have been widely prescribed in the literature. Defined as a series of interactions between interconnected parties in a relationship, the network approach is a philosophy which relies on mutual co-operation, collaboration and the process of building trusting relationships. However, this thesis argues that the process through which individual actors interact and are connected in networks remains under-explored. With the evolution of relationship marketing and networks as a basis for SME marketing the researcher contends that a need exists to define the capabilities necessary to conduct relationship marketing successfully in a network context. This process and such capabilities are termed 'relational capability' and address a gap in the literature.

This thesis identifies the relational capability construct inclusive of its six dimensions; realisation dimension, assessment dimension, access to knowledge dimension, access to opportunity dimension, co-adaptation dimension and co-innovation dimension. The dimensions are defined and structured through the application of the Actor-Activity-Resource (AAR) model of networks as depicted by the International Marketing and Purchasing (IMP) group of researchers. The applicability of the AAR model in the structuring of the six dimensions of relational capability is justified due to its role as a descriptive tool designed to detail the three substance layers of an industrial relationship. Additionally, based on a comparison of alternatives, the theoretical lens selected to view this research is social exchange theory due to its focus on embeddedness, reciprocity, and its ability to embrace the social elements of relationships and networks. Therefore, the utilisation of the theoretical lens of social exchange theory enables the researcher to better understand the behaviour of individuals within a network setting.

Eight small to medium sized enterprises (SMEs) were selected and analysed from both an Irish and Finnish context for the purpose of this study. The empirical research, from an Irish perspective, entailed an intervention case study approach to action the relational capability dimensions to assess theory fit to practice. Semi-structured interviews were employed in both an Irish and Finnish context. The research is

interpretive, placing more concern with gaining an in-depth understanding of the participants in a network setting with the assumption that the view will be context and time specific (Wainwright, 1997). Through the power of the interpretive paradigm, the aim of this research is to illuminate new perspectives on established concepts such as SME relationship marketing and networks.

Overall findings support the appropriateness, applicability and potential of the conceptualisation, inclusive of its six dimensions, as a vehicle to enhance SME marketing. From an Irish perspective, realisation and assessment were low highlighting that misconceptions existed amongst the SMEs regarding the nature and dynamics of networks whereby they were viewed as a predominantly social structure. Conversely, the Finnish participants viewed networks as interconnected business relationships continually operating in close collaboration with other stakeholders within their business. Regarding the access to knowledge and access to opportunity dimensions of the conceptualisation, findings highlighted that both the Finnish and Irish SMEs had accessed valuable knowledge and opportunities through their networks of relationships. Consequently, as the study progressed, it was clear that the Irish participants were starting to appreciate the value of operating through networks, and as such, their attitudes towards the network process improved. The disparities were significantly lower between the two contexts in terms of co-adaptation and co-innovation as all of the participants relied on relationships to facilitate such processes. However, one of the major differences remaining between the Irish and Finnish participants is in their attitude towards their competitors. The Irish SMEs seemed to have very strong firm boundaries in place, an individualistic culture, whereby relationships with the outside world were limited by necessity in terms of sales and supplies.

The relational capability construct and its six dimensions represent the theoretical contribution to knowledge for this research. The relational capability construct identifies the process of SME network activity, research which has not previously been undertaken. From a managerial perspective, findings from the study support the view that the relational capability construct is one way of addressing the resource/time pressure on SME marketing practitioners through providing them with marketing route-ways through their existing and potential networks. In terms of SME network

policy, key implications and recommendations are offered. The researcher recommends that ensuring a full understanding of industrial networks and its dimensions be at the core of any Irish network/entrepreneurship programme to guarantee the maximum derivation of benefits. Additionally, the researcher recommends that academic institute employ a collaborative style model in Ireland to enable the academic institutes to play a more active role in the operations of the Irish SME and create a more positive attitude towards partnership/collaboration.

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INTRODUCTION

Chapter 1 Introduction

1.1 Research Background

Zimmerer and Scarborough (1994:4) stated that this century would dawn with the greatest number of small businesses ever and, as predicted, over the past 25 years, small to medium-sized enterprises (SMEs) have been heralded by most western governments as the engine of economic growth, the incubator of innovation, and the solution to decades of persistent unemployment (Kuratko & Hodgetts, 1995; Birley & Westhead, 1990; Audretsch, 2004; Berger et al., 2004). Both government agencies and academic researchers have indicated interest in the study of SMEs and their performance. In recent years, considerable sums have been invested by the European Union and National Governments in support of SMEs, through direct financial assistance and through subsidised advisory services (OECD, 2006), to ensure their continued survival. This is based on the assumption that small firms that engage in assistance programmes will become more effective, thus contributing to the economy as a whole. A new breed of professional class SMEs are emerging, with owner/managers seeking greater assistance to take their firms forward and identify factors leading to growth and success. Yet considerable evidence exists to support the fact that many fail to grow (Storey, 2008).

Over the past two decades, substantial academic research has been undertaken in the area of SMEs, recognising the need for concepts of strategic management that address the special characteristics and situations of small firms (Van Laere and Heene, 2003). The acceptance of SMEs as disparate to their larger counterparts in terms of their core capabilities and characteristics is significant, as their ‘uniqueness’ affects the means through which they operate in the market. Distinguishing characteristics such as diversity, small scale, personality, independence (Nooteboom, 1994) and flexibility (Van Gils, 2000) have been identified as the foundation of many corporate advantages. However, current literature suggests that marketing remains a challenging area for many SMEs. In addressing this challenge, Carson (1985: 9) delineated three broad types of constraints on marketing by small firms namely, limited resources, lack of

specialist expertise and limited impact on the marketplace. Therefore, while research studies (for example Carson, 1985; Carson and Cromie, 1989) into marketing in small business have proliferated, there remains still a need to explore the most suitable means through which SMEs can engage in marketing activity. This point is reinforced by Hill and Wright (2001b) who argue that existing approaches to researching and conducting marketing in small firms are inappropriate and are rooted in the big firm mindset.

Networks have been conceived as a popular strategy through which SMEs may successfully conduct their marketing activities. Hill (2001a) noted many natural capabilities present within SMEs, rendering SME marketing compatible with networks, such as the experience, social skills, communication skills and the product knowledge of the owner/manager. Such networks are described by Carson et al. (1995: 201) in a small firm context as:

...an activity in which the entrepreneurially oriented SME owners build and manage personal relationships with particular individuals in their surroundings.

Therefore, this study will focus on SME marketing with particular emphasis on networks as a potentially appropriate means through which SMEs can conduct their marketing activities. Due to its ability to describe complex interrelated business relationships, networks will be viewed through the lens of the 'network approach' as defined by International Marketing and Purchasing Group (IMP) of Researchers. According to this approach, buying and selling in industrial markets cannot be understood as a series of disembedded and serially independent transactions. Alternatively, transactions are best understood as episodes in long term stable relationships between the buying and selling firms emphasising the building of long term committed and trusting relations between actors.

The researcher's interest in SME marketing stemmed from her involvement in an EU funded Innovate Actions Programme designed to enhance the managerial capabilities of owner-managed businesses in South East Ireland. The project, based on findings from the Finestra study (Moran, 2002), aimed to design an innovative business development model for the micro-enterprise business sector. Main findings from the report highlighted that owner/managers prefer an action

learning style based on 'learning by doing', which allows them to work on their own business problems (Finestra: Moran, 2002: 49).

As project information officer, the researcher was responsible for documenting the progress of the programme and the micro-enterprise participants. In preparing the final project evaluation, a number of interesting issues emerged which the researcher felt warranted further investigation. The majority of the micro-enterprise owner/managers agreed to participate in the programme through a desire to enhance their marketing skills. Supporting the literature they noted that their marketing efforts were negligible and aspired to discover a cost effective means to market their companies. Whilst this was not noted as a significant project outcome, the participants stated in the final evaluation that 'networking' was hugely beneficial to them throughout the duration of the programme period. More specifically, they highlighted the value of collaborating with like-minded individuals who face similar issues in their day-to-day activities. They also derived benefits from utilising the services of external know-how in addition to the range of expertise and services available within the higher institutes of technology and partner organisations. Therefore, it was clear to the researcher that small, micro-enterprises are unaware of the merit associated with collaboration until they actually engage in it, and as a direct result of the programme, they felt that their competencies and understanding regarding the 'networking' concept had improved.

Following attendance at the International Marketing and Purchasing Conference in 2005, the researcher recognised the potential to further explore the issue of SME marketing and networks. Moving beyond the findings from the EU programme evaluation where the small firms collaborated with like minded business owners and with formal institutes, the researcher became interested in the potential of building strong relationships with value chain members and other industrial stakeholders as a route way to enable SME marketing.

Data collection for this thesis was carried out within a Finnish and Irish context. The researcher selected Finland for cross comparison purposes due to its comparability with Ireland in terms of country size and GDP (see Table 1.1).

Small to medium sized enterprises comprise the vast majority of enterprises in both contexts and are responsible for a large percentage of both gross national product and employment.

	Finland	Ireland
Percentage of SMEs	99.8%	99.4%
GDP (purchasing power parity)	\$185.5 billion (2007 est.)	\$186.2 billion (2007 est.)
GDP (official exchange rate)	\$245 billion (2007)	\$258.6 billion (2007 est.)
GDP - real growth rate	4.4% (2007)	5.3% (2007 est.)
Labour force	2.675 million (2007 est.)	2.22 million (2007 est.)

Table 1.1 Irish and Finnish SME Statistics
Source: The World Factbook

1.2 Research Objectives

Whilst substantial research has been undertaken in the area of SME marketing and networks little emphasis has been placed on the process through which SMEs engage in networks. The researcher seeks to examine whether relational capability, as a construct comprising six dimensions, can represent this process. Therefore, the predominant theoretical aim of this thesis is to define ‘relational capability’ as a potential means to facilitate SME marketing activity through networks. The primary research objectives stemming from the theoretical aim are:

- To examine, through an interdisciplinary review of the literature, an appropriate means through which SMEs could conduct their marketing. Existing evidence suggests that marketing is an area in which SMEs have difficulty enacting yet there remains an absence of an appropriate small business marketing theory.
- To analyse the characteristics and underlying assumptions of three proposed theories for the study of networks namely, transaction cost

theory, resource dependency theory and social exchange theory, to deduce a suitable lens to research SME network/relational marketing.

- To develop the relational capability construct and identify its dimensions. Following an analysis to determine its suitability to describe networks in an industrial setting, the researcher aspires to utilise the Actor-Activity-Resource (AAR) model of networks as depicted by the International Marketing and Purchasing (IMP) group of researchers to classify the dimensions of relational capability construct (Håkansson and Snehota, 1995).

The empirical objective of this research, stemming from the theoretical foundation, is to determine the value of the relational capability construct within both an Irish and Finnish context. To achieve this objective this researcher aims to:

- Investigate the current marketing efforts of SMEs in both an Irish and Finnish context to determine the extent to which the participant SME owner/managers currently use networks in pursuit of their marketing efforts.
- Action components of the relational capability framework to assess theory fit to practice; that is to assess the potential of the relational capability conceptualisation to facilitate the marketing efforts of the owner/manager through networks. Within an Irish context the researcher will employ an intervention orientated participatory action research methodology. Collecting data through this means has the potential to assist the researcher in determining the potential effects of the relational capability conceptualisation as an enabling or facilitating mechanism in the performance of SME marketing in networks. Within a Finnish context, the researcher will examine the relational capability construct and dimensions through in-depth semi-structured interviews with participant SMEs.

- Understand the ‘reality’ of SME marketing and network activity within both an Irish and a Finnish context, analysing cross country differentiation and potential explanations for this.

Although this research is motivated by a desire to contribute to the theoretical work which underlies it, the researcher recognises that the issues pertaining to SME marketing are of immediate practical significance. In recent years supports have been made available to SMEs by Irish and Finnish Government Agencies, largely to enhance the managerial capabilities of the small firm sector. As the focus of this study is to define relational capability inclusive of its six dimensions as a potential means to facilitate SME marketing, the researcher aspires to potentially provide future policy recommendations based on the implications of findings. This goal will be realised through:

- An analysis of current government policy towards the SME sector from both an Irish and Finnish perspective.
- A comparison of the research findings with current government policy to assess the appropriateness of the means through which governments assist small firms particularly within a network setting.

1.3 Contribution to Knowledge

The relational capability construct and its six dimensions represent the core theoretical contribution to knowledge for this research. The relational capability construct identifies the process of SME network activity, research which has not previously been undertaken. Its potential as a marketing facilitator will be argued through the analysis (Chapter 8) and discussion (Chapter 9) chapters of this research.

A second contribution to knowledge that this study makes is its interdisciplinary nature, drawing on the strategic management, marketing, network, SME and social exchange theories and applying them to the small firm sector. This study

integrates the relational capability dimensions with the Actor-Activity-Resource Model (Håkansson and Snehota, 1995).

This study contributes to the SME marketing literature through differentiating between networks and networking. Within the SME marketing literature, the terms ‘networking’ and ‘networks’ are frequently viewed synonymously encompassing both social networks and industrial networks. The researcher argues that ‘networking’ is a sub component of ‘networks’ referring to networks as interconnected business relationships and networking as predominantly social ties.

This study offers a methodological contribution to knowledge. Research suggests that networks are not easily observed and consequently are difficult to analyse and measure (Birley et al. 1991). The researcher devised interventions for, and applied qualitative measures around, the six dimensions of the relational capability construct. These measures could be replicated for future studies as they were found to be appropriate and valid for the measurement of the six dimensions of the relational capability construct.

A clear applied contribution to knowledge stems from this study. In terms of SMEs, the relational capability construct is one way of addressing the resource/time pressure on SME marketing practitioners by providing marketing route-ways through their existing and potential networks. Additionally, due to their practical nature, the six interventions designed in the methodology chapter could be used as an outreach programme by academic institutes towards the SME sector. Regarding SME policy, it is argued that the first step towards orientating small firm owner/managers towards relational and network marketing is to enhance their understanding of networks as an industrial phenomenon with social ties comprising a sub component of the network. Policy recommendations are outlined in chapter 10 of this thesis.

1.4

Chapter Outline

This thesis comprises ten chapters and the structure is graphically depicted in figure 1.1. Chapter 1 delineates the broad direction of the research. It provides background information on the research topic including the researcher's interest in the study area. The chapter outlines the research objectives which underlie the thesis in addition to the contribution to knowledge made by the researcher.

Chapter 2, as the first chapter of the literature view, defines the term 'SME' and provides an overview of current policy towards the SME sector from both a Finnish and Irish perspective. Two research issues were identified from the literature; that marketing is an area that requires further attention within an SME context; and the role of cooperation and networks are fundamental in European policy towards the sector. Chapter 3 expands this point and recognises networks and relationship marketing as a suitable means through which SMEs could conduct their marketing activities based on a comparison of alternatives. Chapter 4 comprises two important sections. Firstly capability literature is examined from a strategic management, marketing and small firm perspective. With the evolution of relationship marketing and networks as a basis for SME marketing, the researcher argues that there is a need to define the capabilities necessary to conduct relationship marketing successfully in a network context. The 'relationship capability' construct emerges as an under explored area representing a literature gap in understanding the process through which SMEs engage in marketing through networks. Secondly, the chapter focuses on the theoretical perspectives of the research. Social exchange theory is selected as a suitable lens through which to study SME relational marketing and networks based on a comparison of alternative theories. Chapter 5, as the final literature chapter describes six dimensions of the relational capability construct and depicts them conceptually through the utilisation of the Actor-Activity-Resource Model as depicted by the International Marketing and Purchasing group of researchers.

Chapters 6 and 7 describe the methodology adopted in the study. As Figure 1.1 suggests, Chapter 6 describes the philosophical stance of the study and justifies

the ontological, epistemological and methodological stance of the researcher in the light of the objectives and the nature of the study based on a description of alternatives. Based on the assumptions and the position within the interpretive paradigm, Chapter 7 describes the primary research approach taken by the researcher inclusive of semi structured interviews, invention based participatory action research, the strategies and techniques used in analysing data, and the measures employed.

Following the employment of methods within both an Irish and Finnish context, Chapter 8 analyses the data collected for the research study, which, from an Irish context, is organised around the six dimensions of the relational capability construct. A cross-case comparison is detailed between the Irish and Finnish SMEs.

Chapter 9 provides a discussion of the key findings stemming from Chapter 8, incorporating the findings with the literature reviewed in Chapters 2 to 5. This chapter specifically addresses the level of theoretical fit of the data analysed to the conceptualisation and details the degree of support shown for the six dimensions of the relational capability construct in light of the previous empirical literature.

Chapter 10 revisits the research objectives as set out by the researcher and provides conclusions for the study. Based on the literature from Chapter 2, implications for policy are detailed, in addition to the SME managerial implications stemming from the research. Both the core value and limitations for the study are addressed in addition to recommendations for further research.

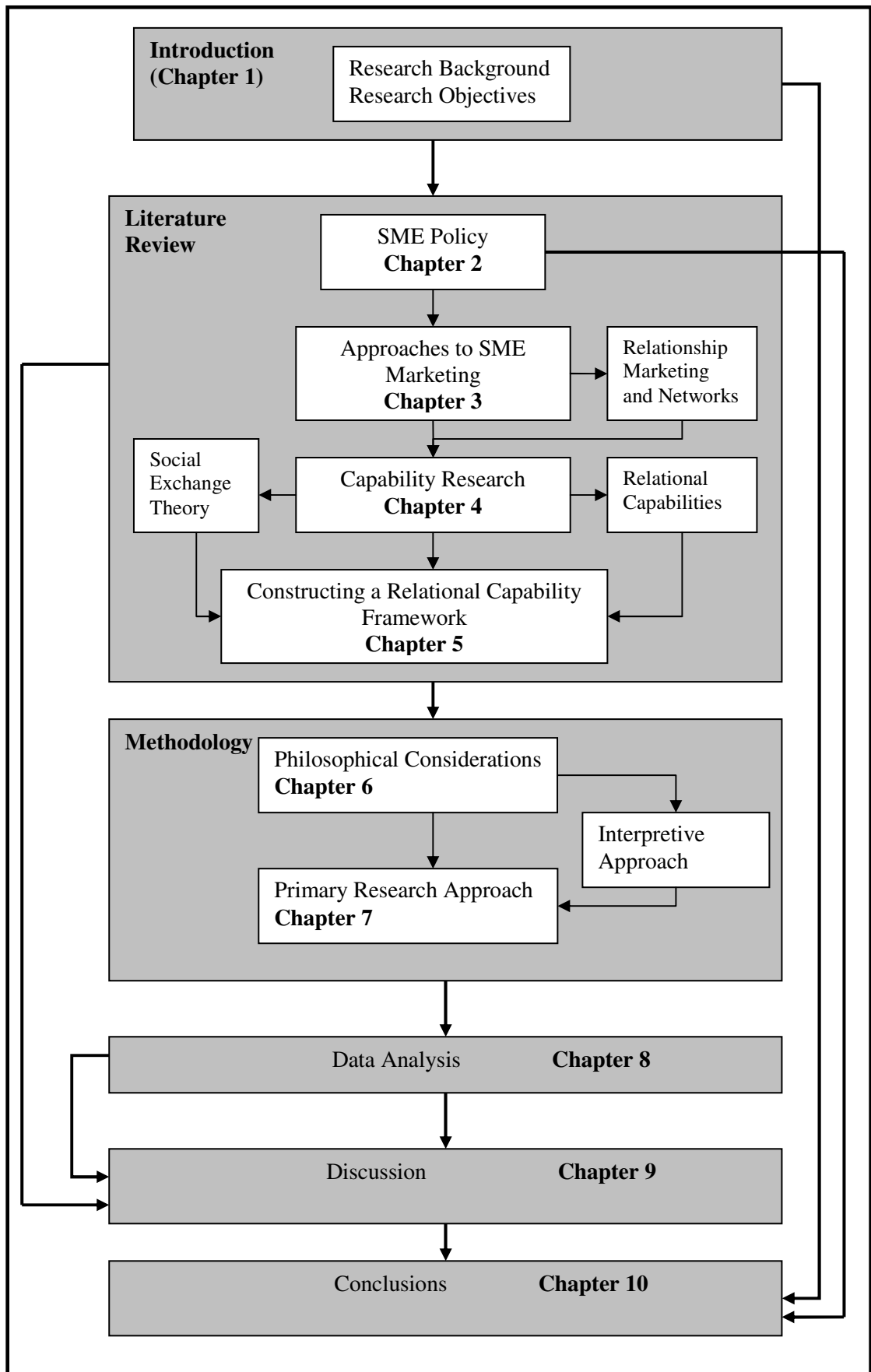


Figure 1.1 Thesis Structure
Source Author

SME POLICY CONTEXT

Chapter 2: SME Policy Context

2.1 Introduction

Small and medium enterprises (SMEs) constitute the majority of enterprises in both Ireland and Finland. Their importance has long been recognised and they have been the focus of industrial policy due to their potential for job creation and their responsiveness to market demands. However, irrespective of country, SMEs face similar issues which impair both their performance and survival rate. Such problems include diseconomies of scale, under-financing and lack of specialised managerial competence. This chapter places the study in context, defining the term SME in addition to reviewing public policy towards the sector in both an Irish and a Finnish context. Country specific public policy towards the sector will be presented, followed by a more in-depth analysis of policy in relation to enhancing managerial capability and stimulating innovation.

2.2 Defining SMEs

The term ‘small firm’ or SME is used with frequent regularity throughout both academic literature and in business in general. However, no single agreed definition of the term SME exists. McMahon et al. (1993) have summarised a common view that small enterprises are easier to describe in terms of their characteristics than to define in precise terms, referring to defining SMEs as a ‘vexing and difficult task’. A qualitative definition of SMEs, encompassing their characteristics which are present in most academic definitions of the small firm, is presented below (Steinhoff, D. quoting the Committee for Economic Development, 1978: 6-7; Schöllhammer and Kuriloff, 1979:179).

A small firm is one which possesses at least two of the following four characteristics:

1. Management of the firm is independent in the sense of not forming part of a larger enterprise. Owners or part owners directly manage their operations

in a personalised way, and not through the medium of a formalised management structure. Managers of small firms tend to know all the employees personally, they participate in all aspects of managing the business, and there is no general sharing of the decision making process.

2. Capital is supplied by the owner/manager and the individual holds the ownership.
3. The area of operations is mainly local, with the workers and owners living in one home community. However, the market need not be local.
4. The relative size of the firm within its industry must be small when compared with the largest units in the field. This measure can be in terms of sales volume, number of employees or other significant comparisons.

It is widely accepted that small firms have unique characteristics and differ considerably from their larger counterparts. Storey (1994) argues that, too frequently, the large-firm model is accepted without question and the small firm is assumed to be a “scaled-down” version of a large firm. Westhead and Storey (1996: 18) state that:

...the small firm is not a “scaled-down” version of a large firm. In short, theories relating to SMEs must consider the motivations, constraints and uncertainties facing smaller firms and recognise that these differ from those facing larger firms.

Therefore, among researchers in small business, small firms are not considered simply to be ‘smaller copies of big ones’ and there is a recognised need for concepts of strategic management that address the special characteristics and situations of small firms (Van Laere & Heene, 2003). Small to medium-sized businesses have their own particular characteristics which affect the way they operate and which largely determine their preoccupations and concerns (Carson and Cromie, 1989). Such characteristics include diversity, small scale, personality and independence (Nooteboom, 1994) in addition to uncertainty, innovation and evolution (Wynarczyk et al., 1993). Van Gils (2000), in a study of Belgian SMEs, highlights that such characteristics are the foundation of advantages such as flexibility, motivation, customisation and unique competences, but also of some weaknesses, including lack of functional expertise, diseconomies of scale and little spread of risks. The argument is that theorists need to study the

characteristics of small firms, other than size, and consider the implications of these as they affect the objectives, management style and marketing of SMEs.

Many authors have stated that there is currently insufficient knowledge about marketing in small businesses. In fact, many academic researchers have focused on the marketing deficiencies of small firms in defining SMEs. Carson (1985: 9), for example, defines SMEs as having limited resources, lack of specialist expertise and a limited impact on the marketplace. This is an important issue as marketing is an area that many SMEs seem to struggle with. For example, a development initiative designed to increase the managerial capabilities of owner-managed businesses in South East Ireland revealed that 53% of the participant companies entered the eighteen-month programme due to a desire to improve their ability in marketing their company (O’Gorman et al., 2004). Freel (2000) also noted that SMEs, themselves, have identified improving in-house technological and marketing skills as important in developing their innovative capabilities. In a study of the DTI’s (Department of Trade and Industry, UK) marketing initiative (aimed at helping SMEs with marketing), O’Brien (1998) showed that there was a misunderstanding of the marketing concept by SMEs in that most thought it was selling or advertising. Marketing was also seen as costly to implement, time consuming, requiring specialised expertise and only relevant for large companies. In addition, SMEs completing the scheme were still not able to undertake full-scale marketing activities due to financial constraints but could make small incremental changes in their approach to the marketplace. Some managers were unsure how to manage the marketing function within their management structure because they themselves were not experts at marketing (O’Brien, 1998).

From a quantitative perspective, although not the sole defining criterion of SMEs, employee numbers are the most frequent mode through which they are defined. As can be seen from the table below, the European Union criteria of an SME in terms of employees, is any business with less than 250 employees. In analysing the European criteria, it is clear that the definition of small to medium sized firms is not applicable to either Ireland or Finland where at least 89.8% of firms have less than ten employees.

	Micro enterprises	Small-sized Enterprises	Medium-sized Enterprises
EU Criteria in Terms of Employees	< 10	< 50	< 250
Percentage of Enterprises in Finland	94.4%	4.5%	0.9%
Percentage of Enterprises in Ireland	89.8%	8.0%	1.6%

Table 2.1 Defining SMEs
Source: Forfás (1999b)

This is highlighted by Forfás (1998) who state that in Ireland small enterprises are often defined as having 50 employees or fewer. Therefore, for the purpose of this thesis, SMEs are considered to consist of firms with less than fifty employees, a more applicable measure in the context of Finland and Ireland, the two case countries.

2.3 SME Public Policy in an Irish and Finnish Context

In recent years considerable sums have been invested in supports to SMEs by Irish and Finnish Government Agencies. The SME sector has become a focal point of scientific and policy interest as it is widely believed that this sector contains the rejuvenation potential that is necessary for revitalising the industrial and services sectors in stagnating economies. This is based on the assumption that assisted firms will become more effective, thus contributing to the economy as a whole. Small businesses are seen as important for employment creation and economic innovation, and there has been a growth in public support for this sector. Scott (1991: 10) stated that SMEs are vital to economies as they can be fast and flexible and are close to their customers. In performing important sub-contract functions, they can act as a competitive spur to large firms. Scott (1991) also argued that SMEs can perform an important import substitution role and their innovative capacity, coupled with their ability to create new ventures, is still an important route for getting new ideas into an economy. He noted that they can provide a more human environment and concluded that ‘small is beautiful’.

Small firm public policies, which have been directed towards subsidising improvements in the internal efficiency of small firms, are referred to as ‘indirect assistance’ and stem from the perceived need to overcome information imperfections. The importance of the smaller firm has increased considerably over the last decade, yet both the Irish and Finnish governments have yet to develop a coherent public policy towards this sector. Such a policy could provide justification for current policies and provide criteria for judging whether or not policies are successful. An overview of current policy towards the SME sector in both a Finnish and an Irish context are presented below. This is followed by a more in-depth analysis of policy in relation to enhancing managerial capability and stimulating innovation in addition to an outline of the roles of the main support agencies both in Ireland and Finland.

2.3.1 Overview of Finnish Policy

SMEs constitute the dominant form of business organisation in all countries worldwide accounting for over 95% and up to 99% of the business population depending on the country. SMEs are of vital importance to the Finnish economy. They comprise 98.9% of all Finnish enterprises of which 94.4% have less than ten employees. They account for 44% of the labour force and yield 34% of total turnover, €107 billion (Statistics Finland, Business Register 2005). An OECD (Organisation for Economic Co-operation and Development) report created in 2002, highlighted that the majority of Finnish firms that are born, remain small, and it argued that a need exists for a more growth oriented perspective on the part of start-ups. Therefore, major reports on enterprise strategy support the conviction that investments must focus on encouraging SMEs to grow and compete on an international level. This is in line with current Finnish policy towards the sector which has a specific objective to increase production by five per cent per annum and exports by more than nine per cent per annum. The major goals of the national SME policy are to:

- Strengthen the competitiveness of SMEs in order to facilitate job creation.

- Increase production activities through the assistance of SMEs' growth potential, particularly on an international scale.
- To improve the SME business environment through general policy improvements for all Finnish SMEs (through improved bureaucracy, reduced impediments, etc.) (OECD, 2005).

2.3.2 Overview of Irish Policy

Small companies comprise the majority of enterprises in Ireland with 89.9% of Irish enterprises employing less than ten individuals and 8% between 10 and 50 employees. In December 2005, research by the Small Business Forum suggested that, while the short-term outlook for Irish SMEs is buoyant, increased emphasis must be placed on ensuring that small businesses make the transition to medium enterprises if the sector is to sustain wealth creation and continue to drive economic growth. The main thrust of current SME policies stress the strengthening of managerial capability as well as improving access to sources of knowledge and expertise. The priorities of current Irish policy are:

- To encourage subsidiaries of multinational enterprises to link and transfer technologies to SMEs.
- To encourage new, domestic technology-based SMEs in Ireland by, for example, networking international R&D (Research and Development) programmes and management training.
- To improve the capability of Irish SMEs to receive, adapt and diffuse technologies, and to become more efficient and competitive generally.
- To shift the EU emphasis on R&D from a pre-competitive level of technology generation to an emphasis on technology diffusion. This is of particular relevance in the areas of contract tenders and procurement policies, where the information and technology access requirements of smaller firms in smaller economies should receive more attention relative to that given to technology-providers (OECD, 1997:100). To this end, the Innovation Relay Centres operate as a major European source for innovative technologies and new technology solutions, whereby, they

assist firms in connecting with European partners that are interested in technology transfer.

2.4 Enhancing Managerial Capability

The performance, effectiveness and prosperity of the small business sector is determined by the quality of the management skills of owner/managers. A 2003 assessment by the OECD of management development in SMEs found a positive relationship between high standards of management/marketing practice and high levels of productivity in businesses. Improvements in management capabilities have been found to increase productivity, returns on capital employed, sales and market share irrespective of the country of operation, sector, firm size or other similar characteristics. However, SMEs are more vulnerable than large firms. They usually lack financial and human resources, especially for planning and analysis, and they suffer disproportionately from imperfect information. The most important causes of enterprise failure in Ireland and Finland, as in almost all other countries, has been cited as poor management, such as lack of business policy, inappropriate cost-accounting methods, errors in market forecasts, and inadequate management structure (Forfás, 1999). Research by the Expert Group on Future Skills Needs (EGFSN, 2005) indicates that the level of general management skills in Irish SMEs is perceived to be relatively poor, particularly in terms of human resources, marketing and finance. Similarly, in Finland, according to the Global Competitive Index 2007-2008, an inadequately educated workforce is one of the main hindering factors for SME growth. This could provide an explanation for the low levels of productivity as noted in section 2.3.1. In keeping with such findings, barriers to the development of management competence have been widely cited in the literature. SME owner/managers, due to their day-to-day demands have little time to attend training courses. When they do have time, the costs of the programmes are often seen as excessive and more affordable for their larger counterparts, as are their relevance.

To combat this deficiency, the Ministry of Trade and Industry (MIT) in Finland and the regional network of fifteen Employment and Economic Development

Centres (EEDCs) have sought to improve the operational conditions for SMEs by arranging counselling, training, and enterprise development projects (OECD, 2005). These activities aim to activate the establishment of SMEs, develop the business skills of management and personnel, develop skills in marketing and internationalisation, promote product development, promote the utilisation of new technology and improve productivity, increase co-operation between enterprises and promote networking, and develop service enterprises. The EEDCs offer a selection of specialist and development services appropriate to the various phases in the life-cycle of an SME. They also strive to promote the utilisation of new technology and improve productivity, increase cooperation between enterprises and promote networking.

While the Finnish government offers services appropriate to the various phases that small firms encounter, a gap emerges within an Irish context between entrepreneurs and High Potential Start-Ups (HPSUs). For the many small firms that have surpassed the entrepreneurship stage of operations yet have not achieved HPSU status, few, if any, supports exist. Entrepreneurship programmes exist to assist SME owner/managers, generally with less than three employees, in the initial set-up/running of their enterprises. Many such programmes, led by the Institutes of Technology, aim to support innovative entrepreneurs involved in knowledge-based start-ups in developing and accelerating their business concept through to a successful, commercial entity through training and mentoring. Supports also exist in Ireland for HPSUs, defined by the department of Enterprise, trade and Employment as firms which are:

- based on technological innovation
- likely to achieve significant growth in 3 years (Sales of €1m per annum and employment of 10)
- export oriented
- led by an experienced team, with a mixture of technical and commercial competencies

In Ireland, feasibility studies, business plans, training courses, decision support systems, mentoring, advisory services, and information services are, in principle, available to small firms, and to entrepreneurs even before start-up (Forfás, 1999). But the delivery systems and the form in which these supports are offered must be coordinated and appropriate for the requirements of the small enterprise. The SME sector requires particular supports which are not always catered for in general enterprise policy and many of the current supports focus on export-oriented and High Potential Start-Ups (HPSUs), which does not suit the needs of all small firms. As a result, within Ireland, support programmes have introduced an element of flexibility and are being implemented in an integrated manner, involving other partners where necessary, such as third-level institutions (for research and training). Although Ireland continues to give policy priority to the easing of the tax and regulatory burdens faced by the enterprise sector, the development of a strong and highly skilled entrepreneurial class, the supply of sophisticated support structures and the provision of a conducive business environment are central to this process, and have been reflected in the policy measures taken by Ireland in recent years.

The training preferences of small business managers must also be considered when devising policy for small firms. Recent research has suggested a preference for informal peer group management support activities, one-to-one mentoring, and company interventions by training consultants (Expert Group on Future Skills Needs, 2006). This implies that training delivery through networks of small businesses would be particularly useful. It is also in line with findings from the Finestra project (Moran, 2002) which stressed the role of action learning sessions in the provision of training to Irish SMEs.

Within Finland, management training organised by the EEDCs is designed specifically to meet the needs of SMEs, and during the training process, the emphasis is on the practical approach both in terms of the choice of teachers and the teaching methods. Specialist and consultation services are nation-wide brand products, and the quality of specialist and consultation services is assured in advance by careful selection of qualified specialists who are subject to strict eligibility criteria and who are given the appropriate training to deliver the

programmes (OECD, 2002). Similarly, within Ireland, many EU programmes have established a 'train the trainers' component. As a case in point, Enterprise in Action, a development initiative designed to increase the managerial capabilities of owner-managed businesses in South East Ireland, ensured that each consultant was trained in action learning methodologies. More specifically, the programme consultants were trained to facilitate groups of companies to assist them to learn from each other, and to identify ways this learning can be applied in a 'real' setting. They also acted as a pivotal link between the third level education institutes, the state enterprise support agencies and the participating companies through an acquisition of the knowledge of each agencies core capabilities.

Consequently, in many European countries, enterprise education has become an important part of both industrial policy and educational policy. This can be viewed through the increase in the number of entrepreneurship academics teaching the spirit of entrepreneurship at an undergraduate level. Within Ireland, at a postgraduate level, education in entrepreneurship is increasingly being recognised as one of the most important new educational initiatives. Whilst teaching entrepreneurial skills has been enforced through the whole education system, Hytti & O'Gorman (2004: 14) argue that:

... critics of enterprise education argue that "individuals can learn but are unlikely to be taught" (Mumford, 1993), that too many programmes focus solely on the skills and know-how that a small business needs (Koiranen and Ruohotie, 2001); that business schools need to change both their content and process of learning (Kirby, 2002); that students need more than SME management skills (Jack and Anderson, 1999); that enterprise education will fail when it is conceived narrowly as setting up businesses as part of vocational education and training and consequently is not integrated into the student's overall studies (Leskinen, 1999).

The Finnish Ministry developed a concrete action plan for entrepreneurial education and training by school type. The action plan was aimed at and expected to promote cooperation with the relevant partners for further development of entrepreneurial education and training.

Commonly cited factors hindering the development and growth of small companies in both Ireland and Finland include difficulty in accessing finance, weak management capability, lack of innovation, inadequate infrastructure, poor access to information and advice, and costly administrative regulations. However, the growth barriers differ in significance between the two countries. According to the Global Competitiveness Index for 2007-2008 in which Ireland ranked 22 out of the 131 countries surveyed, the most problematic factors for doing business in Ireland are an inadequate supply of infrastructure, inflation, inefficient government bureaucracy and restrictive labour regulations. Lesser factors included policy instability, tax rates and foreign currency regulations. This can be attributed to the fact that policies adopted by successive Irish Governments have ensured that SMEs have been afforded a central place in the making of public policy in Ireland. There has been an ease of the tax and regulatory burdens of the enterprise sector. In Ireland, a policy developed for lowering capital gains taxation and corporate taxation has increased the profitability of Irish firms and increased the number of new business start-ups. This lowering of taxes allowed a stable and predictable taxation environment (Fitzsimons and O’Gorman, 2005). Finland ranked six out of the 131 countries surveyed for the Global Competitiveness Index, which highlighted that the most problematic factors for doing business in Finland were tax rates, tax regulations and an inadequately educated workforce. Inflation and inadequate supply of infrastructure were very small barriers in comparison to Ireland. However, access to financing was the same for both countries.

2.4.1 Access to Information and Advice

Closely linked to training, education and managerial capability is access to information and advice. On a national level, despite having access to a very wide variety of information sources, many SME owners in Ireland and Finland are without a single point of contact and are often unsure where to go at each stage of their business development. This can potentially lead to SMEs expending their already scarce time travelling from one organisation to the next, culminating in a negative attitude towards SME policy, inappropriate advice and/or missed opportunities. A coherent strategy on information provision would mean that

entrepreneurs and small business owner/managers would have a single, well publicised point of contact. To date, this has not been implemented. Within Ireland, public resource constraints are not a barrier to the enhancement of SME training and information provision. Research undertaken by the small business forum shows that €35 million per annum in public funding was available between 2006-2008 to support management training and development (National Reform Programme, 2006).

As can be seen in Figure 2.1 access to information is currently spread throughout many national support agencies. Although a mere few are mentioned in Figure 2.1, each support agency mentioned provides an important support and information function that often SME owner/managers are unaware of. For example, as can be seen in Figure 2.1 Enterprise Ireland and Finpro, in recognising that success in export markets is crucial to the long-term growth of the economy, provide export supports for SMEs. The nation-wide network of 35 County Enterprise Boards and the corresponding SME Foundation offer a range of complementary supports to entrepreneurs and SME owner/managers. They focus on the provision of financial support for the establishment of new businesses or expansion of existing ones and the provision of a range of soft supports such as training and mentoring. The Chambers of Commerce in both Ireland and Finland represent a business network connecting local business people and creating opportunities. They also provide members with business advice, training and other forms of soft support.

Ireland	Finland
Enterprise Ireland creates market awareness for individual companies, and for Ireland, as a source of supply. They also provide support for Irish firms wishing to export.	Finpro is an expert and service organisation, whose goal is to speed up the internationalisation of Finnish companies while minimising the risks involved.
The nation-wide network of 35 County Enterprise Boards are the usual first point of contact for assistance for start-up and micro enterprises. The CEBs can provide information, advisory and support services as well as financial support.	SME Foundation (19 regional offices) develops and promotes management consulting services, principally for small and medium sized industries. SME Foundation's activities include development of consulting services: (training, method development, projects), promotion of research and information service (newsletter, database of consultants, publications).
Chambers of Commerce of Ireland (CCI) represents 55 local Chambers throughout Ireland. It is the Irish member of Eurochambres. It aims to promote and encourage business and to represent its members' interests with government and semi-state organisations.	Keskuskauppakamari (The Central Chamber of Commerce of Finland) is a central organisation, which serves the interests of the business community nation-wide. It also functions as the joint co-operative body of Finland's 21 Chambers of Commerce

Figure 2.1 Support Agencies in Ireland and Finland
Source Author

2.5 Enhancing Innovation

In terms of economic performance, SMEs are recognised as a key source of dynamism, innovation and flexibility. Large businesses tend to be more involved in innovation activities than smaller enterprises. According to a report published by the Irish Central Statistics Office (CSO), entitled 'Small Business in Ireland', in 2007, just under half of small businesses (47%) reported innovation activity over the period 2002 – 2004. This compares to two thirds of medium and large enterprises (67%) reporting innovation activity over the same period as can be seen in Figure 2.2.

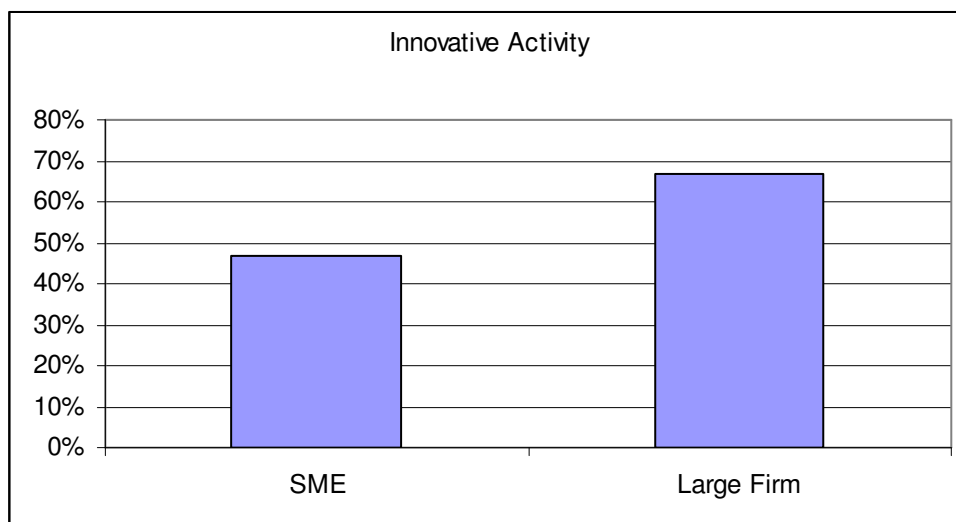


Figure 2.2 Irish Innovation Activity
Source Based on information from the Small Business in Ireland Report 2007

This could stem from the fact that, on average, small firms are less likely to conduct research and development (R&D) than larger firms. Additionally, small firms often partially contribute to the output of larger firms. However, SMEs can innovate in other ways, for example through creating or re-engineering products or services to meet new market demands, introducing new organisational approaches to enhance productivity, or developing new techniques to expand sales. For example, according to the Small Business in Ireland (2007), almost two in every five (nearly 40%) small enterprises introduced a new or significantly improved production process, distribution method, or support activity for goods or services. Innovations relating to planning and process improvements are suitable for SMEs as they involve less investment/risk and shows that Irish small firms are striving to enhance business efficiency. This concurs with Storey (1993), who noted that a new breed of professional class owner/manager is emerging seeking greater assistance to take their firms forward and identify factors leading to growth and success.

Within Finland, SMEs receive over 50% of all public R&D funding for the business enterprise sector which more than exceeds the EU average of 15% (OECD, 2005b:109). In addition, the volume of public funding to SMEs has grown by 18% since the late 1990's with at least one third of all SMEs stating that they had received some form of government funding. As can be seen in Figure

2.3, within Ireland, expenditure on R&D as a proportion of GDP (Gross Domestic Product) is well below the EU and OECD averages (OECD, 2006: 30) whereas Sweden and Finland invested considerably more in R&D relative to GDP. According to a CSO report (2007) entitled ‘Measuring Ireland’s Progress’, 1.1% of gross domestic expenditure was spent in Ireland on R&D in 2001 and 1.84% in 2006 compared with 3.3 % and 3.45% in Finland respectively.

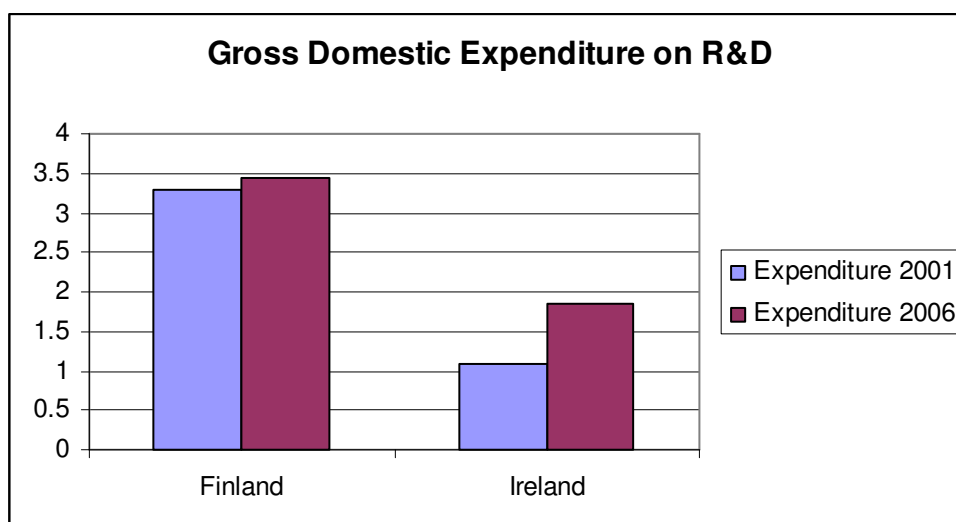


Figure 2.3 Gross Domestic Expenditure on R&D
Source Based on Measuring Irelands Progress Report, Irish Central Statistics Office (2007b)

Ultimately, innovation is about turning ideas into revenue. In terms of turnover from innovations, within Ireland, between 2002 and 2004, €19.3 billion worth of turnover was as a direct result of ‘new to market’ product innovations which accounted for 5.6% of total turnover for 2004. However, as can be seen in Figure 2.4, compared to Finland’s 9.7%, this figure is average and below the turnover contribution from other countries such Sweden and Poland (Forfás, 2006). Therefore, although Ireland is in line with the EU average, it lags behind leading countries including Finland.

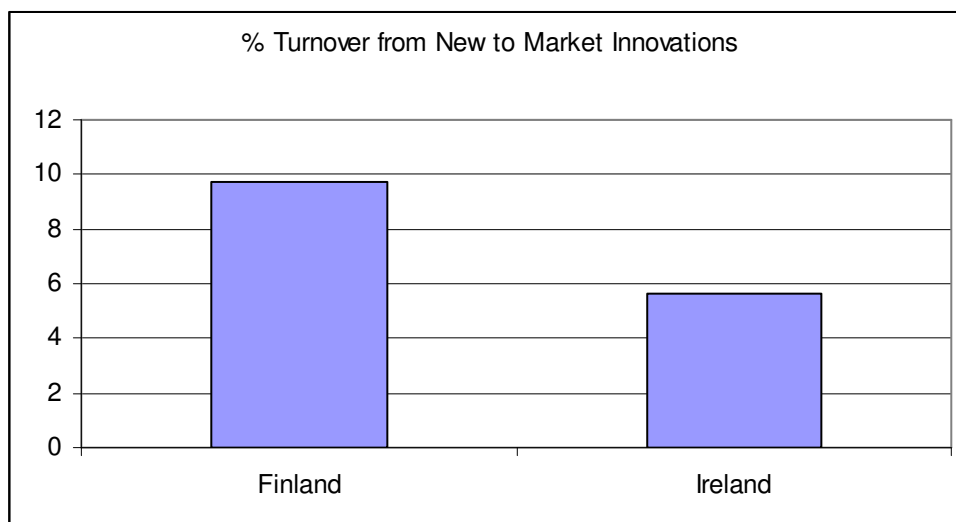


Figure 2.4 % Turnover from New to Market Innovations
Source Based on Forfás Annual Report (2006: 20)

Regarding policy towards SME innovation, the OECD report entitled, *The SME Financing Gap: Theory and Evidence* (2006) recommends that the principal of risk sharing should be observed, committing official funds only in partnership with those of entrepreneurs, banks, businesses or universities. Additionally, public policy should improve awareness among SMEs of the range of financing options available from official programmes, private investors and banks. Government measures to promote SMEs should be carefully focussed, aiming at making markets work efficiently and at providing incentives for the private sector to assume an active role in SME finance. The argument is that, grouped in local systems of production, SMEs can often be more flexible and responsive to customer needs than large integrated firms. They can pool resources and share the costs of training, research and marketing. Clustering facilitates exchange of personnel and diffusion of technology and creates new possibilities for efficiency gains. This innovation cooperation is defined as active participation with other enterprises or non commercial institutions on innovation activities. Regarding innovation cooperation, Ireland came seventh within an EU ranking (32.5%) and Finland came first with forty five percent (45%) (Annual Competitiveness Report, 2007). Executive opinions regarding the state of development of knowledge transfer between academic and enterprise in Ireland, are in line with the OECD average. Barriers to more effective knowledge transfer include lack of knowledge of third level research projects and difficulties with intellectual property contracts.

According to the Forfás Community Innovation Survey (2004: 50) the main barriers to innovation for SMEs are lack of funds within enterprise, lack of finances from outside enterprise, high innovation costs, lack of qualified personnel, lack of information on technology, lack of information on markets, difficulty in finding cooperation partners; market domination by established enterprises and uncertain demand. As a result, the focus of Forfás policy work in 2006 was to foster excellence, relevance and coherence in publicly-funded research and it supports the ability of universities to interface with enterprise. Progress in these areas would increase the opportunities to strengthen the enterprise base through public investments in scientific research. Initiatives implemented in the area of technology transfer are discussed in the following section. As can be seen from Figure 2.5, similar support agencies are available in both Ireland and Finland to assist SMEs in their activities and enact the policy objectives as set out at government level (Department of Enterprise and Trade). Enterprise Ireland is the government agency responsible for the development and promotion of the indigenous business sector. Their mission is to accelerate the development of world-class Irish companies to achieve strong positions in global markets resulting in increased national and regional prosperity. Similarly, Tekes is the Finnish Funding Agency for Technology and Innovation and the main government financing and expert organisation for research and technological development in Finland. Tekes funds innovative research and development projects in companies, universities and research institutes. Tekes is a gateway to the best technology partners in Finland. However, while government involvement seems to be dominant in Ireland, Finland tends to emphasise private sector leadership in support provision. Therefore, Finland is leading the way towards successful cluster formation between large and small firms. In the Finnish innovation policy model, the emphasis lies on new cooperative structures, whereby large companies, particularly Nokia and its strong research department, play a central role. This form of collaboration represents a potential policy objective which could be investigated in an Irish context.

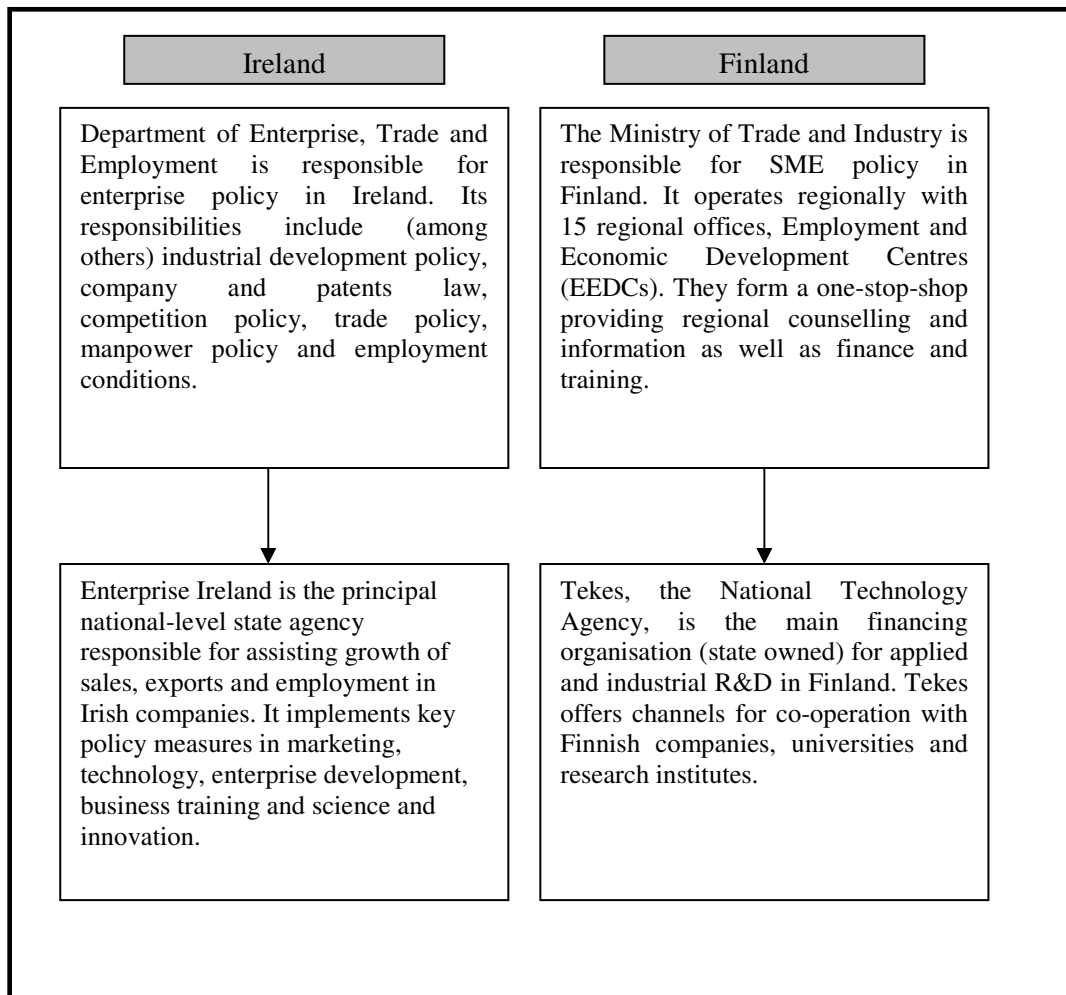


Figure 2.5 Support Structure in Ireland and Finland
Source Author

2.5.1 Technology Transfer

In terms of technology transfer, university/industry links are well established in Finland. Networks between universities and business firms are supported by innovation policies in many ways co-ordinated through the EEDCs. The National Technology Agency (Tekes) programmes have developed research and technology co-operation between large enterprises, research organisations and SMEs. Tekes has a particular focus on the development of funding and services for small and medium-sized enterprises and especially innovative business start-ups. For example, 57% of enterprise funding was granted to small and medium-sized enterprises worth over €200 million, and distributed through national technology programmes that are planned and carried out jointly by firms, research institutes, universities, Tekes and the Academy of Finland (OECD, 2005: 111).

Therefore, an important aim is to facilitate SMEs to participate in the national technology programmes co-ordinated and financed by Tekes. Technology experts at EEDCs act as a link between Tekes and regional enterprises. It funds innovative research and development projects in companies, universities and research institutes. It is a gateway to the best technology partners in Finland. Tekes acts as a complementary source of financing for private venture capital investors since it provides funding in the earlier stages whilst venture capitalists provide additional funding as the firms mature. Tekes invested €469 million in research, development and innovation projects in enterprises, universities and research institutions in 2007 (Laine, 2008). The impact of Tekes R&D funding can also be seen in new enterprises, businesses, services as well as in enterprise growth and internationalisation. In the same year, almost 2,000 R&D projects funded by Tekes were completed, creating over 1,100 new products, services or production processes, an estimated 700 patent applications, nearly 1,000 theses and over 2,000 publications (Laine, 2008). Therefore, clearly the projects have wide impact on national economy and society. International cooperation by Finnish enterprises, universities and research institutes was also strengthened in 2007. Nearly 40% of the R&D projects were internationally networked.

Finnish policy makers are encouraging private/public partnerships through the implementation of programmes managed by the academic sector, which focus on encouraging collaborative innovation. For example, the 'Magnet Programme', led by the University of Kuopio, promotes international R&D cooperation through its Innovation Magnet operations model. It exploits the open innovation approach and encourages research-intensive international companies to carry out R&D cooperation with local enterprises and research groups with internationally recognised expertise. The unique operations model, created and tested in a separate pilot project in cooperation with local actors and major international companies, has proved to be beneficial for international companies utilising open innovation and thus has created substantial interest among a number of them. Similarly, both Ireland and Finland are part of the Innovation Relay Centre network which can facilitate SME innovation through collaboration. To date there are seventy-one IRC consortia throughout Europe. The Innovation Relay Centres (IRCs) are regional springboards for innovation and trans-European technology

cooperation and transfer. They provide an effective bridge between local and European players in the access to, and implementation of technologies, research and innovation. IRCs comprise various partners, for example, regional or national development agencies, universities, research institutes, innovation support organisations, chambers of commerce, and thus, as a result of their structure, have a strong collaboration and network element.

IRC services which could potentially benefit SMEs include:

- assistance with technology acquisition and technology marketing
- support in identifying suitable partners for technology cooperation
- partner matching and technology brokerage events
- technology audit and technology watch
- help in negotiating technology partnership agreements
- access to the results of projects funded through European and national programmes EUREKA and ESA
- access to EU innovation financing and intellectual property rights
- support services

Irish policy makers have recognised that fostering public-private partnerships and small-firm networks and clusters may be the most expeditious path to a dynamic SME sector. However, as can be seen in Figure 2.6, knowledge transfer in Ireland has remained almost constant between the years 2000 and 2007 (IMD World Competitiveness Yearbook, 2007) whereas in Finland it has been in decline. One way in which knowledge transfer has been a success in Ireland is through innovation vouchers, which are distributed by Enterprise Ireland. The core objective of the Innovation Voucher initiative is to build links between Ireland's public knowledge providers and small businesses and create a cultural shift in the small business community's approach to innovation. Additionally, coordinated programmes have been implemented at national level, encouraging and creating links and networks between SMEs and academia. For example, Enterprise Platform Programmes (EPPs) have been implemented in Ireland, comprising a one-year full-time professional training and enterprise support programme, aimed

at the needs of entrepreneurs in a business start-up situation and managed by Irish Institutes of Technology. The EPP programmes have proved very successful and have assisted entrepreneurs through the provision of funding, business counselling and the introduction to a support network of mentors, venture capitalists and other support agencies as appropriate such as County Enterprise Boards.

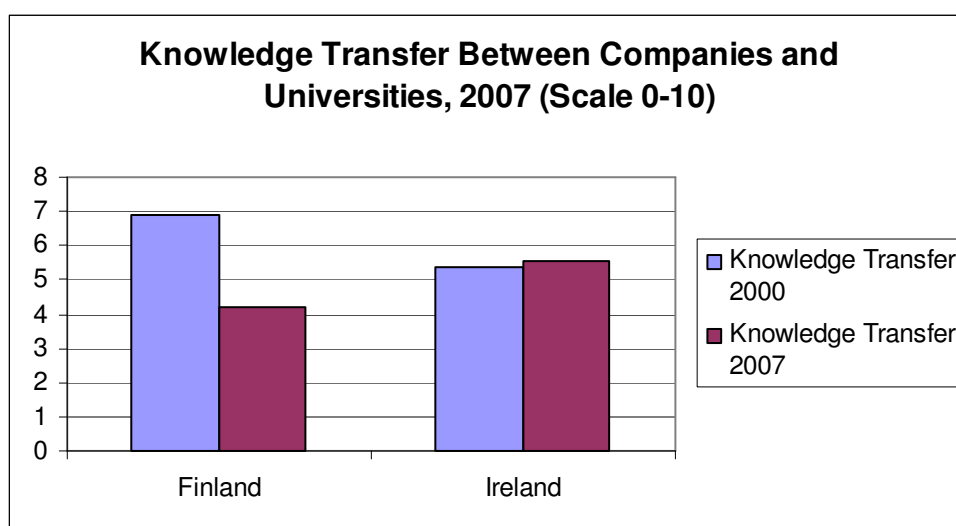


Figure 2.6 Knowledge Transfer Between Companies and Universities, 2007 (Scale 0-10)

Source: National Competitiveness Council, 2007 based on findings from the IMD World Competitiveness Yearbook, 2007

2.5.2 Measurement

For both Ireland and Finland, despite the considerable sums of money involved in support for the SME sector, the evaluation of small firm policies is remarkably undeveloped (Roper and Hewitt-Dundas, 2001). Storey (1999) identifies several kinds of evaluation which are undertaken by public agencies. These range from the straightforward monitoring of take-up and questionnaire surveys, to comparisons of treated firms with control groups, which are matched according to characteristics such as firm size and activity. According to Storey, applying measures to policy initiatives that involve public spending is of vital importance. It has been argued that subsidies from the government given to one group of companies leads to increases in employment in the small firm sector. But subsidies given to one group have to be raised by increased taxes or reduced relief to other groups, and it has never been proven that the net effects of subsidising

SMEs is to create more wealth in the community. Nevertheless, the existence of the schemes as discussed in this chapter suggests that they are considered, in most cases, to be an effective mechanism for stimulating economic activity. A best practice criterion suggests that the ultimate objectives of policy should be clearly specified in such a way as to determine the extent to which targets are being met. In addition, programmes implemented by the support agencies as depicted in Figure 2.1 and Figure 2.5 should be cost effective in delivery, able to correct market or non market failures, encourage mobility of resources, be effective in increasing the potential for SMEs to contribute to the economy, and reflect the needs, changing circumstances and capabilities of SMEs.

2.6 Conclusion

As small companies cannot be considered miniature versions of larger corporations, the small business sector requires particular support, which are not always catered for in general enterprise policy. Business support programmes require flexibility and need to operate in a coordinated and integrated manner with the involvement of other partners where necessary, such as third-level institutions (for research and training). Themes such as innovation, accessibility and entrepreneurship have been prioritised by the EU Commission for the 2007-2013 round of EU Structural Funds. This presents an important opportunity to re-orient enterprise policy to more specifically meet the needs of small firms taking into consideration employment pool, distance to markets, relevant infrastructure, and links with third level institutes.

The policy literature argues for the role of cooperation and networks as key in terms of improving the managerial skills and the innovative capability of SME owner/managers. Research has suggested that the preferred learning style of SMEs is through interaction with others, sharing experiences through network settings. Similarly innovation can be enhanced through collaborating and building relationships with customers, universities, distributors and suppliers.

The first section of this chapter focused on defining SMEs, and it emerged that marketing is an area that small firms struggle with (O’Gorman, 2004; Freel 2000;

O'Brien, 1998). Similarly, implementing programmes to enhance the innovation and managerial/marketing capabilities of SMEs has posed challenges at a policy level. Therefore, Chapter 3 will focus on, and review SME marketing approaches to deduce a suitable means through which SMEs can engage in marketing activity.

APPROACHES TO SME MARKETING

Chapter 3 Approaches to SME Marketing

3.1 Introduction

There are many diverse approaches to SME marketing. While research studies into marketing in small businesses have proliferated (for example Carson, 1985; Carson and Cromie, 1989), this chapter aims to explore the most suitable means through which SMEs can engage in marketing activity. This point is brought to the fore by Hill and Wright (2001b) who argue that existing approaches to researching and the conducting of marketing in small firms are inappropriate and are rooted in the big firm mindset. Consequently, following an introduction into SME marketing and the challenges faced by owner/managers, the focus of this chapter is to review the marketing literature to deduce a suitable means through which SMEs can conduct their marketing activity.

Much SME marketing literature denotes the challenges faced by owner/managers in implementing marketing strategies. For example, Carson (1985: 8) contends that “most small firms do not have a marketing specialist” or personnel dedicated to the function. Rather, marketing is performed instinctively and sporadically by the SME owner/manager who is also responsible and often consumed by the day-to-day activities. Carson (1985: 9) also delineated three broad types of constraints on marketing by small firms, namely limited resources, lack of specialist expertise and limited impact on the marketplace. Having a limited impact on the marketplace is a constraint as small businesses have fewer orders, fewer customers and fewer employees than large companies. Consequently, the impact of a small firm’s presence in an industry or geographic area is likely to be limited due to its size alone. Similarly, due to limited resources such as limitations on finance, marketing knowledge and time, the impact on the media through advertising and publicity will often be negligible in relation to large company activities. Managers of small businesses tend to be generalists rather than specialists. Traditionally, the owner/manager is a technical or craft expert. S/He is unlikely to be an expert trained in any of the major business disciplines. In addition, marketing expertise is often the last of the business disciplines to be

acquired by an expanding small company. That is, finance and production (if the company is a manufacturing unit) experts usually precede the acquisition of a marketing counterpart. This point is reiterated by Möller and Anttila (1987: 186) who found that little executive time was available for marketing activities which were usually not seen to be of top priority. Focusing on the marketing problems of small manufacturing companies in Finland and Sweden, their principal aim was to develop a conceptual framework for studying marketing capability. Their main findings indicated that the marketing capabilities of small firms are a complex combination of the human resources or assets, market assets, and organisational assets of a firm.

Many authors have stated that there is currently insufficient knowledge about marketing in small businesses. Siu and Kirby (1998) cite Hills (1987) who has been more precise in his criticism, insinuating that there is an absence of an appropriate small business marketing theory, specifically related to the understanding and knowledge of strategic marketing. Similarly Chaston and Mangles (2002) concluded that marketing theory development in SMEs has been somewhat limited and often relies on the application of classical marketing models, utilised in big businesses, to smaller businesses. This debate is still ongoing as Simpson et al., (2006) state that no definition of marketing for small and medium sized enterprises can be readily found in the literature and those attempts at definition or discussion often link marketing with entrepreneurial behaviour (Carson et al., 1995; Reynolds, 2002). Conflicting results are also present within the literature. For example, Gilmore et al., (2001) concluded that SME marketing is haphazard and informal because of the way an owner/manager does business. They make most decisions on their own, respond to current opportunities and circumstances and so decision making occurs in a haphazard and apparently chaotic way, according to personal and business priorities at any given point in time (Scase and Goffee, 1980). Conversely, findings by Hill (2001b) suggest that small companies do engage in fairly sophisticated marketing planning and such plans are actually reviewed annually.

The interpretation here is simple enough in that this dimension to their marketing reflects the professional influence of financial backers, government support agencies, company accountants and other backers (Hill 2001b: 219).

Therefore, Hill (2001a), focusing on the more positive attributes of small firms found that there were many capabilities present within SMEs which could be associated with the practice of effective marketing. These include experience, social skills, communication skills and product knowledge. According to Rhys (1989), the small firm pursues its marketing activities in a way which aims at insulating it as much as possible from direct competition with more efficient producers. This suggests that their marketing orientation is reactive rather than proactive in nature. Scase and Goffee (1982) take the view that life in the small firm is based on day-to-day survival and fire fighting activities rather than following a well thought-out marketing plan. Carson (1985) believes small business owners adapt marketing to their own requirements, not according to some theoretical framework. Therefore, SMEs have a 'distinctive marketing style' distinguished by an inherent informality in structure.

Whilst marketing is important for all firms regardless of size, debate exists in the literature regarding the suitability of certain marketing approaches for the SME owner/manager. There are many approaches to marketing and many ways of conducting marketing activities with no 'one size fits all approach'. The next section of this chapter will review the marketing approaches predominant in the literature and discuss their relevance to the small business sector. Such approaches include the traditional approach to marketing, marketing as a growth stage model, the management style approach to marketing and the relationship/network approach.

3.2 Approaches to Marketing

The fundamental mandate of the marketing concept is to always put the consumers first. Consumer orientation for the firm is a very old idea. According to Wilkinson (2001), the origins of the construct of market and customer

orientation can be traced back to the moral philosopher Adam Smith who stated in the eighteenth century in his famous *Wealth of Nations* (1776) that:

Consumption is the sole end and purpose of all production and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer.

Most refer to Drucker (1954) as the roots of the marketing concept. Drucker (1954) expressed the sentiment of market orientation and its effect on organisational performance before its wider popularisation by Levitt (1960) and others. Drucker placed marketing firmly at the centre of the successful organisation and articulated what would widely become known as a marketing philosophy of business. According to Drucker (1954:35-36):

Marketing is not only much broader than selling, it is not a specialized activity at all. It is the whole business seen from the customer's point of view.

Therefore the articulation of the marketing concept in the 1950s brought it into the management literature. There are many definitions of marketing presented in the literature, some of which are depicted in Table 3.1 below.

As can be seen in Table 3.1, in 1935 the American Marketing Association presented the first official definition of marketing. This early definition did not recognise marketing as an independent function and was revised and updated in 1985 by the AMA. This definition explicitly recognises the marketing mix approach and is in line with the many definitions of marketing presented in textbooks today, for example Kotler's 1975 definition. Such a view emphasises competitiveness and profit based on identifying consumer needs, wants and aspirations and delivering compatible offerings which are competitively better than that of competitors. Within this exchange transaction, customers will only exchange what they value if they feel that their needs are being fully satisfied, clearly the greater the benefit provided the higher transactional value an organisation can charge. This is similar to the view of Webster (1991).

Market orientation has been defined as a set of specific behaviours and activities, a resource, a basis for decision-making, or an aspect of organisational culture (Hurley and Hult, 1998). Slater and Narver (1994) characterise marketing orientation as having the three components; customer orientation, competitor orientation and co-ordination between functions, each set of factors being of equal importance. Narver and Slater (1990: 10) in taking a cultural perspective state that:

Market orientation is the business culture that most effectively and efficiently creates superior value for customers.

Narver and Slater (1990:21) took the argument further by arguing that:

Market orientation is the organisational culture that ... creates the necessary behaviours for the creation of superior value for buyers and thus continuous superior performance for the business.

Berry introduced the term 'relationship marketing' in 1983, a notion that he developed in the service industry. Morgan and Hunt (1994) focus on relationship marketing in practice in their definition, whereas Grönroos (1997a) speaks in terms of a process through which marketing may be enacted in his definition. Gummesson (1994) takes a broader view, one that aspires to reflect a general marketing definition. Gummesson's definition is based on a relationship perspective and the variables expand that of Berry's as they are common to goods or services, business to consumer and business to business marketing. Crosby and Stephens, (1987) and Parasuraman et al., (1985) define marketing orientation from a relational perspective in creating customer satisfaction. While relationships between firms and consumers have been included in the idea of market-oriented business for a long time, the interest has recently been directed towards relationships between business firms. Furthermore, besides dyadic relationships, the attention of research and managerial concern is paid to relationships within business networks (Anderson et al., 1994).

In light of the shifts in the marketing arena since 1985 towards a more relational view of marketing, the AMA redefined marketing in 2004 (see Table 3.1). Hence, the new view of marketing focuses on managing relationships, removing the

notion of exchange as understood by Bagozzi (1974). In this new AMA definition, the marketing mix elements are no longer explicitly mentioned and are merged into what is termed the ‘value’ concept. The view is expanded in terms of actors also as it includes all stakeholders moving beyond the single lens of customers in line with Möller and Wilson (1995).

Author	Perspective	Definition
1935 the American Marketing Association	Traditional Approach	The performance of business activities that direct the flow of goods and services from producers to consumers.
1985 the American Marketing Association	Marketing	The process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organisational objectives.
Kotler (1975:5)	Marketing	The analysis, planning, implementation and control of carefully formulated programmes designed to bring about voluntary exchanges of values with target markets for the purpose of achieving organisational goals.
Webster (1991: 252)	Marketing	The purpose of all marketing effort is to create a satisfied customer.
Deshpandé and Webster (1989: 3)	Customer oriented	The marketing concept defines a distinct organisational culture ... that puts the customer in the centre of the firm’s thinking about strategy and operations.
Berry (1983:25)	Relationship Marketing	Attracting, maintaining and – in multi-service organisations – enhancing customer relationships.
(Morgan and Hunt, 1994: 23)	Relationship Marketing	All marketing efforts are directed towards establishing, developing and maintaining successful relational exchanges

(Gummesson, 1994:12)	Relationship Marketing	Marketing seen as relationships, networks and interaction
(Grönroos, 1997a: 407).	Relationship Marketing	The process of identifying and establishing, maintaining, enhancing and when necessary terminating relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met, where this is done by mutual giving and fulfilment of promises.
AMA 2004	Relationship Marketing	Marketing is an organisational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders.
Bagozzi (1974: 77)	Transaction cost perspective	That people and organisations interact in such a manner so as to maximise their rewards and minimise their costs.
Möller and Wilson (1995: 2)	Relationship Marketing	Relationship marketing is about understanding, creating and managing exchange relationships between economic partners; manufacturers, service providers, various channel members and final customers.
Carson et al. (1995:201)	Relationship Marketing	...an activity in which the entrepreneurially oriented SME owners build and manage personal relationships with particular individuals in their surroundings.

Table 3.1 Defining Marketing
Source Author

3.2.1 The Traditional Approach

The traditional concept of marketing refers to operations where the mass market is manipulated through a marketing programme, applying McCarthy's (1964) concept of the 4P's; product, price, place, and promotion. The marketing mix

management paradigm has dominated marketing thought, research and practice since it was introduced many years ago. Its influence is so strong that it is better described as a paradigm, the dominating marketing paradigm of the last decades. Kent (1986: 146) refers to the Four Ps of the marketing mix as:

The holy quadruple ... of the marketing faith ... written in tablets of stone.

Although the 4Ps are useful as marketing variables, the simplistic philosophical foundation of the 4P model is not very appropriate to the competitive situation of SMEs that has been emerging within most industries in the western world. This approach has a large firm mass marketing and transaction orientation, as well as the adversarial approach to customers which does not allow the small firm to adapt its market performance to the demands of individual customers. It can be said that this approach to marketing, which still dominates textbooks of today, is a production-orientated definition to marketing as opposed to customer orientated and, therefore, unsuitable when discussing SMEs.

Because of the lack of relationships with their customers and their focus on mass markets, firms pursuing a transaction-type strategy will probably benefit most from a traditional marketing mix approach. The Four Ps model will give guidance in most cases, and this model was indeed originally developed for consumer packaged goods marketing where transaction marketing is most appropriate. Therefore the 4P approach seems to suit the large standardised market where global competition is prevalent and mass production key.

Traditional marketing activities such as advertising and marketing research are frequently rejected because owner/managers perceive them as expensive, difficult to quantify, and an indicator of a poorly run business. SME owners have reservations about the applicability of certain notions of marketing to what they believe to be their “special” circumstances. A reluctance to recruit outside specialists exists, and even when such services are employed, owner/managers frequently do not have time to talk to them. The employment of marketing according to the four P’s arranges itself towards the initiation of transactions with unspecific customers. SMEs on the other hand generally do not deal with the

mass-public, instead dealing with customers well-known to them. Additionally, SMEs do not limit the value of their goods and services to prices and the notion of product is conceptually restricting as it distracts from services and other non-economic outputs. The Four P's model is centred on production and achievement, and is somewhat blind to socially based promotion, more common to SMEs. The definition of place readily ignores the dimensions of time and the social meaning of distribution channels. Lazer (1969: 9) recognised this omission of social relations in the 4P model:

What is required is a broader perception and definition of marketing than has hitherto been the case - one that recognises marketing's social dimension and perceives of marketing as more than just a technology of the firm.

Marketing mix methods are further criticised for their tendency to lead firms to focus more on short-term goals and less on long-term, successful seller customer relationships (Grönroos, 1994; Gummesson 1994). The orientation towards short-term minded marketing mix methods appears unfavourable for the lasting existence of business relations.

Grönroos (1997) discusses the nature and sometimes negative consequences of the dominating marketing paradigm of today. He notes (1997b: 322):

...that the simplicity of the marketing mix paradigm, with its Four P model, has become a strait-jacket, fostering toolbox thinking rather than an awareness that marketing is a multi-faceted social process, and notes that marketing theory and customers are the victims of today's mainstream marketing thinking.

Therefore, the marketing mix strategy and the structuring of marketing according to such models have increasingly been criticised. However, as early as 1948, Alderson and Cox (1948: 139) raised issues with the concept of marketing as it was:

It has become evident that if the difficulties raised by events in the areas of public and private policy as applied to marketing are to be solved, they must be put into a framework that provides a

much better perspective than is now given by the literature. (...) Only a sound theory of marketing can raise the analysis of such problems above the level of an empirical art and establish truly scientific criteria for setting up hypotheses and selecting the facts by means of which to test them.

3.2.2 Marketing as a Growth Stage Model

The foundation for the marketing 'evolution' of a small firm lies in the widely documented concept of the business life cycle (Carson and Cromie, 1989: 39). The growth stage model of small business growth is the dominant framework describing the process a firm goes through as it grows. An ideal SME development is presented in Figure 1.1 based on the life cycle concept. The model proposed by Churchill and Lewis (1983), one of the best known models, identifies five stages in the development of a firm, existence, survival, success, take-off, and resource maturity. Marketing is believed to exist as a major issue in the "existence" stage only, where the SME's main concerns are generating customers, delivering products and/or providing a service to a sufficient level to become a viable business. Therefore' according to this theory marketing is not relevant for all stages of a firm's growth. This would suggest that the 4P approach is the most relevant for the first two stages of SME development where price setting, distribution channel selection, promotional techniques and the core product offering are paramount. As time passes and success increases, marketing becomes unnecessary for the company. This strategy fails to accept that building relationships are a necessary marketing strategy for small firms.

Similarly Baker (2002:762) argues that SMEs will perform marketing differently according to their stage of life. A start-up SME's marketing strategy is likely to be dominated by reactive marketing practices, in terms of reacting to customer enquiries and market changes. As the business develops it will experiment with various techniques and eventually develop its own marketing style and practice which it has learned and shaped along the way. Their business is thereby moving from uncontrollable marketing circumstances to a more controlled environment.

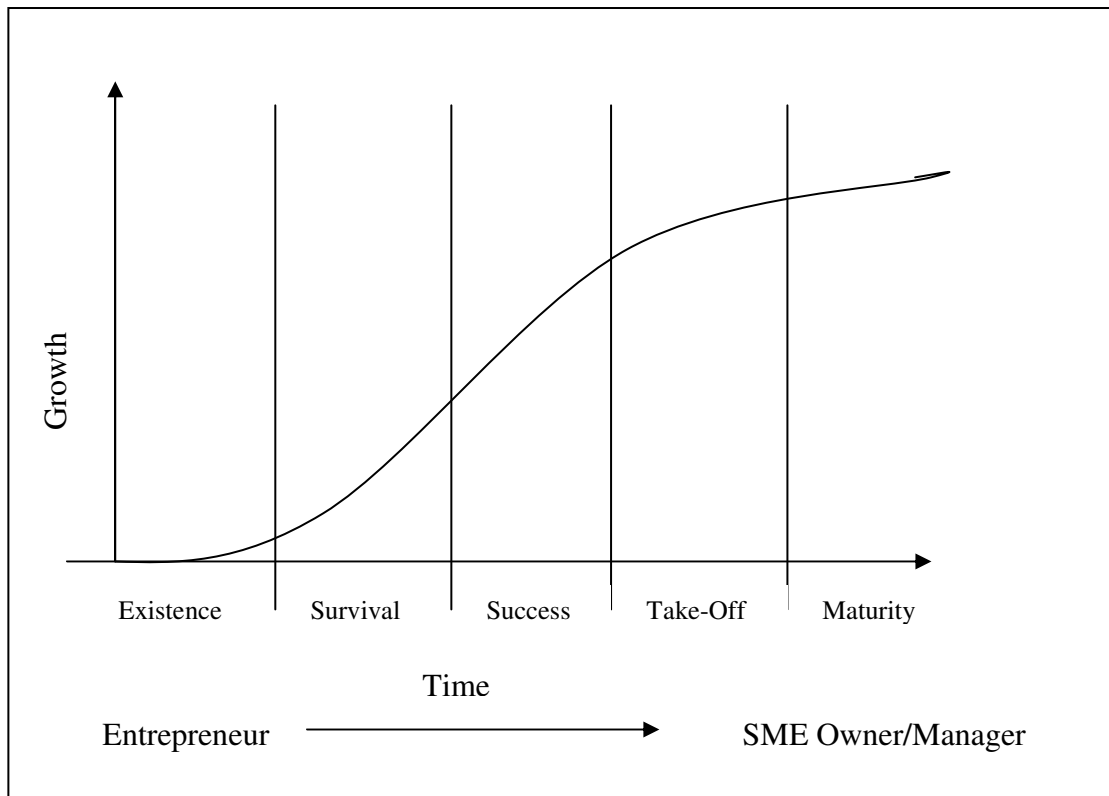


Figure 3.1 Enterprise Growth Stages
Source Author

3.2.3 Management Style approach

Birley and Westhead (1990) indicate that previous research on small firms' marketing has explored the relationship between their origins and the traits and personalities of the owner/managers (Brockhaus, 1982) or on the small firm itself (Bamberger, 1989; Scott & Bruce, 1987). The management style approach to marketing suggests that the marketing behaviour of the small firm reflects the personal characteristics of the owner/manager and is largely dictated by environmental factors. SME owners generally do not make decisions along functional frameworks (Gartner et al., 1992), rather decisions are intertwined and embedded in decisions concerning the holistic running of the enterprise (Gilmore and Carson, 1998). Therefore, the characteristics of the owner/manager are important in the context of marketing decision making.

Researchers (Ford & Rowley, 1979; Smith, 1967) argue that the marketing behaviour of small firms is related to the personal characteristics of the owner/manager. In terms of strategy, Hannon and Atherton (1997) noted that the

level of strategic awareness of owner/managers appears to be strongly influenced by the managerial skills of the owner/manager and the type, uncertainty and complexity of the business environment that they operate in. Any examination of a firm's marketing efforts must at some point assess the characteristics of the entrepreneur. The terms "small business owner" and "entrepreneur" are sometimes used interchangeably and any understanding of small to medium-sized enterprises cannot be separated from consideration of the entrepreneurial dimensions (Hodgetts and Kuratko, 1995). While there are situations that encompass both, they note the importance of recognising differences in the titles. The author of this study believes that what starts as entrepreneurship matures into an SME. As the entrepreneur's business increases and additional staff members come on board, the entrepreneur matures into a small/medium business owner (see Figure 3.1).

3.2.4 Relationship/ Network Approach to Marketing

The need to develop marketing frameworks suitable for smaller firms has been widely acknowledged (Carson & Cromie, 1989; Gilmore et al., 2001; Stokes, 1995; Watkins & Blackburn, 1986) and networks can be viewed as a useful way for SME owner/managers to expand marketing expertise and knowledge. The relationship/network approach to marketing is based on a totally different philosophy from the marketing mix management approach. The relationship philosophy relies on co-operation and a trusting relationship with customers (and other stakeholders and network partners) instead of an adversarial approach to customers. Similarly its focus is on collaboration within the company in lieu of specialisation of functions and the division of labour, and on the notion of marketing as more of a market-oriented management approach with part-time marketers spread throughout the organisation than as a separate function for specialists only. Clearly there has been a paradigm shift in the marketing arena. Grönroos (1994: 9) quoting Kotler who states that:

A paradigm shift, as used by Thomas Kuhn ..., occurs when a field's practitioners are not satisfied with the field's explanatory variables or breadth ...What I think we are witnessing today is a movement away from a focus on exchange - in the narrow sense of transaction - and toward a focus on building value-laden relationships and marketing networks... We start thinking mostly about how to hold on to our existing customers...Our thinking, therefore is moving from a marketing mix focus to a relationship focus (Kotler, 2000: 1,4).

The marketing focus adopted by a firm should reflect their particular situation, that is; the best approach to marketing is dependent on the company and the product. When compared with the traditional stimulus response model on exchange (more commonly known as the marketing mix approach), which focuses attention on the allocation of resources, the network approach is concerned with the creation of resources through interaction in relationships, many of them stable and durable. SME relational marketing has been widely prescribed in the literature. Companies have become interested in turning anonymous masses of potential and existing customers into interactive relationships with well-defined customers. Customers, particularly in an SME environment are no longer viewed in terms of markets of anonymous individuals or organisations where the offering revolves around products, goods or services, as the dominating elements. Marketing is being viewed as a multi-faceted social process and there is recognition in the marketplace of the importance of customer retention. Customer satisfaction is based around the services surrounding the core product (Webster, 1994). In fact, the term 'relationship marketing' originated within the services industry and, since then the use of relational marketing has become widespread representing a paradigm shift, where relationships have emerged as an alternative to exchange as the foundation of the concept of marketing. Relationship marketing views marketing as an interactive process in a social context where relationship building and management are of vital importance. This was in sharp contrast with the clinical 4P approach, which views the buyer and consumer as passive with no personalised relationship existing. As Kotler (1992) concluded:

...companies must move from a short-term transaction-oriented goal to a long-term relationship-building goal.

The relationship marketing concept is strongly supported by ongoing trends in modern business. According to Gummesson (1997) relationship marketing is a gradual extension of the “Nordic School” approach to services marketing and management, and the network approach to industrial marketing as developed by the IMP Group (Industrial Marketing and Purchasing Group). Both areas emerged during the 1970s and have continued to develop since. Moving from a dyadic structure, the relational element is also fundamental in the network approach to SME marketing as interconnections between actors are relational in nature. The International Marketing and Purchasing Group (IMP), a leading group in the study of industrial networks, define a business network as:

...a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualised as collective actors (Anderson et al., 1994: 2).

Networks and relationship marketing have emerged as an important marketing tool for SMEs emphasising the building of long term committed and trusting relations between actors. Grönroos, as an advocate of the Nordic view of marketing, has proposed a customer-oriented definition of marketing which highlights a number of essential elements in business relationships. According to Grönroos the aim of marketing:

... is to establish, maintain and enhance (usually, but not necessarily, long-term) relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfillment of promises (Grönroos, 1990: 138).

Many SME owner/managers conduct their business activities by building and managing relationships and always have; but without using the term relationship marketing. Therefore, although ‘relationship marketing’ as a term was not used until the 1980s, Gummesson (1997) cites Wittreich (1969: 9) who in relation to the services industry stated:

There is not a single point in the course of a relationship with the client where the sale is made, but there are many points in that relationship where effective selling is required ... the sale has never been fully consummated until the project has been completed to the client’s satisfaction.

The relationship marketing philosophy disclosed a number of issues, which are critical with respect to long-term customer relationships. Frequently quoted properties of RM include trust, honesty, benevolence, reliability, commitment and diligence (Murphy et al., 1996). Takala and Uusitalo (1996: 49), following a thorough review of the relationship marketing philosophy, disclosed eight issues which they felt were critical with respect to long-term customer relationships.

- Customers and their needs is the starting point of marketing.
- The objectives of the seller and the customer influence their mutual relations.
- Exchange, which is a focal issue in relationship marketing, includes continuous struggle for power balance.
- There are various means of establishing relationships.
- Promises must be kept in order to maintain relationships.
- Mutual trust is a main factor in long-term relationships.
- Relationships imply dependence and commitment.
- Communication is essential.

Therefore, it has become increasingly accepted that traditional marketing theories are no longer applicable to SMEs. The pursuit of marketing through the traditional route is hampered, as it necessitates a marketing specialist with the finance to market products to the public, resources that many SMEs lack. Characterised by limited resources, a lack of specialist expertise and a limited impact on the marketplace (Carson, 1985: 9), recent research suggests networks as a means through which SMEs may successfully conduct their marketing activity. Such networks are described by Carson (1995: 201) in a small firm context as:

...an activity in which the entrepreneurially oriented SME owners build and manage personal relationships with particular individuals in their surroundings.

Hill (2001) noted many natural capabilities present within SMEs, rendering SME marketing compatible with networks. Such capabilities, favourable with the practice of effective marketing through networks, include the experience, social skills, communication skills and product knowledge of the owner/manager. Such

capabilities are related to the personal characteristics of the owner/manager and as such are personality driven. Therefore, it has been suggested that for SME owner/managers the process of engaging in networks is a natural phenomenon, not a planned process (Dubini and Aldrich, 1991). Hill's conclusions that SMEs marketing can be enhanced through networks, concurs with the conclusions of (Webster, 1992) and (Hill and McGowan, 1996) that networks actually enhance and add quality to marketing decisions in SMEs.

3.3 Networks and Relational Marketing

Small to medium enterprises (SMEs) are often perceived as a fertile area for the formation of effective networks. SME networks and relationship marketing have been justified on many grounds. Characterised by limited resources, a lack of specialist expertise and having a limited impact on the marketplace (Carson, 1985: 9), recent research suggests networks and relationships as a means through which SMEs may successfully conduct their marketing activity. The strength of the network approach is often identified due to its high compatibility with the inter-organisational business environment SMEs actually encounter in their everyday operations (Snehota, 1990; Tikkanen, 1996a). Due to their applicability to the small firm sector, relationship marketing and networks are defined in the following sections. The mediating variables for successful operation within networks are outlined, in addition to some of the commonly cited benefits of engaging in network activity.

3.3.1 Defining Relationship Marketing

SMEs are increasingly interested in turning potential and existing customers into interactive relationships with well-defined customers. With the increased recognition of the importance of customer retention, SMEs are focusing on relational forms of marketing. Relationship marketing views marketing as an interactive process focusing on the interaction between suppliers, customers and other stakeholders in a social context where relationship building and management are of vital importance. In response to criticisms of the traditional marketing

concept, Grönroos (1997a:407) formulated a relationship focused definition of marketing which can be seen in Table 3.1.

Relationship marketing emphasises a longer term approach to marketing moving from a marketing mix focus to a relationship focus. This point is reinforced by Kotler (1992: 1) who concluded that “companies must move from a short-term transaction-oriented goal to a long-term relationship-building goal”. The aim of the approach is to sustain exchanges of value, to provide continuous and stable links in the supply chain (Ballantyne, 1994) and to establish an effective, efficient, enjoyable, enthusiastic and ethical relationship; one that is personally, professionally and profitably rewarding to both parties.

3.3.2 Defining Networks

Moving from a dyadic structure, the relational element is also fundamental in the network approach to SME marketing as interconnections between actors are relational in nature. Networks and relationship marketing have emerged as an important marketing tool for SMEs emphasising the building of long term committed and trusting relations between actors. Networks have been defined as loosely coupled systems with blurred boundaries which render them elusive to precise definition (Johannisson, 1986); as “patterned relationships between individuals, groups and organisations” (Dubini and Aldrich, 1991:305) and as dynamic arrangement that are constantly evolving and adjusting in order to accommodate changes in the business environment (Eccles and Crane, 1988). Other definitions view the term “network” as a social relationship between actors including persons, groups, but also collectives of organisations, communities or even societies. According to a frequently quoted definition, a social network can be seen as:

A specific set of linkages among a defined set of actors, with the additional property that the characteristics of these linkages as a whole may be used to interpret the social behaviour of the actors involved (Mitchell, 1969: 2; Tichy et al., 1979: 507; Alba, 1982: 40).

Applied to SMEs, network theory argues that companies who establish rich network connections may enjoy significant advantages such as cooperative structures which in turn lead to increased productivity and efficiency. For example, Coviello and Munro (1995) and Hansen (1995) suggest a direct link between networks and the growth of the organisation. Similarly, Terziovski (2003) concluded that network practices do have a significantly positive effect on business excellence whereas Jarillo (1988b) argues that economies of scale such as shared marketing costs, skills and resources also provide motivation to join a network. Such relational advantages are grounded in a transaction cost approach to analysing networks. However, Emerson's view of social exchange theory suggests that networks are not 'given' but created by individuals and their social interactions with other individuals. This means that they are not distinct entities from the goals of the individuals comprising the networks.

Undeniably the small firm literature has yet to recognise that networks and networking are in fact different constructs. The author of this study has found that the term "networking" is consistent with the literature regarding the personal contact networks of the owner/managers of SMEs whereas "networks" are more defined, formal structures as depicted by the IMP group of researchers. From an IMP perspective a business network has been previously defined in this thesis as "a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualised as collective actors" (Anderson; Håkansson and Johanson, 1994: 2). Achrol (1997:59) further defined a network organisation as a network of exchanges linked by the multiplexity and reciprocity of the ties among its members. The network organisation can be viewed as a cluster of firms or specialised units coordinated by market mechanisms instead of a strict chain of command (Miles and Robbins, 1994).

Early studies of SME networks (Gibb, 1993; Ozcan, 1995) concentrated on formal networks set up in order to achieve a particular purpose. Dean et al. (1997: 78) suggested that formal networks were used by SMEs to:

... pool resources and talents together to reap results which would not be possible (due to cost constraints and economies of scale) if the enterprise operated in isolation.

According to Hill (2001a) the typical constituents of a SME's formal network are bankers, accountants and financial backers. Hill (2001a) provides an interesting insight in that his findings indicate that SMEs actually see serious value in their formal networks. From a policy perspective, national governments have been keen to promote the development of information sharing networks among SMEs. For example, in its final report, the UK National Skills Task Force (2000) was very clear that it viewed networks as the way for SMEs to overcome their skills and knowledge gaps. It recommended the "development of new sectoral and local learning networks to support the training and development needs of clusters of small and medium sized businesses". However research has shown that participation in SME networks remains low (Gibb, 2000) despite 20 years of substantial government funding.

The sum of the external contacts of a firm is its social or informal network (Gulati, 1999) and contains all relations with other organisations such as customers, suppliers, competitors including, according to Birely (1985), family, friends and business contacts. Some literature (Rosenfeld, 1996; Premaratne, 2001) suggests that informal or social linkages may provide a higher and more stable flow of information and resources in the small business environment. Birley (1985) found in her study of small business owners in Indiana, that more owners used their informal networks for aid in the establishment of their enterprise, as opposed to a reliance on formal networks.

Closely linked to the above social/informal networks are personal contact networks (PCNs). The fact that personal contact networks are highlighted in the literature suggests that any examination of SME networks must consider the inherent characteristics of the particular organisation and of the owner/manager. Carson et al. (1995) explore the use of personal contact networks in the development of what they describe as an entrepreneurial marketing style in SMEs. Ostgaard and Birley (1994) look at the importance of such networks at the time of the set-up. Knoke and Kuklinski (1982), in term of advantage, define PCNs as:

... any relationship or alliance he may have or develop to further the potential of his enterprise.

According to Chaston (1998:276) personal contact networks are:

... constituted of formal and informal co-operative relationships whereby individual owners/managers seek to build links with each other in their market with the aim of obtaining the necessary information and knowledge to optimise organisational performance.

The literature also asserts that, for the small firm owner, the personal contact network is a natural phenomenon, not a planned process (Dubini and Aldrich, 1991). Hill (2001a) concluded that using personal networks enhances the quality of marketing decisions in SMEs. This concurs with the conclusions of Webster (1992) and Hill and McGowan (1996) that contact networks actually enhance and add quality to marketing decisions in SMEs.

Research within the business network domain has shown that inter-organisational co-operation in networks is seen as a way to gain competitiveness (Achrol and Kotler 1999: 147). It states that the flow of power and information is more important than those of money and utilities (Thorelli 1986; Kotler 1997). The fast-growing body of research on relationships and networks indicates the gains to be achieved through more coordinated versus independent action. The implication is, that by extending and improving firms' understanding and sensitivity regarding relationship and network issues, better performing firms and networks will emerge (Wilkinson & Young, 2002). Therefore, there is a presumption that firms benefit from a network membership, but it is not always made entirely clear why or how this is so.

What is clear is that mediating variables are essential for successful relationship marketing and networks. Literature suggests that SME networks and relational marketing relies on mediating variables such as commitment, trust and cooperating with network partners in lieu of an adversarial approach to customers and competitors. Studies conclude that such factors are integral features of successful relationships (e.g. Dwyer et al., 1987; Gundlach et al., 1995; Mohr and

Spekman, 1994; Moorman et al., 1992; Morgan and Hunt, 1994). Commitment bonds are widely recognised as being a key determinant of high-quality relationships (Dwyer et al., 1987; Morgan and Hunt 1994) created as a consequence of interaction over time by the parties involved (Håkansson and Johanson, 1992; Moorman et al., 1993). Dwyer et al. (1987) define commitment as an implicit or an explicit pledge of relational continuity between exchange partners. Moorman et al., (1992: 316) view commitment “as an enduring desire to maintain a valued relationship”. They speak in terms of loyalty, willingness to make short-term sacrifices, long-term orientation, and willingness to invest in the relationship. Similarly, Gundlach et al. (1995) argue that commitment is closely related to mutuality, loyalty and the forsaking of alternatives, variables that are at the core of the meaning of relationalism.

Trust generally is viewed as an essential ingredient for successful relationships (Berry 1995; Dwyer et al., 1987; Moorman et al., 1993; Morgan and Hunt, 1994) and generates a greater willingness to cooperate (Hunt and Morgan, 1994). Trust is such a critical element in determining the quality of a relationship that Spekman and Strauss (1986) claim it is the cornerstone of strategic partnership. Moorman et al. (1993: 82) define trust as “a willingness to rely on an exchange partner in whom one has confidence.” They propose that an expectation of trustworthiness results from the ability to perform (expertise), reliability, and intentionality. Morgan and Hunt (1994:23) define trust as the perception of “confidence in the exchange partner’s reliability and integrity.” Both definitions highlight the importance of confidence and reliability in the conception of trust within SME network practice.

Communication is an indispensable attribute in successful networks and has thus been described as a core competence and highly effective capability in SME network building and maintenance. Communication refers to “the formal as well as informal sharing of meaningful and timely information between firms” (Anderson and Narus 1990: 44). Collaborative communication, as conceptualised by Mohr et al. (1996), comprises a combination of relationship building communication attributes. These include communication frequency, bi-directionality, formality, and influence activities. By highlighting shared interests

and common goals, collaborative communication can generate volitional compliance between partners and thus bolster relationship performance (Mohr et al., 1996). Relational issues cannot be separated from communicational occurrences between the actors involved. Relationships and networks can only be understood in light of the knowledge of the communication processes occurring within them. Hutt et al. (2000) note that communication among boundary-spanning personnel, produces a shared interpretation of expectations and goals, and a common understanding of the processes and responsibilities necessary to achieve those goals. Communication not only is spread throughout all marketing activities; it is at the heart of many marketing functions. Communication is the human activity that links people together and creates relationships. It serves as a means to develop, organise, and disseminate knowledge. Schramm (1973: 3) notes that the study of communication is fundamentally a study of relationships:

Society is a sum of relationships in which information of some kind is shared (and) to understand human communication we must understand how people relate to one another.

Therefore whilst relationships and networks are greatly facilitated by trust, communication, and cooperation further research is necessary to explore the process of SME networks.

3.4 Conclusion

This chapter clearly argues for the applicability of networks and relationship marketing for the SME sector. The researcher also notes that although much has been written regarding networks and their constructs, minimal research has analysed the process of network activity by small firm owner/managers, how they interact and are connected and how networks affect the marketing orientation of SMEs. This is noted by O'Donnell (2004: 207) where she states:

As such, less attention has been paid to the process of networking by small firm owner/managers.

O'Donnell (2004) describes the process of network practice in SMEs in terms of the level of networking, networking pro-activity, and strength of network ties. Her

findings reveal that SME network involvement is an activity that owner/managers shape to suit their circumstances and the needs of their firm. In terms of SME networks, where they are positioned along a continuum in terms of “limited” to “extensive” networks, “reactive” to “proactive” networks or “strong” or “weak ties” is dependent on factors such as relationship type, potential relationship benefits and the personality of the owner/manager.

In agreement with O'Donnell, Ostgaard and Birley (1994) argue that although SMEs exist within varying networks, it is the means in which they engage in the process of network practice that ultimately derives benefits. In linking the network literature to the strategy literature, they found the small business owners differ in their network activities according to the competitive strategy pursued by the firm. They found that strategies pursued in terms of marketing differentiation, product innovation, market segmentation, distribution, growth through outside capital, and differentiation, affected their level of network activity, network density, network intensity, and the content of network exchanges.

Research by Ostgaard and Birley (1994) and O'Donnell (2004) has significantly contributed to the literature in terms of establishing measures to gauge SME network activity. This thesis aims to go further and bridge the literature gap to understand the process through which SMEs engage in networks. In understanding that “networks do not emerge without considerable endeavour,” (Birley et al., 1991: 58) this thesis looks holistically at the process of SME network activity beyond the classification offered by O'Donnell and Ostgaard and Birley. This study argues that SMEs need to build a set of capabilities to effectively use their networks. Such capabilities are examined in detail in the following chapter and describe the process by which SMEs are connected in a network setting. It is believed that through the nurturing of capabilities, SMEs can improve their marketing efforts.

DEFINING RELATIONAL CAPABILITIES

Chapter 4 Defining Relational Capability

4.1 Introduction

With the evolution of relationship marketing and networks as a basis for SME marketing, there is a need to define the capabilities necessary to conduct relationship marketing successfully in a network context. This process of interaction within networks and such capabilities are termed by the researcher as ‘relational capability’. This study argues that the term ‘relational capability’ is an under explored and under researched area within the current literature and as such represents a gap in understanding the process through which SMEs engage in relationship marketing and networks. It argues that the creation of a relational capability is a prerequisite for relationship and network marketing. Integrating literature from strategic management and marketing, this thesis will address this gap to define relational capability in an SME network context. Early literature investigations revealed that the terms resources and capabilities, although they differ considerably, are used interchangeably throughout many strands of literature. As we are investigating the relational capabilities of SMEs and the means through which they are created and enhanced, this chapter will commence with a review of the literature to differentiate between the two concepts.

The second part of this chapter will focus solely on capabilities. Capabilities have been defined in many strands of literature. Although rarely defined in terms of firm size, the strategic literature speaks in terms of learning and dynamic capabilities, whereas the marketing literature speaks in terms of marketing capabilities. Yet, despite the noted increased importance of SME relational marketing and networks, ‘relational capability’ remains largely under explored. Therefore, this chapter will review definitions of learning, dynamic and marketing capabilities in order to deduce a working definition of relational capability which focuses on collectives rather than individuals and involves a relational element through the incorporation of external resources. The third section of this chapter (section 4.6) will look at three theories that can be used in the study of SME relationship marketing and networks; transaction cost theory; resource

dependency theory and social exchange theory. Each theory is analysed to determine a suitable lens through which to research SME network/relational marketing.

4.2 Differentiating Resources and Capabilities

Extant research and much debate regarding firm capabilities has arisen since the Sixties when strategic management literature focused dually on resources and capabilities as a means of attaining a competitive edge. This study departs from the assumption of asset immobility which currently dominates the Resource Based View (Barney, 1991) and the all encompassing Resource Based View (RBV) of capabilities defined by Barney (1991:101) referring to Daft and Weick (1983) as:

...firm resources include all assets, capabilities, organisational processes, firm attributes, information, knowledge, etc; controlled by a firm that enable the firm to conceive of all implement strategies that improve its efficiency and effectiveness.

Several similar definitions of resources are available, for example Wernerfelt (1984: 172), who claims that:

By a resource anything is meant which could be thought of as a strength or weakness of a given firm.

A number of authors have generated lists of firm attributes that may enable firms to conceive of and implement value-creating strategies. Barney (1991) classified these numerous resources into three categories: physical capital, human capital, and organisational capital which are depicted in Table 4.1 below.

Resource group	Physical Capital	Human Capital	Organisational Capital
Resource types	Physical technology Firm's plant and equipment Geographic locations Access to raw material	Training Experience Judgement Intelligence Relationships Insight of individual managers and workers	Formal reporting structure Formal and informal planning Controlling and coordinating systems Informal relations

Table 4.1 A Classification of Resources

Source Barney (1991: 105)

As can be seen from Table 4.1, resources can be more easily traded in markets, whereas capabilities have to be accumulated and developed and are firm idiosyncratic. One pertinent distinction is that resources can be both tangible (physical capital) and intangible (human capital) while capabilities are always intangible. Amit and Schoemaker (1993: 35) suggest that resources are convertible, externally available, transferable, and owned and controlled by the firm whereas the manipulation of resource configurations through value creating strategic processes leads to the generation of capabilities. They continue to argue that organisations differ in their ability to secure advantage from resources and capabilities. They argue that uncertainty, complexity and conflict, both inside and outside the organisation, constitute the normal conditions under which managers have to manage. Such uncertainties create the opportunities for differences between firms to develop. According to Grant (1999: 7):

There is a key distinction between resources and capabilities. Resources are inputs into the production process—they are the basic units of analysis. But, on their own, few resources are productive. Productive activity requires the cooperation and coordination of teams of resources. A capability is the capacity for a team of resources to perform some task or activity while resources are the source of a firm's capabilities; capabilities are the main source of its competitive advantage.

In line with this, Teece et al. (1997) argued that capabilities must be built rather than bought, while Makadok (2001:389) distinguished between 'resource picking' and 'capability building'. Therefore, although the criteria for differentiating

resources and capabilities are unclear, Table 4.2 views capabilities as the processes and capacity of firms to reconfigure resources over time through complex interaction leading to the possibility of attaining a competitive advantage. The complexity of capabilities refers to the idea that some capabilities derive from the contribution of a single resource, while others involve a complex series of interactions between many different resources.

Table 4.2 outlines the main differentiating points between resources and capabilities. It suggests that resources are deployed by organisations to perform activities. However, it is the ability of firms to coordinate and integrate the routines and processes, both in-house and with other organisations, that enable them to create and deliver products and services to their customers. Therefore, resources are viewed as necessary building blocks to create capabilities.

Resources	Capabilities
A firm's assets, including people and the value of its brand name	Are the firm's capacity to deploy resources that have been purposely integrated to achieve a desired end state
Represent inputs into a firm's production process, and can be tangible or intangible in nature.	Emerge over time through complex interactions among tangible and intangible resources
Tangible resources include: <ul style="list-style-type: none"> • Capital equipment • Financial resources • Technological resources • Talented managers • Brand names 	Often are based on developing, carrying and exchanging information and knowledge through the firm's human capital
Intangible resources include: <ul style="list-style-type: none"> • Reputation resources • Innovation resources • Human resources 	The foundation of many capabilities lie in: <ul style="list-style-type: none"> • The unique skills and knowledge of a firm's employees • The functional expertise of those employees
By themselves, resources do not create a strategic advantage for the firm.	Capabilities can lead to a sustained competitive advantage

Table 4.2 Resources vs. Capabilities
Source Author

This is in line with Penrose (1959:25) who sees resources as a “bundle of potential services”, but which can normally be defined independently of their uses, while the word service implies a function or activity. The knowledge based view offers a clear distinction (Grant, 1996a; Kogut and Zander, 1992) in line with Penrose’s (1959) original conceptualisation of the distinction between resources and services. For example, Grant (1991) regards capabilities as organisational routines where perfection is a result of repetition. Grant (1995) insisted on the distinction between resources and capabilities with resources being the necessary, but not the sufficient basis for capabilities. Grant (2005: 138-139) stated that:

It is important to distinguish between the resources and the capabilities of the firm. Resources are the productive assets owned by the firm; capabilities are what the firm can do.

Figure 4.1 depicts Grant’s (1995) conceptualisation of the relationship among resources, capabilities, competitive advantage and strategy. Grant argues that, should resources remain unprocessed, few would be productive. What is required is cooperation and coordination amongst resources and refers to the transformation process as the capabilities of the organisation. According to Figure 4.1, it is the combination and reconfiguration of resources and capabilities that leads a firm to attain a competitive advantage and assists firms in their strategy formation. Grant (1991) argues that the Resource Based View (RBV) has not been fully developed as the various contributions lack a single integrating framework and little effort has been made to develop the practical implications of this theory.

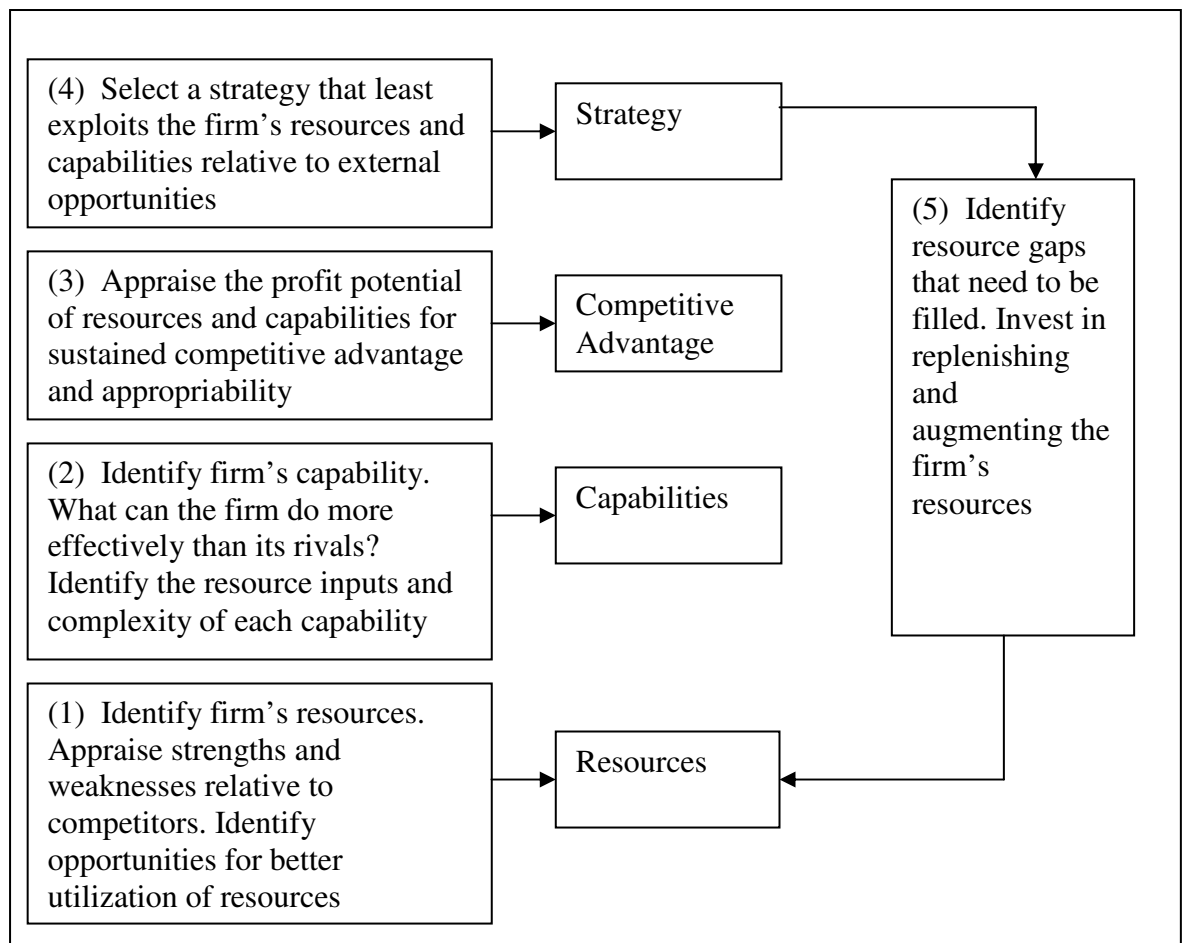


Figure 4.1 Grant (1995a) Conceptualisation of the relationship among resources, capabilities, competitive advantage and strategy.

Source Salaman and Asch (2003: 81)

In terms of SME relationship marketing, resource-based logic has several very important practical implications for marketing managers. It can be used to assist firms experiencing strategic disadvantages to gain strategic parity through identifying those valuable and rare resources that their firm currently does not possess. The resource-based view emphasises that competitive advantage results from the resources owned and controlled by a single firm. However, it overlooks the fact that in today's competitive environment, the critical resources of a firm are often embedded in relationships extending beyond the firm's boundaries. SMEs frequently exchange knowledge with customers and which facilitates joint learning, and combine skills to heighten their competitive stance. Similarly, this narrow focus excludes resources which can be accessed by a company although not necessarily owned or controlled by them. This was noted by Morgan and Hunt (1996) who proposed that resources can be combined through relationships with

other firms in order to form higher-order resources, or competencies, from which the firm can eventually achieve advantage.

In addition the RBV is tautological and has limited context specificity. As Miller and Shamsie (1996) asserted, the strategy literature contains numerous references to resources being useful without careful attention to when, where, and how they may be useful. Important factors, such as factors determining resource value, are exogenous. The value of resources is determined by demand-side characteristics that are exogenous to the RBV model. Resources are said to be valuable when they exploit opportunities or neutralise threats in a firm's environment, or when they enable a firm to conceive of or implement strategies that improve its efficiency and effectiveness. As the competitive environment changes, resource values may change. Thus, resource values are determined from a source exogenous to the RBV.

As an underlying assumption, the RBV assumes resource heterogeneity. When resources are evenly distributed across all competing firms and are highly mobile, firms cannot expect to obtain sustained competitive advantages. Similar conclusions were drawn up by Williamson, 1999.

4.3 Capabilities

As noted, capabilities have been defined in many strands of literature although rarely specifically in a small firm context. Wegner and Snyder (2000) outline the value of capabilities as driving organisations management strategy forward, generating new lines of business, solving problems faster, transferring best practice and assisting in the development of skills. An overview of the most prominent definitions of learning, marketing and dynamic capabilities are presented in Table 4.3 and are discussed in more detail below.

4.3.1

Learning Capability

Various scholars have argued that inter-organisational learning is critical to competitive success, noting that organisations often learn by collaborating with other organisations (Powell, et al., 1996). Organisational learning is about how organisations can gain a better action repertoire in increasingly complex and dynamic environments by expanding their knowledge base (Nonaka and Takeuchi, 1995). For these environments it is not the knowledge itself, but the learning capabilities that determine effectiveness (Grant 1996a). According to the strategy literature, alliance partners can generate rents by developing knowledge-sharing routines, which are defined as a regular pattern of inter-firm interactions that permits the transfer, recombination, or creation of specialised knowledge (Grant, 1996a). These are institutionalised inter-firm processes that are purposefully designed to facilitate knowledge exchanges between alliance partners. Hence, an important aspect of SME networks is the ability to learn from others. Companies are interested in benefits offered through networks, through the mutual sharing of knowledge and experience (Tell, 2000). The relationships that emphasise non-economic factors such as knowledge sharing and learning can have positive financial effects for the company. In SMEs, networks have a central role in learning, knowledge creation and innovation processes (Tell, 2000). Lundberg and Tell (1998) have noted that although the core competencies and expertise exist inside the company (also in SMEs), companies often need impulses from outside in order to start development processes inside.

Hamel (1991) analysed the core attributes of capability and mutual learning within successful international strategic alliances. His findings revealed that learning ability is dependent on the existing expertise, the receptive capacity of recipients, the willingness to take on the new, and the similarity or parallel nature of the operating frameworks. A comprehension of one's own expertise and the capacity to "unlearn" were also identified as important factors. In cases of successful learning the ability to transfer knowledge was also emphasised. Hamel's (1991) material indicated that learning could be an aim of network collaboration for an SME. Lorenzoni and Lipperini (1999) proposed that the capability to interact with

other firms improves learning as well as knowledge access and transfer. Kolb (1976: 22) argues that the effective learner:

Must be able to involve himself fully, openly, and without bias in new experiences; he must be able to reflect on and observe these experiences from many perspectives; he must be able to create concepts that integrate his observations into logically sound theories; and he must be able to use these theories to make decisions and solve problems.

Similarly Doz's (1996) longitudinal research revealed that successful learning in networks involves a cyclical and interactive rotation between operations, assessment and reorientation or development. Successful learning was accompanied by an increase in the readiness of the parties to make significant and extensive commitments to the network. Many researchers have suggested networks, or external relations between companies, as a prescription for inducing learning and organisational development in small to medium-sized enterprises (SMEs). Studies have shown that SMEs participating in networks learn on higher levels to a greater extent than other firms (Chaston and Mangels, 2000; Bessant and Francis, 1999; Hanssen-Bauer and Snow, 1996). SMEs in networks derive their learning capabilities and competitiveness from using specific learning pools of knowledge and labour, and from close interaction with related firms (Lagendijk, 2001: 81). Håkansson's (1993: 215) essay entitled "Networks as a mechanism to Develop Resources" introduced the concept of "collective learning" which he felt was a possible competitive advantage for the network firm. Håkansson (1993: 217) notes that, within the network approach, "we are looking for a collective business structure where stability and variety can be combined", since these two factors are crucial for fostering collective learning.

The type of marketing capabilities that can be improved through collective learning and learning networks are not well documented in the literature. In addition to knowledge learning is important for decision making regarding innovation, new product introductions and market entry. Learning capabilities can assist firms in managing risk as, through networks, they can reduce technical and market ambiguities and uncertainties and their flexibility allows them to respond to those changes. Generally the emphasis is on the skills of listening and on

information exchange. However, it is important to determine the way in which management actually operate the skill of networks.

4.3.2 Marketing Capabilities

Many authors have made a connection between marketing capabilities and competitive advantage. Studies by Fahy et al. (2000) and Song and Parry (1997) have concluded that marketing capabilities influence and are an important source of competitive advantage for firms. This advantage has been viewed from a knowledge perspective whereby increased access to information can enable firms to effectively meet customer wants and needs (Tsai and Shih, 2004). Others have noted the link between marketing capabilities and enhanced innovation opportunities (Lorenzoni and Lipparini, 1999; Han et al., 1998; McEvily and Zaheer, 1999).

From a marketing perspective the definitions presented in Table 4.3 extensively use the word knowledge, suggesting that marketing capabilities emanate through the process of gathering, combining and utilising knowledge to meet customer needs efficiently and effectively. Much of this knowledge is tacit, requiring the firm's management or marketing personnel to have the ability to apply the knowledge to react to customer needs and changes in patterns of demand. Slater and Narver (1995) reinforce this point by stating that marketing capabilities are developed when firm marketers repeatedly apply their marketing knowledge and skills to support firm marketing decisions and activities and to solve marketing problems. Such definitions, applicable in a large firm context, can be critiqued from an SME viewpoint. This researcher, in line with Carson (1985: 8), contends that "most small firms do not have a marketing specialist" or personnel dedicated to the function. Rather, marketing is performed instinctively and sporadically by the SME owner/manager who is also responsible and often consumed by his/her day-to-day activities.

4.3.3

Dynamic Capabilities

The field of strategic management and the marketing orientation literature is primarily concerned with factors that might explain how firms develop and sustain competitive advantage. Considerable research has focused primarily on the positive link between capabilities and performance-related outcomes (Henderson and Cockburn, 1994; Hunt and Morgan, 1996). Teece et al. (1997) refer to the ability to achieve new forms of competitive advantage as ‘dynamic capabilities’. Dynamic capabilities thus reflect an organisation’s ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions (Leonard-Barton, 1992). Teece et al. (1997) state that since capabilities are critical to the pursuit of competitive advantage, understanding differences in a firm’s competitive capabilities is a central role in the field of strategy.

The definitions of dynamic capabilities presented in Table 4.3, from a strategic management perspective, are argued in this thesis to be more closely related to the marketing capabilities of small firms. They involve a relational element through the incorporation of external resources, even though they are mainly cited through the study of alliances. Although the definitions of dynamic capabilities presented in Table 4.3 involve some degree of overlap, they succeed in capturing the different attributes of the phenomenon. For example McEvily and Zaheer (1999) highlight that there are external sources of capabilities which firms must draw upon to facilitate the development of competitive capabilities. They argue that the acquisition of capabilities is a continuous process involving the gathering of information from a network of knowledgeable contacts, a concept rooted in the theory of social networks.

Various scholars have argued that interorganisational learning is critical to competitive success, noting that organisations often learn by collaborating with other organisations (Levinson and Asahi, 1995; March and Simon, 1958; Powell et al., 1996). Eisenhardt and Martin (2000) argue that dynamic capabilities are shaped by learning mechanisms consisting of specific processes such as product development, strategic decision making and alliancing. Zollo and Winter (2000) echo this point by also focusing on learning as a source of dynamic capability. The

term ‘dynamic’ denotes change and concerns the capacity and the processes through which firms engage in to purposefully create, modify and to renew competence so as to achieve congruence with the changing business environment. Adner and Helfat (2003: 1012) used the term “dynamic managerial capabilities” to refer to the capacity of managers to create, extend or modify the resource base of an organisation, bring the definition from a firm to individual level.

Reference	Capability Type	Definition
(Schön, 1983)	Learning Capabilities	...the capability to reflect in action
(Day, 1994: 38)	Marketing capabilities	... integrative processes designed to apply the collective knowledge, skills, and resources of the firm to the market-related needs of the business, enabling the business to add value to its goods and services and meet competitive demands.
(Teece et al., 1997: 516)	Dynamic capabilities	... the firm’s ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments.
(Senge et al., 1999:45)	Learning Capabilities	... the skills and proficiencies that enable people to consistently enhance their capacity to produce results that are truly important to them.
(McEvily and Zaheer 1999: 1134)	Dynamic capabilities	... ‘network resources’ enable and constrain firms’ abilities to acquire competitive capabilities through differential exposure to information and opportunities through bridging ties and linkages to regional institutions.
(Bessant, 2000: 297)	Learning Capabilities	... learning capability is concerned with clusters and patterns of behaviours which have become refined and rehearsed and which are increasingly and repeatedly used to enable the learning process.
(Eisenhardt and Martin, 2000: 1107)	Dynamic capabilities	... the firm’s processes that use resources... to match and even create market change.
(Zollo and Winter, 2002: 340)	Dynamic capabilities	... learned and stable pattern of collective activity through which the organisation systematically generates and modifies its operating routines in pursuit of improved effectiveness
(Grandinetti et al., 2007: 217)	Marketing capabilities	... relate to the ability to ... seek out and identify new opportunities and market niches, to develop interactive relationships and to adopt customer relationship management practices.

Table 4.3 Defining capabilities from a marketing and strategic management perspective

Source Author

Although the definitions presented in Table 4.3 seek to clarify distinctions amongst the varying constructs of capabilities, a common thread emerging from them is that capabilities emanate through firm processes. These processes have been denoted as being ‘knowledge based’, ‘addressing rapidly changing environments’ and involve the mobilisation of tangible and intangible assets. Therefore, capabilities are not viewed as static and constantly evolve over time to mirror changes in the business environment. Table 4.3 highlights the fact that the building and attainment of capabilities can lead to superior performance. However, less documented are thick descriptions of the ‘processes’ or means and procedures that must be followed in order to achieve and develop capabilities. For example, Dyer and Singh (1998) establish the sources of obtaining additional rents but do not examine the means and procedures that must be followed to achieve and develop capabilities. Similarly, Teece and Pisano (1994) assert that firm capabilities need to be understood in terms of the managerial processes which support productive activity, yet define the term tautologically. Zollo and Winter (2002: 339) argue that:

Teece’s definition of capabilities fails to answer the question as to where they come from ... and the need for a better understanding of the origins of capabilities becomes more apparent.

Rather Zollo and Winter (2002: 340), as can be seen in Table 4.3 define dynamic capability as:

... a learned and stable patterns of collective activity through which the organisation systematically generates and modifies its operating routines in pursuit of improved effectiveness.

To them, dynamic capabilities arise from learning and from both experience and knowledge leading to the restructuring, re-engineering and modifying of operating routines.

Thus far, capabilities have been defined as a process. However, the process through which Irish SME owner/managers engage in relationships and networks in this context has not been defined in the literature representing a literature gap.

Therefore, the aim of this study is to focus on the capabilities that can potentially describe the process of SME's participation in a network setting. That is, with the evolution of relationship marketing and networks as a basis for SME marketing there is a need to define the capabilities necessary to conduct relationship marketing successfully in a network context. This process of interaction within networks and such capabilities are termed by the researcher as 'relational capability' and will be argued in the following section.

4.4 Relational Capabilities

Consistent with the fact that in turbulent environments strategic action is increasingly taking place within social relationships (Granovetter, 1985), various forms of networks have developed among firms. Firms' relationships are no longer confined to the conventional two company alliance and competition exists between groups of firms that are connected together by the pursuit of a common purpose. Relational capabilities are the result of a gradual process in which two or more companies decide to broaden their vision of relationships in order to improve their competitive position in the market (Webster, 1992; Lambert et al., 1996). Factors such as commitment (Dwyer et al., 1987; Moorman et al., 1992; Morgan and Hunt 1994), trust (Spekman and Strauss, 1986) and communication (Mohr and Spekman, 1994; Olkkanen, 2000) are widely recognised as being key determinants and the glue that binds high-quality relationships. As relational capabilities are viewed as capabilities to continuously interact with other firms, the ability to interact and share significant knowledge is driven by relational capabilities (Lorenzoni and Lipparini, 1999). Therefore, relational capabilities are associated with 'organisational routines' (Lorenzoni and Lipparini, 1999). This is in line with the idea that since institutionalisation is the process by which an inter-firm relationship achieves a taken-for-granted status within a system of firms, 'institutional relational capabilities are in turn the capabilities to institutionalise some particular kinds of inter-firm relationships in the system of firms' (Dagnino, 2005: 117).

Relational capabilities enrich the bundle of the firm's resources in an evolving manner. They emerge and deepen as the firm both develops existing capabilities and explores new ones (Powell 1998:229). In a highly uncertain situation, relational capabilities are nurtured as the firm interacts more with external parties in order to get access to the relevant knowledge and resources (Powell 1998:229). Singh and Zollo (2004) suggest that experiential learning and institutionalised learning develops relational capabilities and integration capabilities that are crucial to the success of both alliances and acquisitions. Relational management, which stems from the strategic management literature, refers to the ability to coordinate alliance activities, manage conflict, foster trust and encourage information exchange between partners. It is an important capability given the intrinsic dependencies that exist among partners and the possibility of conflict between them. Well developed relational management skills afford firms the capability to pursue integrative agreements. Firms with such capabilities are adept at searching for differences and opportunities in order to share their differences and create a larger pie (Gulati et al., 2002). In adding to this, Lorenzoni and Lipparini (1999) state that start-ups, due to their inherent circumstances, have excellent relational capabilities. They have little choice, as the option of conducting all activities in-house is rarely feasible. Therefore, they rely on their partners for a large number of competencies such as finance, advice, marketing, managerial expertise and legal advice. Relationships are used and extended to obtain access to these complimentary inputs.

Whilst much research has focused on alliances and networks, little research has focused on the process through which relational capabilities are formed, particularly in an SME marketing context. Rodríguez Díaz and Espino Rodríguez (2006) state that relational capabilities are constructed through process integration between companies so that processes and their activities constitute the basic unit of analysis. Dyer and Singh (1998), in identifying relational capabilities as a source of competitive advantage, do so from a strategic management perspective describing the 'rents' emanating from effective and efficient strategic alliances. They define a relational rent as:

... supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners (1998: 662).

They state that firms with greater relational capabilities have alliance screening processes that assess both positive and negative complementarities. However, they do not examine the means and procedures that must be followed to achieve and develop relational capabilities, the measures that can be used to determine the level of generation and development of relational capabilities between firms cooperating with one another, nor what methodology should be used to detect opportunities to create relational capabilities.

Building on prior literature and definitions presented in Table 4.3, the author of this study provides the following definition of relational capability:

The capacity of an SME to interact proactively and responsively with a wide range of actors to purposefully exchange knowledge to create identifiable processes such as joint process improvements, adaptations and/or innovations.

In recognition that a single statement cannot capture the full importance, benefits and processes of relational capability formation, section 4.5 will argue for the relevance of the definition in addition to presenting the six dimensions of the relational capability construct as deduced by the researcher.

4.5 Defining the Relational Capability Construct

Studying networks has become an accepted way of understanding marketing action (Mouzaz, 2006). Literature suggests that firms are starting to focus on their core competencies and externalise other activities (Möller & Törrönen, 2003; Svahn & Westerlund, 2007), a statement which the researcher feels is particularly relevant in a small firm context. The dynamism and complexity of the SME life cycle accentuates the importance of developing business networks in small firms (Knoke and Kuklinski, 1991; Szarka, 1990). Therefore, relationships and networks are becoming particularly important for small firms and hence SMEs need to build

a set of capabilities to operate within networks to benefit fully from them. Smaller organisations, due to their limited finances and resources, rely on external forms of support more than larger organisations (Baker, 1990; Larson, 1992). According to Grant (1996b) networks are based on an architecture of capabilities. Regarding capabilities, the researcher has argued that relational capability as a construct can represent the process through which SMEs can engage in network activity. Therefore, this section of the chapter will argue for the dimensions of the relational capability construct which the researcher feels are appropriate for small firms. A brief definition of each dimension is presented in Table 4.4.

Relational Capability Dimensions	Definition
Realisation Dimension	The ability of SMEs to map out and realise that they are involved in networks that could enhance their marketing efforts
Assessment Dimension	The ability of SMEs to proactively manage their networks to allocate time based on usefulness, strengthen worthwhile bonds, realise the benefit of weak ties and expand their networks
Access to Knowledge Dimension	The ability to generate, integrate and utilise knowledge from network flows emerges as a distinctive marketing oriented relational capability
Access to Opportunity Dimension	The ability to extract and exploit opportunities in a network and improve the exchange process between SMEs in a network.
Co-Adaptation Dimension	The ability to proactively adapt products and services through interaction within the network setting.
Co-Innovation Dimension	The ability to tap into the pools of technologies and human resources in SME networks in order to jointly innovate.

Table 4.4: Defining the Dimension of the Relational Capability Construct
Source: Author

4.5.1 Realisation Dimension

The researcher argues that in order to create identifiable network processes such as joint process improvements, adaptations and/or innovations, SME owner/managers must possess the capability to realise that they are embedded in a web of networks. SME owner/managers must be aware of the relationships which exist with their customers, buyers, suppliers, distributors and other stakeholders in their business in addition to realising the interconnectedness between the

aforementioned actors. Marketing must be viewed by owner/managers as the process of interaction between actors, activities and resources over-time rather than single, unconnected, disembedded events. This realisation must be in place to derive maximum benefits from networks. This dimension is based on the premise that frequently SME owner/managers are unaware of their network connections. Although not a widely researched area within the network domain, a study conducted by O’Gorman et al. (2004) revealed that the aims and objectives of twenty SMEs entering an EU funded structured network programme was to improve their financial and marketing planning. However, it emerged through a final evaluation of the project, the majority of SME participants felt that the main benefits derived stemmed from the network activities that they engaged in, such as joint active learning sessions, beneficial informal discussions with other participants and the realisation that they were a part of many networks that they could further leverage benefits from. Similarly, Gilmore et al. (2006) noted that should SMEs understand how to use networking in a practical way they can position themselves in a network or develop network strategies.

Whilst in agreement with Gilmore et al. (2006) the realisation dimension as proposed by the researcher focuses on business networks as opposed to ‘networking’ which are regarded as sets of connected firms or, alternatively, as sets of connected relationships between firms (Cook and Emerson 1978; Håkansson and Johanson 1993). Past research has recognised that in the context of SMEs, the existence of an owner/manager’s network is built around his/her normal interactions and activities (Rocks et al., 2005). Due to this lack of visibility, the researcher argues that SME actors often have limited knowledge about the web of relationships in which they are engaged. In agreement, Lorenzoni and Lipparini (1999: 318) note that past research has tended to consider networks as given contexts, rather than a structure that can be deliberately designed. Therefore in practice, the researcher suggests that SMEs realise their business-to-business relationships in an industrial as well as a social sense, understanding that they are part of a web of connected relationships. To facilitate this process the researcher proposes that small firm owners graphically depict their web of connections to enhance their understanding of the content, context and importance of their ties. Thus the realisation of the SME networks is argued by the

researcher as the first dimension of the relational capability construct. This leads to proposition 1:

SMEs must realise that they are part of a web of networks that can enhance their marketing efforts.

4.5.2 Assessment Dimension

A crucial aspect of SME networks is how firms create, use and maintain relationships with relevant market actors. Characterised by time constraints, the researcher argues that SMEs must subjectively assess their relationships to effectively allocate time based on usefulness. This is reasoned to be a dimension of the relational capability construct as SMEs must have precise perceptions of interactions with important market actors to adjust their position in, and utilise networks, in response to changing market conditions. This is of even greater significance when the capacity to deal with external actors is utilised to its limit and when interacting with one actor (or network) comes at the expense of interacting with other actors. Therefore, it follows that the accuracy of managers' perceptions of external interactions is crucial, not only for obtaining adequate information, but also for subsequent marketing decisions and actions. Through the assessment dimension, the researcher argues that SME owner/managers must review their contacts to ensure that their relationships remain valuable, and continue to be committed to pruning and renewing their networks as the enterprise changes and grows (Hill and McGowan, 1996; Hill and Fallis, 1995; Andersson and Söderland, 1986; Dubini and Aldrich, 1991).

Whilst the assessment dimension has not been recognised in the network literature, Kogut (1989) identifies the difficulty of managing alliances, and implicitly, the need to develop the ability to manage them. In terms of networks, the researcher asserts that SMEs with greater experience in a network setting may have enhanced capabilities in assessing their networks and generating marketing value from them. This could stem from the fact that they bring to the networks

realistic expected gains that can be derived from their participation; are aware of the other actors' capabilities and have learned how to better cooperate and communicate with network actors over time. In terms of networks, the researcher argues that the learning experiences attained from past interconnected relationships facilitate the management of networks and the ability of SMEs to form new ties. Past research also suggests that firms with collaboration experience have been found to be more desirable as partners and more likely to generate value through partnerships (Gulati, 1995a; Mitchell & Singh, 1996; Dyer & Singh, 1998). From a strategic management perspective regarding alliances, Gulati et al, (2000) and Anand and Khama (2000) discuss how experience effects alliances formation capabilities in addition to discussing the managerial challenges associated with forming and managing networks of alliances. Gulati (1999) noted that in order to build effective alliances they must first be aware of potential partners and have an idea of their needs and requirements. Gulati (1999) speaks of organisational capabilities that enable firms to form alliances with greater ease.

In terms of assessment, measures including network density, diversity, and reachability have been reported in the literature (Dubini and Aldrich, 1991; Granovetter, 1982). For example Cromie and Birley (1992:239) found that increased network diversity can lead to "a wide range of experience, information and contacts". Similarly network diversity may increase efficiency and flexibility when firms have complimentary areas of specialisation and facilitate risk sharing between firms (Bartlett and Franičević, 2001). However, this research argues that although density, diversity, and reachability are important network measures, SMEs must have the ability to assess their networks holistically and subjectively based on a deep rooted knowledge of their relationships' value and purpose. Additionally, for SMEs in general, the environment in which they operate is turbulent. Hence, the assessment dimension is necessary for them to proactively manage the building, dismantling and rebuilding of networks in a way that mirrors the continuous transformation of the enterprise as it develops and grows.

In practice, the researcher argues that through the assessment dimension, SMEs can deliberately act to build an architecture of capabilities. That is, small firm owner/managers, through analysing both their existing relational ties and the

connections held by their network members, could expand their relationship portfolio through existing contacts as appropriate to enhance their marketing efforts. Additionally, proactively managing relationships could, in practice, assist SMEs in strengthening network ties, bringing past experiences into new ties, being aware of new, beneficial ties, network formation capabilities and being alert as to individual achievement expectations. They can be practical in designing their networks and in considering the ramifications of their future choices of each new tie they form, since network resources result from the location of firms in the network. This leads to proposition 2:

SMEs must proactively manage their networks to allocate time based on usefulness, strengthen worthwhile bonds, realise the benefit of weak ties, and expand their networks.

4.5.3 Access to Knowledge Dimension

Much previous literature supports the contention that collaborative practices are a viable method of knowledge creation and transfer (Hamel, 1991; Nonaka, 1994; Powell et al., 1996). Whilst the network literature strongly suggests networks as a means to attain knowledge pertinent to their business issues, less has been written about the process of knowledge transfer, particularly in an SME context. Although the researcher agrees with previous research, she argues that a) the exchange of relevant information amongst network members in an SME setting can reduce time expended searching for information; b) within the access to knowledge dimension, strong relational ties can facilitate the transfer of tacit knowledge between SME actors in a network context and; c) equally importantly SMEs must have the ability to integrate network knowledge into their own processes to create new knowledge either internally or jointly with other network actors.

The strategic management literature is responsible for much development in the area of knowledge transfer through networks which forms part of what the researcher terms 'access to knowledge' dimension of the relational capability construct. For example, McEvily and Zaheer (1999) maintain that firms differ in

their capacity to access useful information through their networks and that these differences are a key source of variation in firms' competitive capabilities. The relational element, according to the researcher, is key to the process as SME owner/managers must have the ability to communicate with other actors to extract information, more specifically with a diverse set of actors to increase the likelihood of accessing it. Additionally, the owner/managers must be able to coordinate various actors' inputs to create new knowledge regardless of whether the outcome is at an SME actor level or a network level. Trust is clearly an important aspect of this dimension as SMEs will be more likely to act on and integrate information that stems from relationships that they know and trust, further highlighting the importance of the relational element. Regarding the access to knowledge dimension, the researcher also feels that the closeness of relationship required is dependent on the type of knowledge transferred within a network. That is, the ability to transfer knowledge within a network is a capability but to transfer tacit or valuable knowledge is a relational capability as it requires repeated interactions over extended periods of time.

An important and relevant assumption to this dimension is that managers (like other human beings) are constrained by limited cognitive capacity. Their capacity to notice, interpret, store and make use of data is restricted. Additionally the ability to exploit outside sources of knowledge is largely a function of prior related knowledge or the "absorptive capacity" of the recipient of knowledge. Cohen and Levinthal define absorptive capacity as:

The ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends (1990: 128).

However, their definition suggests that if a firm has absorptive capacity, it is equally capable of learning from all other organisations. The greater the partner-specific absorptive capacity is, the greater the potential will be to generate relational rents through knowledge sharing. Dyer and Singh (1998) state that actors must generate and enhance their knowledge absorbing capacities in addition to generating routines that facilitate the sharing of information.

Accordingly, this study argues that the true relational capability stems from how SMEs manage and process new knowledge, store and utilise intelligence of great significance and speedily discard the rest. To conclude, in order to manage efficiently the complex relational sets in which they are embedded, organisations must develop a) the ability to absorb competencies from others (Cohen and Levinthal, 1990); b) the ability to combine and coordinate the technical dimensions of a large number of firms (Kogut and Zander, 1992) and; c) the ability described as ‘architectural’ to combine existing competencies or generate new knowledge, if required (Henderson and Cockburn, 1994). Such new information generated in a network context is generally tacit and requires repeated interactions between actors over time. It is vital for SMEs to have the access to knowledge dimension of the relational capability construct to promote the flow of new, sometimes complex, knowledge which can be translated into opportunities, as different actors will hold diverse sets of information.

In practical terms the researcher argues that SMEs can bridge knowledge gaps through networks. Through an analysis of knowledge needs and network connections, SMEs can proactively seek and speedily attain information pertinent to their marketing needs. Additionally, close relationships can assist with the generation and internalisation of information, integrating it into business processes. This leads to proposition 3:

The ability to generate, integrate and utilise knowledge from network flows emerges as a distinctive dimension of the relational capability construct.

4.5.4 Access to Opportunity Dimension

Access to opportunity, according to the researcher, refers to new ways of using resources, both internally and externally through networks to make them more efficient, profitable and/or produce more value. Opportunities arise through the exchange or combination of resources in a network setting. The researcher is aware that opportunity is a subjective concept based on what the SME owner/managers know and perceive to represent an opportunity. However, the

researcher argues that this dimension is particularly important for SME owner/managers who may lack the resources to attain and exploit opportunities alone. This point is reiterated by Jarillo (1986; 1988b) who notes that networks are, in most instances, the method small firm owners use to get access to external resources necessary in the pursuit of their opportunities as relationships in a network are potential conduits to internal resources held by connected actors (Nohria, 1992).

A high degree of relational embeddedness not only affects the opportunities found, but also influences how they are exploited. In situations where SME networks are characterised by a high degree of relational embeddedness, firms tend to search for opportunities locally in their direct networks. Such opportunities include a firms' capability to be alert to discover new ways of exchanging resources, new products, new methods of production and new ways of organising. This is in line with Granovetter's (1985) seminal article, where he stated that economic behaviour is not an autonomous activity performed in isolation from institutions, technology, political conditions, cultural conditions or their social context. Such opportunities can be internal or external and are linked to the sharing of concise, important information flows within an SME network.

A key element of a high-quality relationship is that the supplier fulfils the promises made during negotiation or before the close of the deal. This refers to both the quality of the product, the level of service quality available and the fulfilment of customer expectations regarding price. According to Sheth and Parvatiyar (1995: 256)

Consumers engage relational market behaviour to achieve greater efficiency in their decision making, to reduce the task of information processing, to achieve more cognitive consistency in their decisions, and to reduce the perceived risks associated with future choices.

SMEs, through networks and having close relationships with their suppliers and customers within a network, can offer product and service flexibility, offer efficient and timely deliveries, respond to price or quantity alterations thereby

offering process excellence. This dimension of relational capability is a vital marketing asset as it assists small business owners in responding to market changes in a timely and efficient manner. In this respect, the development of the access to opportunity dimension begins with the existence of companies with a high level of competence in performing their activities that integrate their processes, through lasting close collaboration and thus create idiosyncratic, difficult to imitate relational capability. Process improvements through relational capabilities can be based both internally within the SME themselves, or externally, held jointly with others. For example, based on the advice and feedback from network members within the value chain, SMEs can change aspects of their products or services to better meet the needs of customers in a business to business setting.

In the external context, process integration takes on great importance since not only is it applied internally (Hammer and Champy, 1993; Davenport, 1993), but can also exploit the potential of the integration of processes among companies belonging to the same network. Such interaction allows members to access resources and skills not owned by the company itself, thus opening up opportunities for mutual synergy and learning. Short and Venkatraman (1992) indicate that many of the opportunities to redesign processes among those companies arise precisely from those processes that are consumer oriented and overcome the limits of each of the individual companies.

In practice, close relationships with stakeholders can assist SME owner/managers to find and exploit opportunities in a network. SMEs can combine resources to jointly take advantage of opportunities which present themselves. For example, in terms of policy, certain EU funded formal network programmes bring together SMEs dealing within the same industry. Together, they may potentially develop the relational capability to sell overseas or embrace the opportunity to jointly market goods and services. Additionally, close cooperation with value chain members could enable SMEs to operate in a seamless fashion, thus enhancing exchange processes, with customers, distributors and suppliers. This leads to proposition 4:

Access to opportunity is a dimension of relational capability which can improve the exchange process between SMEs in a network.

4.5.5 Co-adaptation Dimension

This study argues that co-adaptation is an important dimension of the relational capability construct as SME adaptation can be facilitated by close cooperation with network members. Characterised by having a limited impact on the marketplace and lacking the funds to adapt alone, close relationships with other actors in a network setting could provide owner/managers with the additional resources essential in the co-adaptation process. In agreement with Kraatz (1998), this study argues that small networks, and networks of small firms, promote adaptation and that strong ties might be particularly valuable in promoting adaptation because they create high-capacity information links between organisations and engender a motivation for information sharing. Similarly, Uzzi (1997) found that embeddedness assists adaptation because actors can better identify and execute coordinated solutions to organisational problems. These solutions stem from the willingness of firms to forego immediate economic gain and the ability to pool resources across firms (in line with social exchange theory as described in section 4.6.3).

The concept of inter-firm adaptations has been used extensively in research into inter-firm relationships (e.g. Cannon et al., 2000; Håkansson, 1982; Håkansson and Snehota, 1995; Hallen et al., 1991, 1993; Turnbull and Valla, 1986). This was highlighted by Ford (1990:14) when he stated:

Another important aspect of the relationship is the adaptations which one or other party may make in either the elements exchanged or the process of exchange... The manipulation of different aspects of adaptation is of course a critical marketing and purchasing issue.

Although adaptation, its attributes and constructs have been described in detail throughout the network literature, a clear definition of adaptation is more difficult to find. Adaptation processes refer to the modification of resources or of the ways of operating in order to benefit more from the network. Adaptation can be defined as the actions of the SME in processing information inputs from the environment and making rapid adjustments to this feedback (McKee et al., 1989; Stoica and Schindehutte, 1999). Additionally, despite this long history of research, the researcher argues that significant gaps in scholars' understanding of the adaptation phenomenon persist. One particularly prominent void is in the area of the role that networks may play in adaptation processes, in addition to the process of co-adaptation through networks, particularly in an SME context. Kraatz (1998) stated that there was appreciable support for the fact that small networks promote adaptation and that factors such as organisational size, age, financial distress, resource (i.e., tuition) dependence, and a prior history of change all effect adaptation.

The researcher recognises that some adaptations are necessary. When operating in long term relationships, both the buyer and the supplier often have to make substantial adaptations and commitment of resources in the development of partnering supplier relationships (Brennan & Turnbull, 1999; Ford and McDowell, 1999; Ritter, 1999). The key idea is that through mutual investments and adaptations, suppliers, customers and other stakeholders can create new product and process solutions that are more effective than those that exist in the field, or that improve the efficiency of the supplier-buyer relationship. As such, this relation-specific development creates new "added" value in terms of the available solutions (Möller & Törrönen, 2003). This form of exchange process, in which two or more individuals simultaneously affect and are affected by each other in relatively enduring ways, is also an adaptation process (Newcomb, Turner, and Converse 1952). When buyers and suppliers establish and develop long-term relationships with each other and where the volume of business in such relationships accounts for a considerable share of the supplier's sales and/or the customer's needs, there is reason to expect that significant partner-specific adaptation occurs (Heide and John, 1988). This point is reiterated by Hallén et al., (1991:30) who state that one can expect that suppliers adapt to the needs of

specific important customers as well as customers adapting to the capabilities of specific suppliers.

Therefore, this study argues that in the case of SME networks, adaptations are necessary to enable supplier and customer companies to deal with each other successfully over extended periods of time and thus are important contributors to ongoing relationships and important indicators of commitment (Håkansson, 1982). Adaptations vary in magnitude and require different levels of resource commitment. They can be viewed as a continuous process (Easton, 1992), a necessity for maintaining or developing a relationship within a network (Dubois and Håkansson, 1997). Relationships and networks facilitate co-adaptation as they mitigate uncertainty and promote adaptation by increasing communication and information sharing. The higher the level of co-adaptation, the higher the environmental complexity that can be handled by the firm, a very important attribute given the turbulent environment that SMEs operate within. This corresponds with Galbraith (1973) who notes that a firm can be made to handle higher environmental complexity if its repertoire of information is expanded continuously and its ability to exploit such a repertoire is correspondingly improved (Galbraith, 1973).

For this research, co-adaptation is conceptualised in terms of the firm's capacity to adapt, how much it actually adapts, and the strategies it relies upon to adapt. SMEs can greatly enhance their ability to adapt through networks as it allows for a smooth flow of adaptation needs. For the purpose of this discussion co-adaptation is defined as:

Product, processual or behavioural modifications amongst SME actors within a network designed to specifically meet the needs of another actor involving a form of resource commitment.

Thus the researcher argues that the co-adaptation dimension of the relational capability construct that is operating through networks would eliminate the need for SMEs to expend their limited time gathering marketing intelligence pertaining to necessary changes in the environment. Additionally, the resulting adaptations arising through networks should be perfectly aligned with the needs and

aspirations of the customers within the network as they dictated the change. This would solve a main problem that seems to exist in some firms, that being that their marketing capabilities, including their existing knowledge base, is too focused on current customers' needs and current competitors as opposed to the new.

This study would suggest that through networks, SMEs could engage in interactive adaptations as opposed to reactive or proactive adaptations. Through maintaining close relationships, value chain members could approach each other to jointly adapt. In practice, this would suggest that network members communicate to discuss potential adaptations and working together to enact them. This leads to proposition 5:

Proactive product or process adaptations are achievable by SMEs through networks. Such adaptations may occur between SMEs or within one SME based on discussions within the network setting.

4.5.6 Co-innovation Dimension

The co-innovation dimension of the relational capability construct refers to the ability of SMEs to collaborate with other organisations specialising in different fields to facilitate interactive innovation. Therefore, co-innovation is crucial to develop new products or services through proactive interaction with a wide range of actors. This stems from the notion that firms are less able to develop major process or business innovations in isolation due to the dispersion of knowledge and technological resources driven by organisational specialisation (Svahn & Westerlund, 2007). Thus, innovation is increasingly recognised as being the result of the combination of different knowledge and expertise that exist within different organisations i.e. relationships may have interactive and complementary effects on technological innovation (Johnsen and Ford, 2000). Hence, it is not surprising that there has been a strong upsurge of various forms of inter-organisational collaborative ventures for innovation (Freeman 1991; Hagedoorn 1995; Hagedoorn and Schakenraad 1990).

Innovation is defined by Van de Ven (1986: 591) as a process involving:

...the development and implementation of new ideas by people who over time engage in transactions with others in an institutional context.

However, within an SME context the researcher argues that co-innovation through embedded relationships and collaboration can shorten the time it takes to bring new ideas to market, while access to a broad network of cooperative R&D provides companies with a rich portfolio of diverse information sources. It may be true to say that SMEs display a high degree of product innovation since many new SME enterprises will be founded upon a new and innovative product or service, and such innovations are easily identified. However, in most cases, SMEs develop products that are only marginally differentiated from others and much of the product innovation is in response or reaction to customer demand (Carson, 2002). Indeed, SMEs are less likely to conduct large scale surveys of customer needs. Therefore, collaboration with individual customers and suppliers is often a way to increase the chances of developing successful new products and technologies.

Various scholars have argued that network learning is critical to competitive success, noting that organisations often learn by collaborating with other organisations (Levinson and Asahi, 1995; March and Simon, 1958; Powell et al., 1996). For example, Von Hippel (1988) found that in some industries (e.g., scientific instruments) more than two-thirds of the innovations he studied could be traced back to a customer's initial suggestions or ideas. Von Hippel argues that a production network with superior knowledge-transfer mechanisms among users, suppliers, and manufacturers will be able to "out innovate" production networks with less effective knowledge sharing routines. The research carried out by Takeuchi and Nonaka (1986), Womack et al. (1990), and Lamming (1993), indicates that certain companies appear to be able to explore and exploit the capabilities of not only individual suppliers but also a large part of the supply network as a whole. Swan et al (2005), in relation to biomedical innovation, state that relational capability refers to the ability for organisations to collaborate with other organisations specialising in different fields and could facilitate interactive

innovation. Similarly, Powell et al. (1996) found that the locus of innovation in the biotechnology industry was the network, not the individual firm.

According to the researcher, SME owner/managers, due to their inherent qualities, naturally exhibit many skills associated with high performing and innovative networks. The ability to co-innovate assists in integrating the various roles exhibited by the SME owner/managers leading to a higher propensity to innovate. All SME owner/managers are specialists in their chosen field, possessing almost perfect knowledge of their product and business. Additionally they are highly disciplined, reliable and constantly looking out for new opportunities to innovate. Ideas emerge through each actor's capacity for self-reflection, and the ability to acquire and apply intellect is an important part of the co-innovation dimension. Ideas give rise to concepts, which are the basis for any kind of innovation. New ideas spread more rapidly through strong relational ties and such embeddedness facilitates the integration and utilisation of ideas. Moreover, network relationships are crucial for these innovators as they are faced with the challenges of resource scarcity (Hannan and Freeman 1977; Stinchcombe 1965). Therefore, in practical terms, the researcher argues that SMEs can improve their innovation capacity utilising different kinds of networks and relationships. That is, new product development is greatly facilitated through the combination of network actors' resources and capabilities. This leads to proposition 6:

SME networks are a proactive means through which the individual firms can tap into the pools of technologies and human resources in order to jointly innovate.

4.6 Theories relating to SME networks

Thus far this chapter has focused on defining capabilities, in particular relational capability inclusive of its six dimensions. Therefore, the final section of this chapter will look at three theories which have the potential to analyse SME networks and relational capability, namely transaction cost theory, resource dependency theory and social exchange theory.

4.6.1

Transaction Cost Theory

Transaction cost theory (Coase, 1937; Williamson, 1975, 1985) is concerned with the costs incurred in making an economic exchange. Transactions, according to Williamson (1985), are concerned with asset specificity, uncertainty and the frequency of a transaction. The underlying assumption is that firms are profit maximising, and that profit maximisation involves cost minimisation. In terms of relationships and networks, relation-based coordination can reduce uncertainty, and thereby the transaction costs associated with inter-firm exchange (Jarillo, 1988b; Williamson, 1986). For example, trusting relationships with network members can eliminate the transaction costs associated with monitoring and enforcing the implementation of contracts in addition to the costs of searching for new customers or suppliers by focusing on, and working more closely with, fewer firms within a network. The risks of opportunistic behaviour are reduced as a result of mutual investment, which can lead to more open communication, a greater sharing of information and ideas and the co-creation of knowledge (Nonaka, 1994).

However, although transaction cost theory is a very useful theory, from a relational perspective it is not without its limitations. Firstly, it assumes that coordination of an SME network is already in place without considering the process through which it evolves. In addition, it places little focus on the maintenance of such networks aside from their associated costs, and places little emphasis on relationship level variables such as the degree of trust between network partners. This is reiterated by Nooteboom (1992: 285) who stated:

An embedding of a transaction in an ongoing process of exchange is required to make transaction cost theory coherent.

Researchers have problems with the fact that transaction cost economics only focuses on transactional characteristics, and relates the problem of governance to the market-hierarchy continuum (Bradach and Eccles 1989, Grabher 1993, Macneil 1980, Powell 1990). Such transactions are treated as though they occur without any knowledge of previous transactions involving the parties concerned. Transaction cost theory ignores the crucial role that informal, socially embedded

personal relationships have in producing stable relations of trust, obligation, and custom among formal independent organisations (Ring and Van de Van, 1992) that often characterise SME marketing relationships.

Another criticism is that knowledge and information are treated as the same concept and as goods to be transacted. As Coase's (1937) original article states, all transaction costs are knowledge costs, and so production, exchange, and governance are all aspects of the growth of knowledge, the division of knowledge, and the use of knowledge. According to Nonaka et al. (2000) this can cause three major problems. Firstly, the transaction cost of knowledge can be high because of its high uncertainty for several reasons. Secondly some knowledge is difficult to transfer and transact due to its tacitness. Thirdly, even if the knowledge is codifiable and hence transferable, there will be problems arising from the fact that such knowledge has public good characteristics. It is difficult to evaluate the value of knowledge since the buyer needs to know the content of the knowledge to determine the value of knowledge, and once she/he knows it, she/he has acquired it without paying for it (Arrow, 1962 in Nonaka et al., 2000). When a firm is viewed as a knowledge-creating entity, a sustainable competitive advantage is attained through the process of and ability to exploit existing knowledge, and to create new knowledge out of existing knowledge, rather than just a set of technologies or know-how that a firm possesses at one point in time.

4.6.2 Resource Dependency Theory

A substantial body of empirical research draws on resource dependency theory to study the patterns of inter-organisational networks which builds on the exchange perspective. The resource-based perspective suggests that the firm is a collection of assorted resources, tangible and intangible assets that are tied to the company. One of the factors characterising SME marketing is a lack of resources (Carson, 1985). Through viewing SME marketing via the lens of resource dependency theory, firms could access and utilise resources outside of their direct control and are thus linked to their environment by various types of relationships. The resource-based argument suggests that firms use relationships and networks to locate the optimal resource configuration in which the value of their resources is

maximised relative to other possible combinations (Das and Teng, 2000). Thus, relationships are used to develop a collection of capabilities that a firm cannot create independently. Resource dependency theory proposes that actors lacking in essential resources will seek to establish relationships with others in order to obtain needed resources.

Resource Dependency Theory (RDT) is centred on a power perspective, the argument being that power accrues to those social actors who provide critical resources for the organisation and who cannot be readily replaced in that function (Pfeffer, 1981: 112-113). In fact, according to Pfeffer (1981) organisational success in resource dependency theory is defined as organisations maximising their power. RDT characterises the links among organisations as a set of power relations based on exchange resources. The theory compliments transaction cost economics by adding a process dimension concerned with economic decision making. Regarding relationships, RDT accepts that members of the network are shaped by the internal structure and processes of the relationship through adaptation and interaction (Pfeffer and Salancik, 1978). It argues that firms attempt to alter their dependence relationships by minimising their own dependence or by increasing the dependence of other organisations on them and analyses interactions as they influence the nature of the relationship within the dyad. A major tenet of the theory is that organisations tend to avoid inter-organisational linkages that limit their decision making and other forms of autonomy.

RDT indicates that interdependence between SMEs can create problems of uncertainty or unpredictability for the organisations as a result of lack of co-ordination of activities among social units. Networks and relationships can help reduce this uncertainty for SMEs through the communication and coordination of actors. According to Pfeffer and Salancik (1978), linkages to other firms provide three primary benefits to organisations in managing their activities related to environmental interdependence. Firstly, a linkage to another firm provides information about the activities of that organisation which may impinge on or affect the focal organisation. Secondly, a linkage provides a channel for communicating information to other businesses on which the focal organisation

depends. Finally, a linkage provides an important base to ensure a commitment of support from the parties in the network. Hence, these linkages help to reduce uncertainty of a firm. As Pfeffer and Salancik (1978: 145-146) noted:

Linkages help stabilize the organization's exchange with its environment and reduce uncertainty. Through negotiation and the arrangement of agreements with others, uncertainty is reduced directly. Part of the interaction between individuals serves the purpose of maintaining the relationships and exchanging information about each other and their activities. The more of the other, such that there are overlaps in friendship networks and other business acquaintances, the more binding their relationship becomes and the more stable and predictable it is likely to be.

Pfeffer and Salancik (2003:146) also put forward the argument that social networks are the basis for business alliance as "people tend to prefer conducting their business with people familiar to them". This means the primary social relationships of SME owner/managers eventually paved the way for more solid business relationships.

One criticism of the RDT in terms of relationships is that the focus of these relationships is more concerned with the patterns of relationships rather than the content. For example, Lauman and Pappi (1976) and Galaskiewicz (1979) reported that organisations central in their networks had a greater reputational influence. Additionally Gulati et al. in Baum (2002:282) state that:

Although the resource dependence perspective sheds light on the critical contingencies guiding the creation of new ties, one drawback of this perspective is that it assumes an atomistic environment in which information about other organizations is widely available and freely accessible to all.

They proceed to say that network scholars have extended resource dependency theory to focus more on the social context of relationships. To this end, social exchange theory will be examined as the third theory relating to relationship marketing and networks.

4.6.3

Social Exchange Theory

Social exchange theory (SET) grew out of the intersection of economics, psychology and sociology. Five figures are largely responsible for the emergence of SET; Homans, Thibaut, Kelley, Blau and Emerson. According to Homans (1958), social exchange theory was developed to understand the social behaviour of humans in economic undertakings. Homans (1958: 606) describes the crux of the theory as:

Social behaviour is an exchange of goods, material goods but also non-material ones... Persons that give much to others try to get much from them, and persons that get much from others are under pressure to give much to them.

Thibaut and Kelley (1959) assisted in bringing order and coherence to present-day research in interpersonal relations and group functioning. They speak in terms of rewards and restraints emanating from relationships, competing alternatives and the role dependency plays in relationships. Blau (1964: 91) stipulates that social exchange theory views the exchange relationship between specific actors as “actions contingent on rewarding reactions from others”, whilst Emerson (1987:11) states that exchange theory “views actors (person or firm) as dealing not with another actor but with a market”, responding to various market characteristics. Levine and White (1961: 588) in a study of inter-organisational relationships in the health care sector define organisational exchange as:

Any voluntary activity between two organizations which has consequences, actual or anticipated, for the realization of their respective goals or objectives.

This definition refers to activity in general, and not exclusively to reciprocal activity, and widens the concept of exchange beyond the transfer of material goods and beyond gratifications in the immediate present.

Homans (1958: 599) depicts cohesiveness as a valuable variable in social exchange defining it as “the degree of reinforcement people find in the activities of the group”. Similarly Blau (1986: 33, 35) states that:

The greater the attraction of individuals to one another ... the more cohesive is the group ... cohesion, therefore, increases social control and coordination.

Blau's discussion revolves around processes such as group formation, social interaction, opposition and conflict in terms of the principles of social exchange. Common values in the social system mediate the necessary indirect exchanges making coordination of action in large collectivities possible. The other basic principle underlying this theory, according to Homans is the communication/interactions variable, which he terms the 'frequency variable'.

According to Homans (1958: 598), an incidental advantage of an exchange theory is that it might bring sociology closer to economics. However, he later (1961, 1974) argues that explicit bargaining is rarely a part of enduring personal relationships. Blau (1986: 93) argues that social exchange differs in important ways from strict economic exchange. The basic and most crucial distinction is that social exchange entails unspecified obligations. Blau (1986: 91) states that "social exchange", as the term is used here, refers to voluntary actions of individuals that are motivated by the returns they are expected to bring and typically do in fact bring from others. Cook and Emerson (1978) conceive commitment between exchange partners to be an interpersonal attachment leading persons to exchange repeatedly with the same partners, and therefore, they "suspect commitment will prove to be an important concept separating social exchange theory from strictly economic exchange theory" (1978: 737). They state that although commitment can curtail the exploration of alternatives, which is irrational in the short-term, it may have long-range utility in a risky exchange environment. Cook and Emerson (1978) noted the relevance of exchange networks to marketing, noting that vertically integrated markets and channels of distribution in fact are positively connected networks.

The original formulation of social exchange theory focused on dyadic relationships. Emerson (1962, 1972a, 1972b) elevated it to networks arguing that, to examine the potential of exchange and power dependence relationships, it was critical to examine the larger network within which the dyad was embedded. Emerson (1976: 351) brings us closer to the idea of relational thinking as he states

that personal ties are, of course, attributes of longitudinal exchange relations, in which power is neither diffused nor equally distributed, as perfect competition implies. He introduces exchange networks involving three or more actors, structured exchange systems that are not to be confused with groups. Networks tie together both groups and individuals as actors (1976: 357). On the basis of Emerson's work, Cook et al. (1983: 289) define an exchange network as consisting of:

1. A set of actors (either natural persons or corporate groups),
2. A distribution of valued resources among those actors,
3. For each actor, a set of exchange opportunities with other actors in the network,
4. A set of historically developed and utilised exchange opportunities called exchange relations, and
5. A set of network connections linking exchange relations into a single network structure.

Social exchange theory is best understood as a framework for explicating movement of resources, in imperfect market conditions, between dyads or a network via a social process (Emerson, 1987). Firms do not survive and prosper solely through their own individual efforts, as each firm's performance depends, in important ways, on the activities and performance of others and hence on the nature and quality of the direct and indirect relations a firm develops with these counterparts. The author of this study argues that social exchange theory is complex enough to cope with the complexity of deriving marketing capabilities in SMEs through networks, whereas transaction cost theory and resource dependency theory are more suitable for discussing tradable resources. Social exchange theory encompasses elements essential to the successful functioning of networks such as the norm of reciprocity and the embeddedness concept.

The early permutations of Social Exchange Theory stem from Gouldner's (1960: 171) norm of reciprocity, which suggests "that people should help those who have helped them, and people should not injure those who have helped them". In terms of relationships and networks, this simply argues that people ought to return

benefits given to them in a relationship. People strive to minimise costs and maximise rewards, as with economics, and then base the likeliness of developing a relationship with someone on the perceived possible outcomes. When these outcomes are perceived to be greater, more is disclosed and a relationship developed with that person. Beneficial knowledge sharing within networks is contingent on the network actors' willingness and ability to share resources (Eisenhardt and Schoonhoven, 1996; Larson, 1992). Therefore, reciprocity needs to be present with network members willing to support and challenge each other. In fact, Achrol and Kotler (1999), leading authors in the field of networks, defined a network organisation as a network of exchanges linked by the multiplexity and reciprocity of the ties among its members. This argument can be furthered to suggest that network relationships are more complex, more stable and incorporate greater reciprocity than normal commercial relationships.

The concept of embeddedness is a core element in social exchange theory and a fundamental issue for dealing with learning through experience and repeat transactions. Embeddedness refers to the fact that exchanges within a network typically have a history which results in the customisation and stabilisation of linkages among members. As time unfolds, actors do not respond solely in accordance with their own interests but rather in line with the social procedures in place. This is due to the fact that actions taken by one actor are constrained due to the effects that they could potentially have on the other members in a network. Embedded ties promote greater frequency of information exchange between partners, which can affect the success of the network as well as the performance of firms entering them.

Zukin and DiMaggio (1990) have classified embeddedness into four forms; structural, cognitive, political, and cultural. The last three forms mainly reflect the sociological perspectives of embeddedness which are often merged into relational embeddedness, which primarily concerns the qualitative aspects and the nature of relationships. This stems from Granovetter (1985), who stated that economic behaviour is not an autonomous activity which is performed in isolation from institutions, technology, political or cultural conditions and the social context. This was a critique of Williamson's (1983) transaction cost approach, where he

argued that most behaviour of individuals is closely embedded in networks of interpersonal relations.

Uzzi (1997) has used the embeddedness concept to characterise the level of social interaction in inter-firm relationships. Structural embeddedness focuses on how much the quality and the network architecture of exchange relationships influence economic activity (Uzzi, 1997). He argues that there is a risk of becoming locked-in into closed networks which would reduce the flow of new knowledge into the network. Structural embeddedness is the quest for information to reduce uncertainty, a quest that has been identified as one of the main drivers of organisational action (Granovetter, 1985). Similarly, entrepreneurship is often viewed as ‘embedded in a social context, channelled and facilitated or constrained and inhibited by people’s positions in social networks’ (Aldrich and Zimmer 1986: 3).

To conclude, using the theoretical lens of social exchange theory may enable the researcher to better understand the behaviour of individuals within a network setting. Despite having antecedents in economics, social exchanges are connected to long-term social relationships that occur within communities. Exchange partners look beyond short-run inequities or risks and concentrate on long-run mutual gains, increasing trust, satisfaction and commitment. At the same time “in the market or trading sphere of material life, exchanges are anonymous and socially disarticulated” (Gudeman, 1998). Many of the social networks of interest to social scientists can be analysed fruitfully as exchange networks, provided that the specific content of the social relations in the network involves the transfer of valued items (i.e., the provision of information, affection or approval, advice, or more tangible things like goods and direct services) (Cook et al., 1983: 277). A summary of the main aspects of the three theories as discussed in this section, are presented in Table 4.5 below.

	Transaction Cost Theory	Resource Dependency Theory	Social Exchange Theory
Core Concept	Governance structure of transactions. Transaction costs are defined as the costs of negotiating, monitoring, and governing exchanges between people	RDT proposes that actors lacking in essential resources will seek to establish relationships with (i.e., be dependent upon) others in order to obtain needed resources.	Social exchange theory posits that all human relationships are formed by the use of a subjective cost-benefit analysis and the comparison of alternatives.
Characteristics	Concerned with asset specificity, uncertainty and the frequency of a transaction.	Concerned with resource importance, inter-organisational power, resource dependency and interdependence.	Concerned with understanding the social behaviour of humans in economic undertakings and reciprocity between exchange partners.
Reason for networks/relationships	To lower transaction costs	To lower uncertainty, to locate the optimal resource configuration in which the value of their resources is maximised relative to other possible combinations, a channel for information.	Long-run mutual gains, increasing trust, satisfaction and commitment.
Measurement	Transaction events	Power of one organisation over another in terms of resource control	Cohesiveness, Communication
Limitations	Knowledge and information are treated as the same; power is not taken into account.	Concerned with the patterns of relationships rather than content. Social relations are not accounted for.	Previous focus on dyadic relationships and closely linked to economic exchange.
Key Authors	Coase (1937), Williamson (1975a, 1985, 1991)	Pfeffer and Salancik (1978), Pfeffer (1981), Sheth and Parvatiyar (1992)	Homans (1958) Thibaut and Kelley (1959) Emerson (1962, 1972a, 1972b, 1987) Blau (1986), Cook (1987)

Table 4.5 Comparison of Theories
Source Author

4.7 Conclusion

Chapter three argued that networks of relationships make sense for SME marketing. Whilst extant literature focuses on the marketing gains derived from network participation, little evidence exists depicting the process of SME network activity and how networks affect the marketing orientation of SMEs. This chapter argues that SMEs need to build a set of capabilities to effectively use their networks. Such capabilities are termed relational capability and describe the

process by which SMEs are connected in a network setting. It is argued that through the nurturing of relational capability inclusive of its six dimensions, SMEs can improve their marketing efforts.

This chapter also proposed three potential theories through which this thesis could be viewed. From a Transaction Cost Economic point of view networks can help lower transaction costs; from a Resource Dependency Theory perspective networks can facilitate the movement and pooling of resources. However, the process of interaction between SME owner/managers and the individuals who comprise his/her network need to be considered. Social exchange theory embraces the social elements of relationships and networks and, therefore, will be the theoretical lens utilised looking at the process of SME marketing through networks.

THEORETICAL FRAMEWORK AND PROPOSITIONS

Chapter 5 Theoretical Framework and Propositions

5.1 Introduction

Chapter 4 focused on defining the capability construct and its six dimensions in addition to placing the study within the theoretical lens of social exchange theory. This chapter will further develop the theoretical framework for the study. The researcher argues that the Actor-Activity-Resource (AAR) model of networks (Håkansson and Snehota, 1995) is an appropriate tool for the structuring of the research framework. As a descriptive tool designed to detail the three substance layers of an industrial relationship, its applicability in the structuring of the six dimensions of relational capability is argued for in the following sections. Ensuing from this, the framework which will be applied in an SME setting is outlined at the end of the chapter.

5.2 The International Marketing and Purchasing Tradition

The International Marketing and Purchasing Group (IMP), formed in the mid 1970s, developed a dynamic model of buyer-supplier relationships in industrial markets called the interaction approach, a direct predecessor of the industrial networks approach. In keeping with the assumption of social exchange theory, according to this approach, buying and selling in industrial markets cannot be understood as series of disembedded and serially independent transactions. Such transactions are best understood as episodes in long term, stable relationships between the buying and selling firms. The IMP group views business relationships as comprising three “layers” or “effect parameters” (Håkansson and Snehota, 1995): actor bonds, resource ties and activity links.

Actor bonds refer to the ways individual and collective (organizational) actors in a relationship perceive and respond to each other both professionally and socially. These bonds arise over time and are mutually adapted through the knowledge and experience gained in interaction. They affect the way actors view and interpret

situations, as well as their identities in relation to each other and to third parties. Bonds include the closeness-distance, degree of commitment, power-dependence, degree of cooperation, and conflict and trust among relationship partners. Resource ties develop as companies exchange or access each others resources (broadly defined) in carrying out their activities, in the process often transforming and adapting existing resources and creating new resources. Activity links refer to the connections among operations that are carried out within and between firms in networks and how mutual adaptations in activities take place between relationship partners.

The IMP tradition moves beyond a description of dyadic relationships highlighting the interconnectedness that exists between a series of interrelated relationships. Both suppliers and customers in a focal business relationship are in turn connected to other parties that affect the exchange, forming a business network. Hence, the actor bonds, activity links and resource ties that evolve in a single dyadic relationship are connected to a wider web of actors, activity patterns and resource constellations comprising the business network as can be seen in Figure 5.1. Although each firm has dyadic connections with other actors, decisions and actions between each relationship within the network has an effect on other network actors.

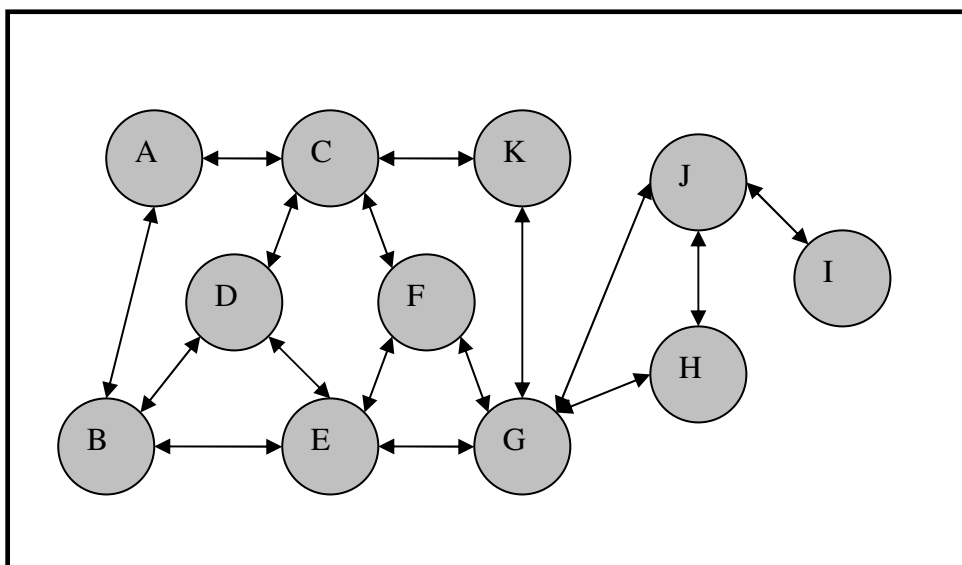


Figure 5.1 Network of Business Relationships
Source Author

The investigation of the creation of SME relational capability implies the need to analyse the series of actions that take place amongst the network actors. Any relationship within a network represents a process of integration at different levels, such as the cultural level, operational level, the transfer of knowledge, and/or the making of joint decisions. This study will classify the relational capability construct, utilising the Actor-Activity-Resource (AAR) model of networks as depicted by the International Marketing and Purchasing (IMP) group of researchers (Håkansson and Snehota, 1995).

The AAR model embodies three substantive layers, actor bonds, activity links and resource ties. Actors, in the case of this study (See Figure 5.2), represent the simplest layer of the model, encompassing the SMEs and the owner/managers involved networks. Actors are the most visible of the three layers, the tip of the iceberg, whereas the main mass of the network and the degree of complexity increases as activities and resources are included.

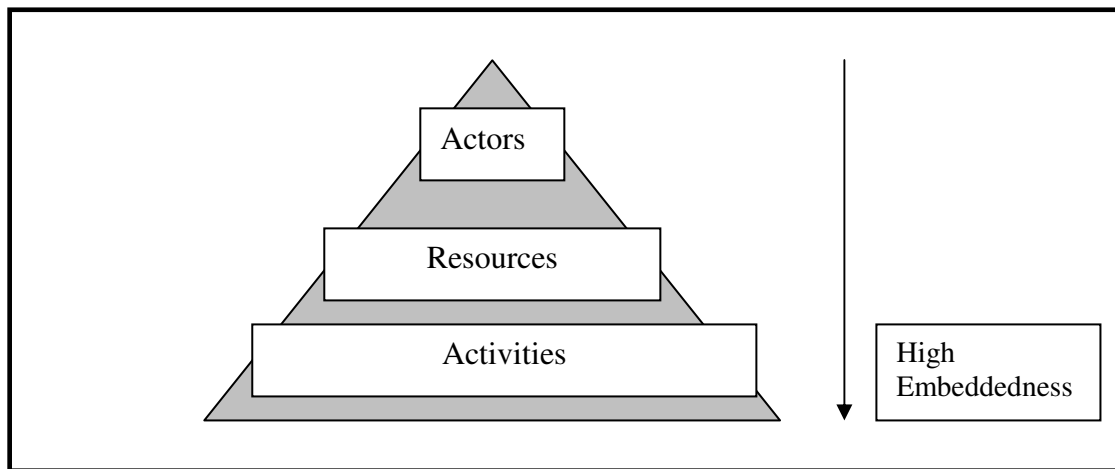


Figure 5.2 The AAR Model and Relational Embeddedness
Source Author

Within SME networks, actors are of vital importance as they often represent both the owner of the enterprise and the chief decision maker. SMEs are characterised as having few large customers, face a limited number of competitors and stress the importance of qualitative competitive factors such as personalised service rather than focusing on cost and price. Personal and business connections amongst actors in a network may be strong and durable. However, the researcher argues that, at

this level of analysis, they are not dependent on trust or close cooperation as there is no commitment of resources. Resource ties develop as companies exchange or access each other's resources (broadly defined) in carrying out their activities, in the process often transforming and adapting existing resources and creating new resources. According to the researcher, SMEs constrained by their own resources, can benefit from analysing their networks in search of external resources. As can be seen in Figure 5.2, as the study moves down the continuum and incorporates resource ties, the strength of the relationships within the network grows, and the degree of embeddedness is enhanced. This is due to the combination of resources in a network setting and would imply an increase in the trust, commitment and cooperation between the parties within the network. Activity links, in Figure 5.2, refer to the connections among operations that are carried out within and between firms in networks. Within an SME context this occurs when mutual adaptations in activities take place between relationship partners. Resources are commodities that actors use during activities to produce their goods and/or services, and are tied through the production process as inputs and outputs (Håkansson and Johanson, 1992).

5.3 Classifying the Relational Capability Construct using the AAR Model

This section of the thesis argues for the classification of the relational capability construct utilising the Actor-Activity-Resource (AAR) model of networks as depicted by the IMP group of researchers. The six dimensions of the overall relational capability construct extracted for review in section 4.5 are revisited and structured into a theoretical framework for analysis purposes. These dimensions represent the crux of this research as it is felt that the marketing efforts undertaken by many SMEs are poorly aligned with the core strengths and resources present within them. Therefore, this study argues that dimensions of relational capability are formed at each layer of the network model through process integration between SMEs, positively effecting SME's marketing efforts.

5.3.1

Actor Bonds

Actors are the people within an SME that engage in networks. Within marketing, there has been a shift in focus from products and firms as a central unit of analysis to people, organisations and the social processes that bind actors together in ongoing relationships (Webster, 1992). Therefore, although actors represent the simplest layer of the AAR model (see Figure 5.2), their importance is increasing in recognition and they are responsible for the creation of many capabilities. Traditionally, value creation is the task of the marketing actor and customers constantly aim to maximise the value they derive from suppliers. However, within a network setting involving SMEs, the marketer is often the accountant, the CEO and the product/service producer. That is, within SMEs, one actor is often the focal point of the whole business. Small business owners come from various fields with many different skill sets, but in this role they are all tasked with wearing more hats than it is reasonable to expect expertise in. Consequently, the amount of time spent wearing each hat tends to be proportional to the amount of experience a particular business owner has in that area. SME owners tend to be experts in their given fields with their core product and/or service areas, so they concentrate their efforts on that, feeling that marketing is something larger corporations do. Therefore, marketing is an arduous task for many SMEs which arguably can be facilitated through networks.

As can be seen from the relational capability framework in Figure 5.3, this study argues that the realisation and assessment dimension of the relational capability construct (4.5.1 – 4.5.2) are situated within the actor bonds level of the AAR model. The actor bonds level of the AAR model describes the connections between actors, either individuals or organisations, through their perceptions of each other and their trust and understanding of each other. The realisation dimension is argued by the researcher to exist at this level, as, prior to engaging in beneficial network activity, actors must realise the types of network bonds that they have and with whom. Thus, realisation plays an important role in the structuring, nature and expected outcomes of their relationships. Previous empirical research recognises that there are many different types of actor bonds and networks in existence as highlighted earlier in this thesis, that is, personal

contact networks (Knoke and Kuklinski, 1982), social networks (Starr and MacMillan, 1990), business networks (Donckels and Lambrecht, 1997), and industrial networks (Andersson and Soderlund, 1986). Similarly Wilson (1995) and Crotts and Turner (1999) differentiated between social and structural bonds. Where social bonds develop over time and relate to the degree of mutual personal friendship, and structural bonds are based on technical, knowledge, legal or economic elements which create a barrier to relationship termination. Therefore, according to the researcher, SMEs must be aware of the actor bonds that tie them to other organisations in a network setting in order to utilise them to assist their marketing efforts.

The assessment dimension of relational capability refers to the management and experience of SMEs in network situations. The dimension argues that SME owner/managers must assess their networks, recognise the strength of the actor bonds, and build on their networks in line with business growth. Therefore, due to the focus of the assessment dimension of the construct on assessing actor bonds, the researcher argues that the dimension is well situated within the actor level of the AAR model. According to the researcher, the ability to proactively seek out new network ties can be attained through a thorough understanding of SME networks in addition to the relationships that other network members are involved in. It is, therefore, clearly important for SME owner/managers to address his/her own network and enjoy a full understanding of their position within them. This would lend them the opportunity to change their involvement within certain networks, view the potential to change their network activity, expand their network ties through other network members and/or strengthen worthwhile bonds.

According to Håkansson and Snehota (1995) actor bonds emerge over time as a result of repeated interactions based on the network actors' ability to create mutually beneficial situations. Social exchange theory (Blau 1964, Homans, 1961) elucidates the emergence and continuance of relationships, and hence, can be utilised to explain the operation of the network phenomena. Social exchange theory can, therefore, be used as a starting point to understand the network connections that the SME actors have, the degree of embeddedness, reciprocity and the strength of ties. The realisation and assessment dimension includes the

ability of SME owner/managers to understand and manage their networks which involves subjective evaluations of the degree of value, embeddedness and reciprocity in relationships, features which sit comfortably within the domain of social exchange theory as outlined by Cook and Emerson (1978).

5.3.2 Resources Ties

Whilst there has been a focus on firm resources as a means of gaining a competitive advantage in the strategic management literature, most scholars acknowledge that resources alone will not lead to superior economic performance and need to be exercised in order to convert into capabilities. Resource ties facilitate this process through connecting members of a network and thus enabling the exchange and integration of knowledge and the synchronisation of operations and opportunities to create mutual value. The researcher argues that the access to knowledge and access to opportunity dimensions of relational capability are theoretically placed within the resource ties layer of the Actor-Activity-Resource Model.

In terms of access to knowledge, scholars have suggested that participation in relationships and networks can be instrumental in providing actors with access to timely information, keeping them up to date with relevant issues and referrals to other actors in the network (Burt, 1992; Cromie 1994; Joyce et al. 1995), issues particularly relevant in a small firm context. In fact Johnston and Lawrence (1988) define networks as value-adding partnerships that facilitate the exchange of experience and knowledge between member companies. A study conducted by Gray (2003) confirmed that most SMEs belong to at least one network and that the main drivers for networks are the exchange of business and technical knowledge, as well as more general social interactions among smaller firms. Knowledge creation and transfer are enabled through collaborative network practices (Hamel, 1991, Nonaka, 1994, Powell et al., 1996) assisting SMEs to overcome the shortfalls which characterise them, making them stronger in the face of competitors. The network literature proposes that close relationships allows for the combination of existing knowledge with knowledge from the wider network to create new knowledge (Håkansson and Snehota, 1995). Therefore, the researcher

argues that it is the ability to accumulate, integrate and utilise network knowledge through resource ties that emerges as a dimension of the relational capability construct.

The researcher recognises that knowledge represents an important value-creating asset in addition to the fact that networks and relationships facilitate the emergence of both explicit and tacit marketing knowledge. As tacit knowledge is deeply rooted in personal experiences, subjective insights, values and feelings, it is more difficult to communicate and share. The transfer of tacit knowledge, which can be conceptualised as possessing a technical and a cognitive dimension, is, therefore, dependent on close embedded relationships in a network setting. Whereas the technical dimension contains informal, personal abilities and skills, often designated as “know-how”, the cognitive dimension includes our mental model influenced by our beliefs, values and convictions (Nonaka and Takeuchi, 1995). Therefore, in order to make effective use of knowledge, including the creation of new knowledge, the researcher argues that networks characterised by resource ties must be in place.

In relation to the access to opportunity dimension, the researcher believes that through networks, SMEs can gain new competences, conserve resources and share risks, move more quickly into new markets, and create attractive options for future investments (Hamel et al., 1989; Hennart, 1991; Ohmae, 1989; Doz, 1996; Kogut, 1991). Small firms often lack the financial resources to accommodate such growth which, according to the TCE point of view, may be a reason for engaging in network activities due to cost and risk reduction. Networks provide the opportunity to use relationships to obtain financing and access to distribution channels. Many scholars such as Jarillo (1988b) view the performance of SMEs in their ability and willingness to use external resources and found that firms which did engage in such activity showed significantly higher growth rates. SME owners characteristically require and utilise many resources outside of their direct control. They are driven primarily by the pursuit of opportunity with less consideration and time given to their resource constraints (Stevenson, 1983). Echoing Stevenson, Gilmore et al. (2001) found that the creation and existence of effective SME networks is concerned with maximising marketing opportunities

and ensuring the enterprise's development and survival. Networks are, in most instances, the method SME owners use to get access to external resources, necessary in the pursuit of their opportunities (Jarillo, 1986). Such interaction allows members to access opportunities through the acquisition of resources and skills not owned by the company itself, thus opening up opportunities for mutual synergy and learning. Networks can also serve as an opportunity for enhanced legitimacy for small firms (Baum et al., 1991). Cooperating with other organisations can give an SME visibility and signal enhanced corporate image and lend credibility to would-be buyers, suppliers, and employees (Baum et al., 1991).

Resource ties, defined from an IMP perspective as the mobilisation of resources to one or more activities that link actors, suggest that this level of the conceptualisation requires embedded ties with reciprocal relationships to facilitate more complex access to knowledge and opportunities. However, the researcher argues, in keeping with social exchange theory, that embeddedness, trust and commitment between network actors will determine the value of knowledge and usefulness of opportunities. This is based on the premise that firms closely related are more aware of each others core capabilities and competencies, have a shared understanding of each other's needs, and are more willing to work together to achieve them. This is in line with Cohen and Levinthal (1990) who argue that as an organisation builds a dynamic network of relationships both from inside and outside, individuals will recognise the capabilities and knowledge of others, allowing opportunities to emerge.

5.3.3 Activity Links

The addition of activity links into the model implies joint commitment of physical and/or human resources. This stage of the model is characterised by the willingness to make short-term sacrifices (see Anderson and Weitz, 1992), long-term orientation (see Ganesan, 1994), and willingness to invest in, and commit to the relationship (see Gundlach et al., 1995). Commitment can thus be seen to be indicative of the most advanced stage of relational capabilities. It implies the willingness to develop new products (innovation function) (Håkansson, 1987, 1989), enhance exchange processes or make adaptations to existing ones.

Activities involve a process, a series of actions between the SME actors within a network that produces a change or development.

Activity links and business processes are the mechanisms through which SME actor resources are combined exposing capabilities to the market where their ultimate value and the ability to generate competitive advantages are realised. As previously noted, the ability of a firm to pursue certain processes may be limited by the resources they control. However, relationships are interactive in nature and through networks and commitment to network members, co-adaptation and/or co-innovation amongst network participants can be facilitated. This may include the redesign of a firm's activities, routines and processes to more efficiently and effectively exploit resources and capabilities that they already possess (adaptations).

Adaptations can occur in technical, commercial, financial, and/or social issues (Håkansson, 1982). From an economic, financial and transactional view they can represent considerable investments by one or both parties. When buyers and suppliers establish and develop long-term relationships with each other and where the volume of business in such relationships accounts for a considerable share of the supplier's sales and/or the customer's needs, there is reason to expect that significant partner-specific adaptation occurs (Heide and John, 1988). Such adaptation frequently occurs by way of investing in transaction specific assets such as product/process technology and human resources (Håkansson, 1982). The investments frequently cannot be transferred to other buyer-supplier relationships. Therefore, adaptations make companies more dependent on each other and they strengthen the bonds between the companies (Johanson and Mattsson, 1987a). Communication episodes between companies allows parties to present the expertise and capabilities which they possess and which could be used to either guide or contribute to the adaptation process of others. Additionally, coordination refers to the development and the use of mechanisms that facilitate the control of inter-organisational exchange processes (Möller and Wilson, 1988, 1995).

Berry and Parasuraman (1991) and Turnbull and Wilson (1989) claim that structural relational capabilities, such as that for adaptations, are stronger than

social, personal capabilities and essential for keeping profitable industrial customers. Although some adaptations emerge from normal interaction patterns between firms (Johanson and Mattsson, 1987a), others are built on joint investments which are not retrievable on the cessation of the relationship.

The co-adaptation and co-innovation dimensions of relational capability are classified under the activity links level of the AAR model. Activity links are defined from an IMP perspective as a sequence of acts directed towards a purpose (Håkansson and Snehota, 1995). The commitment of the SME's scarce resources would suggest the presence of strong embedded ties characterised by high levels of trust, communication and integration between the SME actors. Resource commitment is indicative of the most advanced stage of the relational capability framework as it implies the willingness to develop new products (Håkansson, 1987; 1989), or make adaptations to existing ones. The investment involved in network relationships at this level of the conceptualisation would suggest that relationships characterised by activity represent a small percentage of the SME's overall network configuration. Such relationships are termed "significant relationships" by Ford & Håkansson (2006) who concur with the aforementioned statement.

Co-adaptation and co-innovation are in keeping with Homans' (1958) propositions about interpersonal behaviour which suggests that interaction is a process in which firms carry out activities directed towards one another in the exchange of valuable resources. The value and applicability of social exchange theory in viewing this level of the research is apparent as relational continuance is dependent on mutual satisfaction stemming from the co-adaptation and co-innovation processes.

5.4 The Model

Thus far this study has a) argued that networks are suitable for SME marketing; b) revealed a literature gap regarding the relational capability construct; and c) defined the construct in terms of its six dimensions. The applicability for theoretically structuring the dimensions utilising the Actor-Activity-Resource

Model has been outlined and a framework for analysis is presented in Figure 5.3. This study argues that through the attainment of the six dimensions of relational capability, SMEs can use their networks positively effecting SME's marketing efforts. This represents the crux of this research as it is felt that the marketing efforts undertaken by many SMEs is poorly aligned with the core strengths and resources present within them. Through the AAR model it is felt that SMEs can recognise their network connections, strengthen and expand valuable ties, attain and integrate pertinent knowledge and access opportunities. Additionally SMEs engage in co-adaptation with network actors as well as engaging in joint innovation. The left column of Figure 5.3 represents the AAR model as depicted in Figure 5.2. The actors are highlighted to show their importance throughout the progression of the model. According to the researcher, without the actors' continuous interaction it would be impossible to achieve relational capability. The six dimensions of the relational capability construct are outlined in Figure 5.3 and their corresponding propositions. The right hand side of the model incorporates the social exchange element and is aligned with Figure 5.2. The argument is that as we move deeper into the relational dimensions, ties become stronger and more embedded.

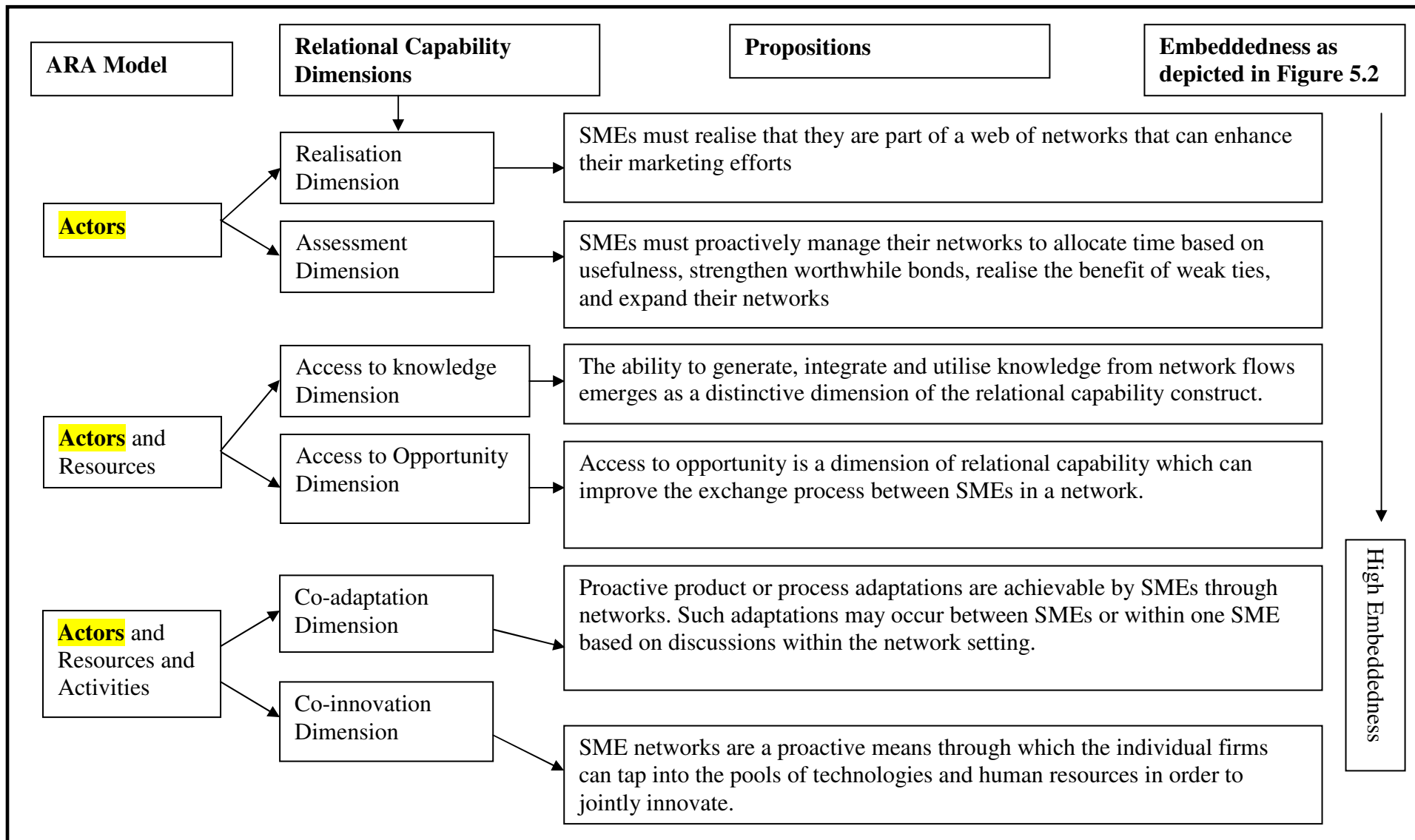


Figure 5.3 The Relational Capability Framework
Source Author

There are numerous references to capabilities and their usefulness without careful consideration as to when, where and how they are created and the exact benefits that accrue. This study aims to bridge this gap through the implementation of the relational capability framework depicted in Figure 5.3. Previous studies have concluded that relational capabilities are constructed through process integration between SMEs in such a way that greater integration means greater cooperation, higher commitment and trust (Dwyer *et al.*, 1987; Ganesan, 1994; Morgan and Hunt, 1994; Dooney and Cannon, 1997), greater transfer of knowledge, greater innovation capability and a simplification or elimination of activities. Therefore, the study aims to describe the process through which SMEs can attain the six dimensions and use them to purposefully enhance their marketing efforts. As such, this study must determine when a process or activity has become, or is becoming, a relational capability. This is a highly complex task that requires a detailed analysis of SME networks. The following two chapters will describe the philosophical assumptions underlying this study in addition to detailing the methods employed in analysing SME networks.

Philosophical and Methodological Considerations

Chapter 6 Philosophical and Methodological Considerations

6.1 Introduction

The aim of this chapter is to describe and justify the philosophical and methodological foundation of the chosen research strategy. Research is constructed on the foundations and underlying assumptions about what constitutes ‘valid’ research in addition to determining the appropriate research methods. Discussing the underlying philosophical assumptions of research, Guba and Lincoln (1994) argue that questions of paradigm are a fundamental starting point to guide research inquiry. The philosophical stance guides the conceptualisation, impacts on the perspective and research approach in addition to the means through which data is gathered and analysed. The philosophical debate resolves around paradigms, described by Guba and Lincoln as a set of basic beliefs (1985:105). Creswell (1994), in an effort to address the paradigm definition debate, suggests that paradigms in the human and social sciences help us to understand the phenomena. Gummesson’s (1991) definition identifies a paradigm as a “world view” which represents an individual’s value judgments, norms, standards, frames of reference, perspectives, ideologies, myths and theories, anything that governs their thinking and action.

This chapter is organised as follows. To initiate the discussion, it is first necessary to characterise the nature of the study in order to determine the philosophical approach most appropriate for the given piece of research. Section 6.3 commences with a discussion on different philosophies of social research; the positivist and interpretive perspectives. The distinctions between the two paradigms are debated at a philosophical level in section 6.4 in relation to the current research. In accordance with philosophers (Burrell and Morgan 1979, Creswell 1994) the paradigms are examined along three dimensions; ontological, the nature of reality; epistemological, the nature of the relationship between researcher and what can be known; and methodological, the practice of research. From philosophy stems methodology. In section 6.5 the main methods appropriate

for this study are detailed, namely, ethnographic methods, case study methods, and action research methods. Philosophical and methodological conclusions are drawn allowing the researcher to map out her particular research process in Chapter 7.

6.2 Nature of the Study

The resolution of a business issue depends on many variables, and it is important that this study makes the correct methodological and philosophical decisions. Goulding (2002: 16) notes that Atkinson and Hammersley (1995) argue for fidelity to the phenomena under study in the social sciences, not to any set of methodological principles, regardless of how strongly supported by philosophical arguments. However, the researcher is aware that prior to engaging in any meaningful research, it is essential to examine our fundamental assumptions regarding the nature of the world in which we live and how we perceive this reality.

The research objectives of this study are as follows:

1. To undertake a comprehensive review of the literature pertaining to SME networks and SME marketing.
2. To address specifically the literature gap to provide a conceptual understanding of the relational capabilities which can be created and enhanced in SMEs through the use of networks.
3. To derive a relational capability framework and action components of the framework in practice to assess theory fit to practice
4. To refine the framework and examine its usefulness from both an Irish and Finnish perspective.
5. To provide wider policy implication of findings.

The academic motivation underlying the above aims is to systematically explore the potential of networks as a means to facilitate SME marketing. The creation of the relational capability construct is proposed as a means to overcome the barriers that face SMEs in their traditional marketing efforts. This motivation compares

well to, and can be situated within, the IMP (International Marketing and Purchasing) school of thought. Therefore, due to its potential in describing complex business networks, the analytical tool related to the IMP work, the AAR (Activities-Resources-Actors) model, had a major influence on the development of the conceptual framework presented in this study. The Actor-Activity-Resource (AAR) model (Håkansson and Johanson, 1992; Håkansson and Snehota, 1995) describes how a business relationship can be analysed through its individual substance layers: actor bonds, activity links and resource ties.

6.3 Philosophical Considerations

There are more things in heaven and earth, Horatio, than are
dreamt of in your philosophy.

(Shakespeare, Hamlet Act 1 Scene 5)

Although Shakespeare suggests that human knowledge is limited, research adds to knowledge through the rigorous investigation of phenomena. The primary purpose of all research is to discover something new about the world. Bennett (cited in Ticehurst and Veal 2000: 2) defines research as:

.... a systematic, careful enquiry or examination to discover new
information or relationships and to expand/verify existing
knowledge for some specified purpose.

Easterby-Smith et al. (1997) identify three reasons why the exploration of philosophy may be significant with particular relevance to research methodology.

1. To assist the researcher in refining and specifying the research methods to be utilised.
2. To enable the researcher to evaluate different methodologies and methods and avoid inappropriate use of unnecessary work by identifying the limitations of particular approaches at an early stage.
3. To help the researcher to be creative and innovative in either selection or adaptation of methods that were previously outside his/her experience.

The purpose of discussing the theoretical and philosophical assumptions for this study is:

...to qualify the use of specific techniques in both the underlying assumptions guiding the research and in the theoretical framework.

(Garcia and Quek, 1997: 449)

6.3.1 Positivist and Interpretive Philosophies

The philosophical choice between the interpretive and positivist paradigms is an important issue for all researchers. This preference is greatly dependent on the researcher's underlying philosophy and the propositions or mission at hand. Table 6.1 represents a summary of positivist and interpretive paradigms in relation to their ontology, epistemology and methodology. Each will be discussed in relations to SME relationship marketing and networks in section 6.4.

Positivism, emphasising reason and logic is the research paradigm concerned with gathering information about social facts in an objective and detached manner. Burrell and Morgan (1979: 21) define the positivist/scientific approach in social science as:

An epistemology, which seeks to explain and predict what happens in the social world by searching for regularities and causal relationships between its constituent elements.

The epistemological roots of positivism can be traced to the work of Bacon (1561-1626) and Decartes (1596-1650). Bacon succeeded in establishing the experiment as the basis for new scientific theory whereas Decartes established mathematics as the fundamental instrument in scientific research. Comte (1798-1857) extended Bacon's ideas to social sciences and it is widely cited as the 'father of positivism'. To Mills (1865: 242):

Society's salvation was to be contingent upon scientific knowledge.

This is reiterated by the view of Smith (1983), that knowledge is based on science and there is a hierarchy of science with mathematics at the top and sociology at the bottom. Therefore, the basic tenet of positivism is to focus on the fact, or the given, and to ignore everything else.

The basic tenets of interpretive research are virtually the reverse of those that characterise positivism. As defined by Boland and Day (1989:92), interpretive studies mark an extreme destination from positivism:

A phenomenological, hermeneutic study directly confronts the limits of traditional methods for doing social science. Traditional method would like to stand apart from the social process and capture it with a clear picture from the outside ... a phenomenological, hermeneutic study, in contrast, is not trying to step outside of the social process but is instead trying to step inside of it and reveal meaningful structures at work that are only masked or distorted by a search for an external set of social laws.

It is an approach committed to studying meaning and human phenomena in context. According to Neuman, interpretive research should explore:

...socially meaningful action through the direct detailed observation of people in natural settings in order to arrive at understandings and interpretations of how people create and maintain their social worlds.

(Neuman, 1997: 68).

Belk (1995) drew attention to this radical shift from traditional positivist paradigms that dominated the discipline from the late 1950s which assumes that the:

Social sciences adhere to a single scientific method for the justification of their knowledge claim.

(Anderson, 1986:156).

Ayers (1946: 101) prophesied the problems that positivism would face later in the century.

There is no absolute standard of rationality, just as there is no method of constructing hypotheses which is guaranteed to be

reliable; instead, – we trust the methods of contemporary science because they have been successful in practice.

Therefore, positivist methods, according to Ayers, should be accepted as appropriate only if they are likely to be successful. Positivism has had considerable influence, but it is subject to many strong criticisms. Doz (1996), for example, stated that the complexity of the world makes positivist precision impossible/undesirable.

Assumption	Question	Positivist	Interpretive
Ontology	What is the nature of reality?	Stable, external reality Reality is objective	Internal reality Reality is subjective
Epistemology	Grounds of research. What is the relationship between reality and research? What is the relationship between the researcher and the research?	Detached observer Possible to obtain hard secure objective knowledge Governed by hypothesis and stated theories	Empathic engagement Understood through 'perceived knowledge' Seeking to understand specific context
Methodology	What is the process of research?	Context free Concentrates on understanding and interpretation Distinguishes between science and personal experience Experimental Primarily Quantitative Seeks to maintain clear distinction between facts and value judgements	Context bound Concentrates on description and explanation Accepts influence from both science and personal experience Interactional Primarily Qualitative Distinguishes between facts and value judgement less clear

Table 6.1 An overview of the positivist and interpretive paradigms in relation to their ontology, epistemology and methodology.

Source Based on Creswell 1994:5 and Carson et al, 2001: 6

6.4

Philosophical considerations

Much prior research into SMEs and networks has its roots in positivist thinking (Chell and Haworth, 1992). Without seeking to devalue such prior research, it is suggested here that such approaches may not yield a rich understanding of the key issues affecting SMEs. Moreover, much prior SME research utilises a positivist approach that may not be appropriate for obtaining the ‘thick description’ (Goulding, 2002: 29) necessary for understanding the key factors that impinge upon SME marketing strategies (Hill and Wright, 2001b). Gilmore et al. (2001) argue that given that the study of small firms is a relatively new branch of social science research (Churchill et al., 1986; Bygrave, 1989), and given the relative lack of understanding of small firms, the emphasis should be placed on empirical research of a phenomenological nature. This is in line with Carson et al., 1998 who suggested that in order to gain an in-depth understanding of the decision-making process for small and medium sized enterprises, qualitative research methodologies should be employed.

Experience from the literature, research and practice suggests that existing approaches comprising quantitative methods for researching in small firms are inappropriate (Hill and McGowan, 1996; Knight et al., 1995; Chell and Haworth, 1992; Churchill and Lewis, 1986; Davis et al., 1985). These large firm models applied to small firm settings have been criticised, and small firm researchers have been urged to conduct studies that are sensitive to the unique characteristics of small firms. As a result the 1990s have witnessed a growing application of qualitative methods, particularly in the study of SMEs, marketing and networks. There seems to be an increasing awareness that the small firm is an entity onto itself and requires a different research strategy from that of larger firms. Furthermore, it is agreed that it is not the existence of a network per se, but rather the use of SMEs and the process of engaging in networks, from which relational capabilities accrue. This section will discuss the philosophical assumptions applied to this research study in terms of ontology, epistemology, methodology and methods.

6.4.1

Ontology

In terms of ontology, positivists generally assume that reality is objectively given and confines itself to that which is 'positively given, avoiding all speculation'. It lies in the ontological assumption that we live in a material 'objective' world, an ordered universe made up of atomistic, discrete and observed events. It is a reductionist approach from complexity towards simplification, an approach based upon a mathematical view of the world. Positivist studies generally attempt to test theory, in an attempt to increase the predictive understanding of phenomena. It involves:

... precise empirical observations of individual behaviour in order to discover ... probabilistic causal laws that can be used to predict general patterns of human activity

(Neuman, 1997: 63)

Conversely, this research is subjective as it is the researcher's belief that each participant has a different understanding of 'what we know'. It is subjective in that each participant, in addition to the researcher, has a different perception of each relationship. In order to fully comprehend the relationships and networks of each SME, the researcher must look at each longitudinally as an individual case as it SME associates its own subjective and inter-subjective meanings as they interacts with the world of networks around it. As Remenyi (1996: 27) suggests:

The phenomenologist understands that the world is not composed of a single objective reality, but rather is composed of a series of multiple realities, all of which should be understood and taken into account.

Additionally, reality is value bound as humans bring deeply felt and espoused values to interactions. These shape the way we interact and make sense of what is happening (Van der Mescht, 2002). Within the positive paradigm, ontological assumptions view the social world as an external environment. Definite social facts affect people in similar ways and there are only regularities in individual's reactions and understanding of definite structures. According to Comte (1853: 3):

All good intellects have repeated, since Bacon's time, that there can be no real knowledge but that which can be based on observed facts.

Through denial of the importance of human subjectivity, there is a danger that conducting this research through the lens of positivist thought would convert social processes, relationships and networks into generalised measurable phenomenon. The researcher is in agreement with Holbrook and Hirschman (1993) who articulate the importance of interpretivist perspectives indicating that those involved in the humanities are human and those engaged in the social sciences are social. Therefore, due to the fact that humans are conscious of their own behaviour, the thoughts, feelings and perceptions of the participants is vital for a full understanding of their relational capability development. How they attach meaning and what meanings they attach are the bases of their behaviour. Therefore, the ontological position of this research is situated within the interpretive paradigm where reality is viewed as subjective and the world is observed through the eyes of individuals. The assumption is that access to reality is achieved through social constructions such as language, consciousness and shared meanings (Myers, 1997). People create and attach their own meanings to the world around them and to the behaviour they manifest in that world (Schutz, 1962:33).

This research study leans heavily on the shoulders of social exchange theory which takes a behavioural approach to exchange logic and the order of relationships through the patterning of interdependencies and the resultant consequences (Thibaut and Kelley, 1959). According to social exchange theory, participation with any one relationship reflects the level of satisfaction and involvement with all relationships at an individual subjective level. Each relationship and each SME owner/manager network in this research is assumed to be subjective and viewed through the eyes of the participants, highlighting the importance of the 'human' element. To dehumanise the SME owners via research manipulation and reduce the participant actions to measurable variables via traditional positivist language would, in the eyes of the researcher, generate thin results. To convert the process of building relational capabilities into testable 'atoms' would significantly alter and falsify the research.

The interaction/network approach, as depicted by the IMP group of researchers, focuses on the interaction processes in inter-organisational business relationships. Similarly, relationship marketing emphasises the dependence between small companies, the trust that is built between them and manifested through relationships and commitment. Reality is not objectively given, rather each relationship and each SME owner/manager's view of relationships are unique and are affected by events and episodes in varying ways and to different degrees. Reality within an SME network can only be understood through an in-depth analysis of the relationships as constructed by the individuals involved in the research situation. Thus, multiple realities exist in any given research context, those of the researcher, those of the individuals being investigated, and those of the reader or audience interpreting a study (Creswell, 1994).

6.4.2 Epistemology

Given the fact that little is known regarding the process of SME networks, the epistemological stance that the researcher advocates necessitates the minimisation of distance between the researchers and the SME owner/managers. Understanding the social process associated with SME networks of relationships involves the researcher getting inside the world of those generating it. As such, the positivist epistemology is rejected as it emphasises the role of the detached observer. For positivist epistemology, the researcher must be indifferent, disinterested, neutral and impartial eliminating all subjective elements through the suspension of preferences or personal experiences. Nagel (1985:42) highlights this point:

... objectivity involves not only a departure from one's individual viewpoint, but also as far as possible, departure from specifically human or even mammalian viewpoint.

The researcher is aware that personal experiences and preferences will be reflected in the ensuing knowledge due to her closeness with the participants. It is understood that the researcher and the participants are interdependent, the actions and words of the researcher will affect the participants which will in turn affect the researcher. The researcher will play an intrinsic role in fully carrying out a longitudinal study where each SME owner is analysed in his/her social context.

The resulting knowledge will not lead to law-like generalisations in the same sense as that of a positivist. However, using socially constructed views, the research will create an understanding of the relational capabilities that can assist SMEs in their networks with a view to adding to the body of current SME network knowledge.

For the positivist, ways of knowing are not shaped by the individual's standpoint or position in the world. Scientific knowledge is the only reliable knowledge which derives its objectivity through observations by a detached observer. According to Myers (1997):

... reality is objectively given and can be described by measurable properties which are independent of the observer (researcher) and his or her own instruments.

Positivist epistemology which is dominant in today's social sciences denies that we can know another person in a different way than as a physical object. We can learn about them only by observing their behaviour. What happens in their minds is neither publicly available nor even considered important (Neuman 1997: 67).

This study does not rely on objective knowledge, favouring the capture of the subjective experiences of each individual SME. The researcher values the perceived knowledge that can be gleaned from extracting and vocalising the thought processes of the SMEs involved in this study. Close cooperation and contact between the researcher and the subjects are essential to reveal important knowledge regarding their relationships, the value that they attribute to them and the process of their engagement in networks. The researcher acknowledges the subjective nature of the research process and has taken steps to address the implications of the study subjectivity. For example, the researcher purposely aimed to withhold preconceptions when striving to gauge the SME's network activity and remained open to alternative explanations of 'networks' as presented by the participants. An independent observer was present at all meetings; an individual well known and respected by all the participants. This allowed for field notes and data analysis scripts to be verified. Additionally the research process focused first on writing findings prior to analysis and discussion and was

monitored by the researcher to check the plausibility of alternative interpretations of the contextual knowledge.

6.4.3 Methodology

The following section will discuss some methodological and practical issues in order to progressively narrow down and finally spell out a method for conducting the study. Clearly a number of choices have to be made in doing this and the implications of making these choices will be discussed. It starts with an investigation of the range of research methodologies that have found to be used in the SME network, capability and marketing literature, and then provides a personal account of how the author deconstructed the opposing research paradigms.

The determination of an appropriate methodology can be described as:

The strategy, plan of action, process or design lying behind the choice of particular methods and linking the choice and use of methods to the desired outcomes.

(Crotty, 1998: 3)

As previously discussed, for the positivist, in terms of methodology, there is a clear distinction between science and personal experience. Mental objects such as thoughts, feelings and sensations, which individuals themselves only have access to, cannot be observed or measured and hence cannot produce knowledge. Knowledge as based on what is “positively” and directly observed rather than on unobserved entities, forces or causes thought to lie behind things. Such knowledge, according to Guba and Lincoln (1994) is context free and controlled by cause and effect laws with the ultimate goal being the discovery of ‘truth’ where the purpose of science is simply to stick to what can be observed and measured.

This aim of this study is not test the theory of SMEs and networks in order to increase the predictive understanding of certain phenomena (Hirschheim, 1985; Myers, 1997), nor is it governed by hypothesis which would indicate emphasis on

deduction in methodological considerations. Rather, this research is interpretive, placing more concern with gaining an in-depth understanding of the participants in a network setting with the assumption that the view will be context and time specific (Wainwright, 1997). Through the power of the interpretive paradigm, this research aims to illuminate new perspectives on established concepts such as SME relationship marketing and networks. The small firm is seen as embedded in relationships and it is meaningless to disconnect the firm from its network. Therefore, understanding the relational capabilities that can be created through networks requires one to study and understand the context in which the process occurs. Support for a qualitative methodology is provided as we are attempting to understand the nature of networks and relationships in SMEs. Hence, the researcher is in fact investigating the social as opposed to the natural world.

In the past there has been an over-reliance on quantitative methodologies to investigate the subject of small firm networks (Curran et al., 1993) and as such they have provided little understanding of the content of network relationships. From a network perspective, interpretivism allows the researcher to understand the SME's lived experience by capturing events within a natural setting. The author of the current study feels, like Borch and Arthur, (1995) that network research should concentrate more on theory building than theory verification. This is in line with a growing acknowledgement that a meaningful analysis can only be achieved through an approach which preserves the social context of small firms (Borch and Arthur, 1995; Brown and Butler, 1995).

The author is aware that the word qualitative is not a synonym for 'interpretive' and it is over-simplistic to relate all quantitative methodology to the positivistic paradigm and qualitative to the interpretive. Instead, research methodology is dependent upon the underlying philosophical assumptions of the researcher. For example, case study research can be positivist (Yin, 2002) or interpretive (Walsham, 1993), just as action research can be positivist (Clark, 1972) or interpretive (Elden and Chisholm, 1993). Belk (2007:217) argues that it is possible to conduct interpretive research that utilises a quantitative methodology while remaining true to the philosophical underpinnings of interpretive research. However, this research is qualitative as it is concerned with interpreting meaning

in contextual situations and the spoken word, rather than in numerical data through use of statistical methods. The researcher of the current study follows the work of O'Donnell and Cummins (1999) in arguing that, to understand network relationships and their dynamics over time, a qualitative approach to data collection is most relevant. This is for the simple reason that the qualitative data generated through inductive phenomenological research is particularly appropriate when rich, deep, process-based network information is required. Additionally, while much research has been undertaken to discover the structure of small firm networks, less is known about the interactional or process dimensions (DiMaggio, 1992; Araujo and Easton, 1996). Qualitative methods focus on dynamic processes with the aim of explaining, rather than predicting, phenomena (Leavy, 1994). This kind of research is, according to Gordon and Langmaid (1988), "...centrally concerned with the understanding of things rather than measuring them". This approach aims to capture the multiplicity of perspectives of social actors, and the meanings that those actors assign to events. An inductive approach is taken where learning is achieved by reflecting upon particular past experiences and through the formulation of abstract concepts, theories and generalisations that explain past, and predict future, experience. Explanations and theories are derived arising from what has been observed.

6.5 Methods

This chapter has argued that this research is best situated within the interpretive paradigm and as such follows an inductive, qualitative methodological approach. This section will detail the methods to be employed in this study around which empirical data is collected and analysed, based on possible alternatives. It has been decided that each participant in this study represents an individual case. However, although the case study describes the overall method through which the data is analysed and compiled, other methods are utilised for the purpose of gathering knowledge pertinent to this research. Section 6.5.2 details the tenets of ethnographic methods, comparing it to action orientated methods. Based on the decision to focus on and action orientated approach the features of action research

are described in more detail in section 6.5.3 as they relate to this research. Conclusions are then drawn.

6.5.1 Case Study Method

Although a popular mode of enquiry, there is little agreement on what exactly constitutes a case (Merriam, 1988). According to Pettigrew (1990) the case study approach can be generally characterised as an empirical inquiry that (1) investigates a contemporary phenomenon within a real life context, when (2) the boundaries between phenomenon and context are not evident, and in which (3) multiple sources of evidence are used. For the purpose of this study, a case study is a holistic research method that uses multiple sources of evidence to analyse or evaluate a specific phenomenon or instance (Anderson, 1998: 152). The choice of a case research approach follows the view of Easton et al. (1997), who argued that case research methodology is particularly appropriate in industrial networks research where complexity and dynamism of relationships limit the applicability of positivist research based on inferential methods. In agreement with Borch and Arthur (1995), it is believed that the case study approach is particularly suited to SME network research in that it helps generate insight into social dynamics and the operations of both the firm and the owner/managers over time (Anderson et al., 1994; Coviello and Munro, 1995; Ennis, 1999). Longitudinal case research will enable the researcher to obtain a sounder understanding of SMEs, networks and the process through which relational capabilities are formed. It places the researcher within the research context to establish causal relationships, and takes into account the most important variables (Miller & Peter 1982: 1014).

Although the case study is a distinctive form of empirical inquiry, many investigators nevertheless criticise the approach (Yin, 1984). Perhaps the greatest concern has been over the lack of rigor of case study research. Often, the case study investigator has allowed equivocal evidence or biased views to influence the direction of the findings and conclusions. A second common concern about case studies is that they provide very little basis for scientific generalisation and produce theories that are narrow and idiosyncratic. Additionally, it is felt that

case studies take too long and result in massive unreadable documents and overly complex theories (Eisenhardt, 1989).

However, a major strength of the case study approach is that it is contextual. The author of this study argues that only rich, contextual research is capable of capturing the embeddedness and interconnectedness of SME actors within networks. This approach is deemed necessary to extract the relational capabilities formed and translate them into novel empirically valid theories. The likelihood of a valid theory is high as the theory-building process is so intimately tied with findings that the resultant theory will be consistent with empirical observation. Also, case studies are a useful way to systematically look at a specific case, collect data, analyse and interpret findings within their context and report results. Therefore, each participant in the action research process represents an individual case study for this research. The network in which they come together to discuss capabilities represents a learning vehicle. Therefore, the case approach represents the holistic approach to method, a means through which the participants are analysed with sources of data emanating through methods described below. The case study method fits seamlessly with the ontological, epistemological and methodological assumptions discussed earlier in this chapter.

6.5.2 Ethnographic Methods

Ethnographic methods fall within the inductive tradition where emphasis is on theory grounded in empirical observations, taking account of subjects' meaning and interpretational systems in order to explain through understanding. Ethnographic methods focus on the manner in which people interact and collaborate in observable and regular ways. It is about inquiry, discovery, exploration and description. It involves research in a natural setting with intimate face-to-face interactions with participants and accurate reflections of participants' perspectives and behaviours. Therefore, while ethnographers combine interviews and observations, the research is conducted in a passive manner. Ethnographers endeavour to understand how systems work whilst incurring as little as possible disruption to participants. Whilst this epistemology is suitable for this study, the researcher aims to play a more participatory role in the study whereby the

observer/interviewer takes on the role of a subject by participating in the activity under study. In searching for a method that will potentially lead the researcher to a rich understanding of how relational capabilities can emerge within SMEs, the process through which they are attained, how they are enacted, and whether their attainment could potentially assist SMEs in eliminating the barriers that they face in their marketing activities, and action orientations is deemed the most suitable. Therefore, an action research method is preferred, a process which is essentially collaborative, synthesising the contributions that both action researcher and participants make to solving problems. The action research method is fruitfully combined with other methods such as interviews and observations (Spjelkavik, 1999:126). According to Schein (1987) 'action research begins with an assumption that one cannot understand a human system without trying to change it'. Ethnographers, on the other hand, endeavour to understand how the system works, aided in this objective by the effect on it and its intervention.

In action research, the participants are expecting positive learning outcomes such as the improvement of their relational capabilities as opposed to being passive recipients. Although this study aims to map social research into a spatial terrain, relationships outside the immediate network must be considered.

6.5.3 Action Research

A multitude of definitions of action research exist and various authors combine different attributes and characteristics with it. Action research is deemed suitable for this research as it borrows the logic of experimentation but applies it to natural settings. Action research combines participative action and critical reflection (Dick, 2001: 21) and claims to dually solve idiosyncratic problems for participants whilst simultaneously adding to the stock of general knowledge about change processes. The majority of authors trace the introduction of the term 'action research' to Kurt Lewin (1946: 202-3), who defines action research as:

A comparative research on the conditions and effects of various forms of social action and research leading to social action, using a process of a spiral of steps, each of which is composed of a circle of planning, action, and fact-finding about the result of the action.

It has been noted that networks are not easily observed and consequently are rather difficult to analyse and measure (Birley et al., 1991). The strength of relationships can be partially assessed by the frequency of contact, the proportion of time dedicated to it and the level and range of skills attained from another business. However, through six planned interventions, the researcher will provide rich description regarding the processes involved in the building of relational capabilities. Such relational capabilities have the potential to assist SMEs in their marketing efforts through networks.

The classical action research cycle involves change and learning, organised into iterative phases of action and reflection. Reflection leads to understanding, and understanding shared by participants is fed back into action. This cycle continues as long as the participants wish or until the aims of the network are fulfilled. In terms of this research, seven action learning sessions will take place. Each participant will reflect upon the six proposed relational capabilities and action will ensue following interventions. Learning outcomes will be attained both at a network and individual level. As noted by Revans (1998: 83):

There can be no learning without action and no action without learning.

Therefore, a significant aspect of SME networks for this study is the ability of SMEs to learn from each other. Contextual action research, also sometimes referred to as action learning, is a form of learning through experience, “by doing”, where the task environment is the classroom, and the task the vehicle. Revans (1983: 64) argues that:

. . one must learn by doing the thing. . . for although you think you know it you have no certainty until you try.

Paulo Freire (in Bell et al., 1990: 98) summarises this strong principle of learning:

Without practice, there's no knowledge.

Action research is contextual, fitting the researcher's epistemological stance, insofar as it entails reconstituting the structural relations among actors in a social environment; domain-based, in that it tries to involve all affected parties and stakeholders; holographic, as each participant understands the working of the whole; and it stresses that participants act as project designers and co-researchers. For SMEs, networks have a central role in learning, knowledge creation and innovation processes (Tell 2000, 308). Therefore, there is value in designing and building networks which offer some form of additional and complementary support for the learning processes that exist in individual firms. Learning within SME networks can be viewed as a cyclical process involving a combination of experience, reflection, concept formation and experimentation (Kolb and Fry, 1975). Kolb's (1984) experimental learning cycle, places the learner in an active problem-solving role, a form of self-learning that encourages the learner to formulate and commit himself to his own learning objectives.

On consideration, action research was deemed suitable for this research study. In terms of ontology, reality is subjectively viewed through the eyes of the participant SMEs and the researcher. In terms of epistemology, knowledge is contextual with the role of the researcher being able to engage as closely as possible with the participants. Action research is a collaborative activity, between network participants and the researcher where the researcher will be present, in the case environment for all network events. Both the researcher and the participants are both co-researchers and co-subjects in the process. Regarding methodology action research is an interactive process primarily concerned with problem identification, problem solving, and change in practice and theory development. It involves a process of re-education, whereby participants will, over time, realise the relational capabilities that ensue from their actions. This will further change their patterns of thinking and action.

6.6 Conclusion

This chapter focused on determining an appropriate philosophical and methodological approach for this study. As depicted in Figure 6.1, the interpretive

paradigm is selected as the ontological and epistemological assumptions mirror the assumptions of the researcher and best suit the research propositions under review. An inductive, qualitative methodology is selected based on the philosophical assumptions. Additionally, the methodology is deemed appropriate, as to describe the relational capabilities that an SME can create through networks necessitates an interactional, contextual approach concentrating on thick description and explanation. Each individual SME represents a case (Figure 6.1), with the network representing the learning vehicle through which relational capabilities emerge. An action approach was selected for data generation allowing close participation and engagement between the researcher and the participants.

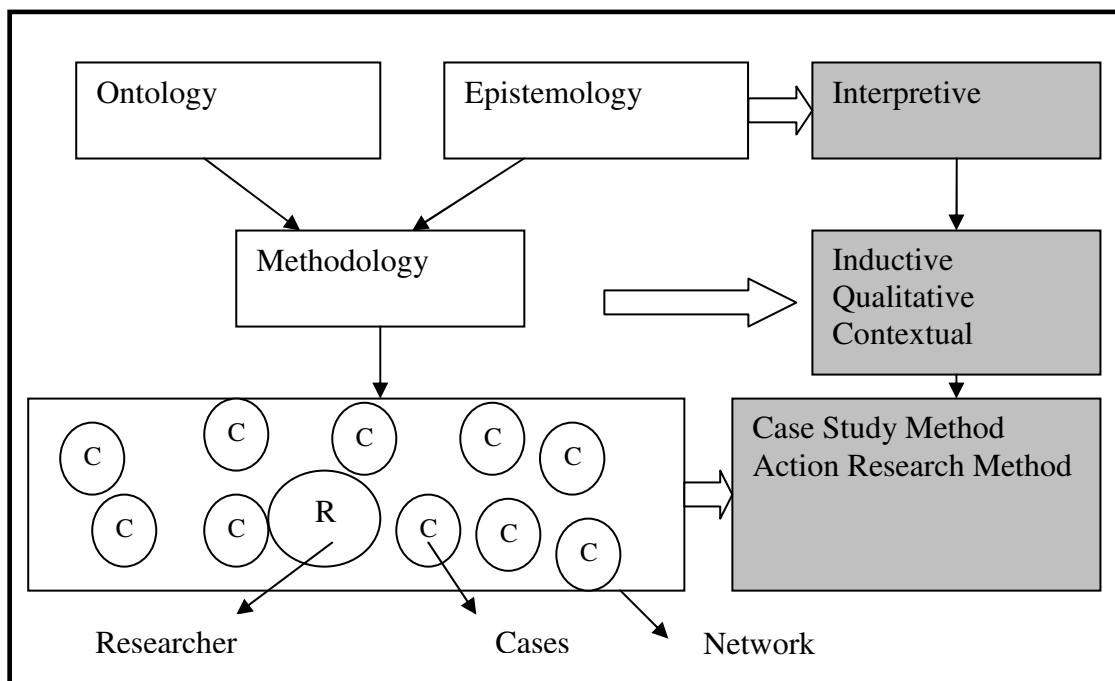


Figure 6.1 Philosophical, methodological and methods pertaining to the research

Source Author

Having established the philosophical and methodological approach, the research design and methods process need to be examined. The case study selection process and action interventions need to be detailed in addition to analysis techniques. Therefore, the following chapter will describe the primary research approach adopted for this research remaining true to the interpretive assumption presented in this chapter.

PRIMARY RESEARCH APPROACH

Chapter 7 Primary Research Approach

7.1 Introduction

The previous chapter established that this study is situated in the interpretive paradigm. This chapter will focus on detailing the methods and structure of measures utilised in this research study. As there are several ways of conducting research, this chapter will outline the research plan set out by the researcher.

Thyer (1993: 94), cited in Kumar (2005: 84), defines a research design as:

A blueprint or detailed plan for how a research study is to be conducted -- operationalizing variables so they can be measured, selecting a sample of interest to study, collecting data to be used as a basis for testing hypothesis and analyzing the results.

Yin (2003:1) states that case studies:

... are the preferred strategy when ‘how’ or ‘why’ questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real life context.

As this research study seeks to explore the relational capability construct inclusive of its six dimensions, a case study approach was deemed appropriate to discover how SMEs actually engage in networks and the potential of the relational capability construct to create or enhance SME marketing through networks. A case study approach allowed the SME participants to be analysed over time ensuring that more than a “snap shot” of the network activity is described which allows for a richer and fuller understanding and for new, unanticipated empirical insights.

7.2 Research Process and Design

A research design is the framework for a study which provides useful guidelines for collecting and analysing data. According to Yin:

A research design is an action plan for getting from here to there where here is the initial set of questions and there are the set of answers (Yin, 2003:20).

Following the research approach proposed by Eisenhardt (1989) in building theory from case study research, this research comprises eight steps depicted below in Figure 7.1. This figure presents a general overview of the research design with more in-depth knowledge in the following sections. As can be seen in Figure 7.1, in commencing the research process and following a preliminary literature survey, the research defined relational capability in a broad sense in addition to outlining its six proposed dimensions. Although the researcher at this point viewed each dimension as a stand alone entity, their presence ensured that the focus remained on the relational capability construct and allowed the researcher to measure the constructs more accurately. This is in accordance with Eisenhardt (1989:536) who states that:

Without a research focus, it is easy to become overwhelmed by the volume of data... a priori specification of constructs ensures a firmer empirical grounding for the emergent theory.

Eight cases were selected from both Ireland and Finland for the purpose of this research. Case selection was based on a specific criteria outlined in section 7.3 hence each SME was deliberately selected. As depicted in Figure 7.1, multiple qualitative data collection methods were utilised in this research, although they differed between the Irish and Finnish context. An exact replica of the Irish study was limited in Finland by time and financial constraints. However, documentation and in-depth semi-structured interviews were utilised in both countries. An interview protocol was devised for the semi-structured interviews and lesson plans were devised for each participatory action learning session. These are detailed in section 7.4 below and are attached in the appendices.

Overlap existed between entering the field and data analysis stages. Field notes, researcher impressions and participant reactions were captured and recorded throughout the research period with flexible data collection techniques. This flexibility was viewed as ‘planned opportunism’ in line with Eisenhardt (1989: 539) whereby the structure of the data collection remained the same. However,

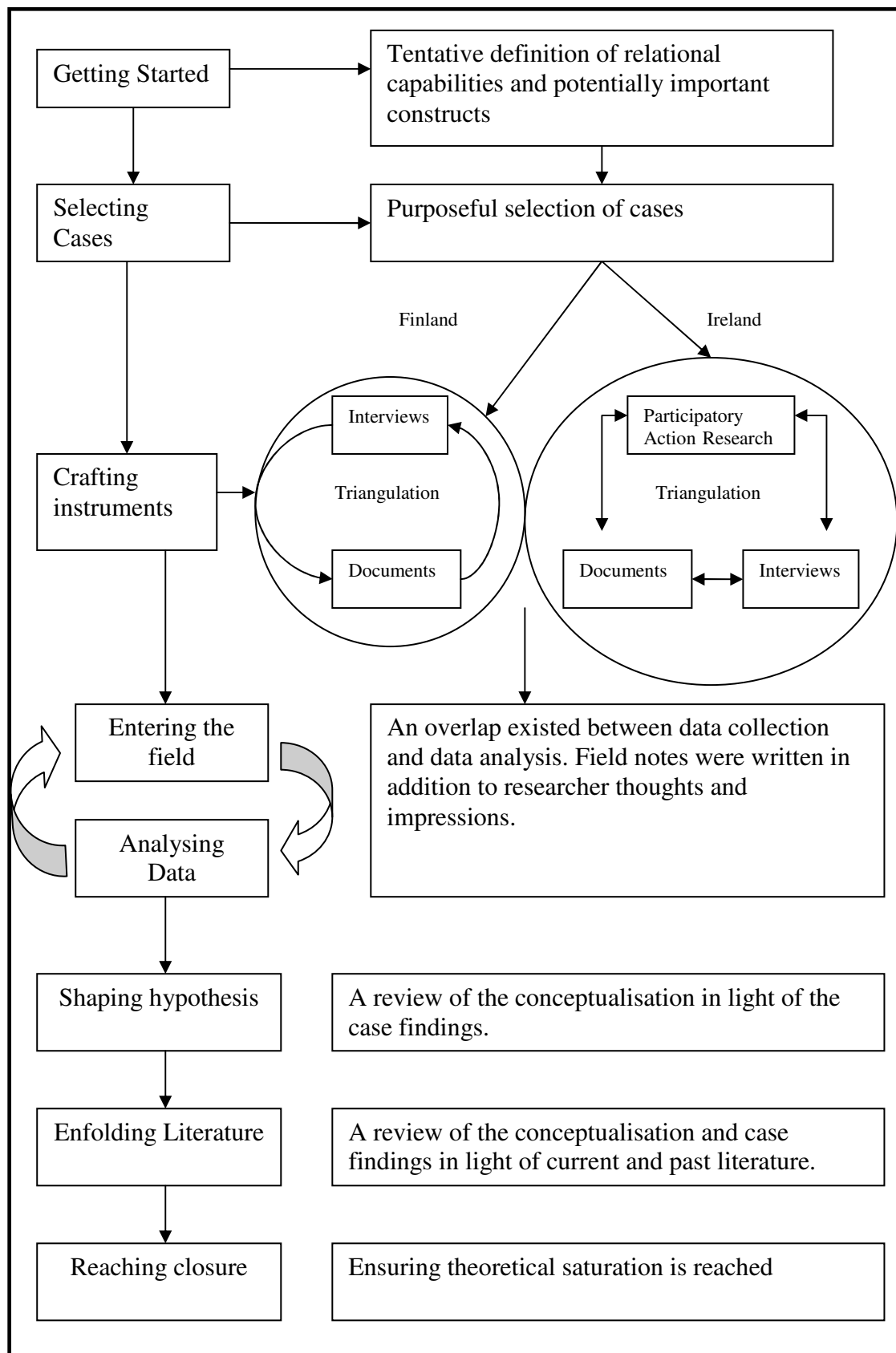
from a Finnish perspective the interview protocol was adjusted to take advantage of the SME's heightened awareness of networks whereas the interventions for the Irish participatory action research sessions were altered due to their lack thereof. Additionally, case analysis was conducted at many levels (see section 7.5.2). Each case was viewed as a stand-alone entity, prior to looking for within country themes. This was followed a cross-cultural analysis of findings. The NVivo programme assisted with the data management process and is detailed in section 7.5 of this chapter.

In terms of shaping hypotheses, relationships emerged between the six dimensions of relational capability through a comparison of the conceptualisations with the case data. Although the constructs remained constant, it emerged that some were theoretically supported to a higher degree than other. Underlying theories such as social exchange theory and network theory, as depicted by the IMP group of researchers, facilitated the process of understanding why the conceptualisation could be viewed as a process and theoretical reasons for the relationships which emerged between the relational capability dimensions.

An essential feature of theory building is a comparison of the emergent concepts theory, or hypotheses with the extant literature.

Eisenhardt (1989:544)

A key to the process in theory building is to consider a broad range of literature in order to probe what is similar, different and why. To achieve this the researcher reviewed a wide, diverse array of literature including key papers from the SME marketing, network and strategic management areas.



7.3

Case Study Selection Process and Criteria

Case study methods, as discussed in Chapter 6, are used to gain in-depth understanding replete with meaning for the subject, focusing on process rather than outcome, on discovery rather than confirmation. In brief, the case study allows an investigation to retain the holistic and meaningful characteristics of real life events. Although there is little agreement about what a case study is (Lincoln and Guba, 1985:360), this study supports Gillham's (2000:1) definition of a case as follows:

... a unit of human activity embedded in the real world which can only be studied or understood in context, which exists in the here and now and that merges with its context so that precise boundaries are difficult to draw.

Eight SME companies were selected by the researcher, from both Ireland and Finland, for analysis whereby each SME represented an individual case study. In light of extant previous research in networks this number of cases was deemed appropriate and in line with Eisenhardt (1989: 545) who stated:

A number of 4 to 10 usually works well. With fewer than 4 cases, it is often difficult to generate theory with much complexity, and its empirical grounding is likely to be unconvincing. (Eisenhardt, 1989: 545)

Case selection was based on meeting the key criteria such as having less than 50 employees, being managed by the owner/manager, and having current or previous relationships with an academic institute either through past participation in an entrepreneurship programme or EU funded programmes. This is due to the fact that the nature of the intervention based study is learning orientated and past programme participation ensured that the SMEs had an interest in learning coupled with a general knowledge of all the business disciplines. For selection purposes, the researcher studied the profiles of more than thirty past participants of a Waterford based Entrepreneurship programme and approached ten via telephone and e-mail regarding their willingness and interest in participation on the research programme. In recognising that SME owners are time constrained, the researcher provided a short description of the study and the potential value that

would ensue through engaging with the researcher. It was important for the companies to realise exactly what the programme entailed to minimise the risk of any SMEs leaving the research mid-way. Security was an issue for most SMEs whereby they had to be assured of their anonymity, in addition to the assurance that no fellow participants were either competitors or related to their competitors. Four Irish companies initially agreed and the researcher eventually contacted twenty two in order to attain eight for the purpose of the study.

From a Finnish context the researcher engaged with three Finnish academics who facilitated the researcher in selecting Finnish based SMEs for her study. Easterby-Smith et al. (2002) argue that personal local contacts and networks are essential given the difficulty in obtaining responses in other countries. Therefore, the researcher utilised networks that Waterford Institute of Technology had with the University of Kuopio in Finland. The researcher presented her work to academics who purposefully selected interview cases facilitated by their interest in the subject area. The SMEs were based within the Kuopio area and met the key criteria as set out by the researcher. Language did not pose as a barrier to understanding as the SMEs had practically flawless English and an interpreter was present for all interviews. The Finnish SMEs were very open in the interviews and agreed to communicate as much as necessary with the researcher in pursuit of her studies. Therefore, regarding case selection, each SME was deliberately selected. This is in line with Eisenhardt who states that:

Random selection is neither necessary, nor even preferable
(1989:537)

7.3.1 Case Duration and Access

As noted, an exact replica of the Irish study was limited in Finland by time and financial constraints. Therefore, the Finnish case participants were interviewed once for a period of two to three hours at their corporate headquarters. Prior to the interviews, the researcher engaged with the SME owners via e-mail, studied their websites and discussed their characteristics with the Finnish academics. Initially the researcher aspired to conduct more face-to-face visits but felt confident that she had attained enough information following an in-depth interview. Additionally, the researcher was assured by the participants that they would

discuss any relevant issues over the phone, via e-mail or in person should the need present itself.

The researcher was aware that access could present difficulties within an Irish context as small firms in particular may not be willing or able to allow the depth and length of access desired. Therefore, within an Irish context the researcher ensured that the participant SMEs were located within a 60 km radius to minimise travelling distance. This follows Yin who stated:

In general, convenience, access and geographic proximity can be the main criteria for selecting cases ... allowing for a less structured and more prolonged relationship to develop between the interviewees and the case study investigator (Yin, 2003: 79).

Regarding case duration, the six interventions necessitated seven network meetings. The researcher also wanted to meet each participant prior to the interventions to gauge what their level of network activity was in addition to a meeting in the middle and at the end to clarify points made in the sessions. For the purpose of case participant comfort, it was decided to establish approximate timescales. The SMEs were informed that the study would stretch over a ten month period with network meetings for approximately three hours every month. This was deemed sufficient time considering the time pressures on SME owner/managers and their potential scepticism regarding such meetings. Not having competitors in the group facilitated the meetings and helped with the agreement of people coming on board. It also ensured a good mix of business types and SME owner characteristics. The fact that they had previously participated in an entrepreneurial programme was essential as they were more open to and willing to discuss issues pertaining to their businesses as a result.

7.4 Applied Research Techniques

The applied research techniques utilised for this study were governed by the researcher's ontological, epistemological and methodological preferences as described in Chapter 6. As can be seen in Figure 7.1, from an Irish perspective, semi-structured in-depth interviews, participatory action research and documentations informed the research whereas the Finnish study comprised

documentation and semi-structured interviews and documentation. Through the use of these methods, the researcher was in a position to view relational capabilities through the eyes of the SME participants and the process of their emergence during the course of the study. Each method is described in detail below.

7.4.1 Participatory Action Research

In order to gain true insight into the workings of the SME networks in the context of the research propositions, this study utilised participatory action research from an Irish perspective (see section 6.5.3 for a definition of action research). In agreement with Gartrell (1987: 59), the researcher believes that it is one thing to say that networks have some kind of effect, and another to say how they produce such effect and what precisely these effects are. The overall amount of transfer flows, the variations of network sets and the role of direct and indirect contacts should be considered. Participatory action research has emerged in recent years as a significant methodology for intervention, development and change within networks. It is now promoted and implemented by many international development agencies incorporating academic institutes and local businesses. Many EU economic development programmes incorporate an action learning element into their design through ‘learning sets’ (Figure 7.2). Such learning sets are invaluable for the creation of relational capabilities as research suggests owner/managers prefer an action learning style based on ‘learning by doing’ as opposed to traditional teaching methodologies (Moran, Finestra Report). The most beneficial aspect of action research (action learning) is in its iterative process of problem diagnosis, action intervention, and reflective learning, by the researcher and participants.

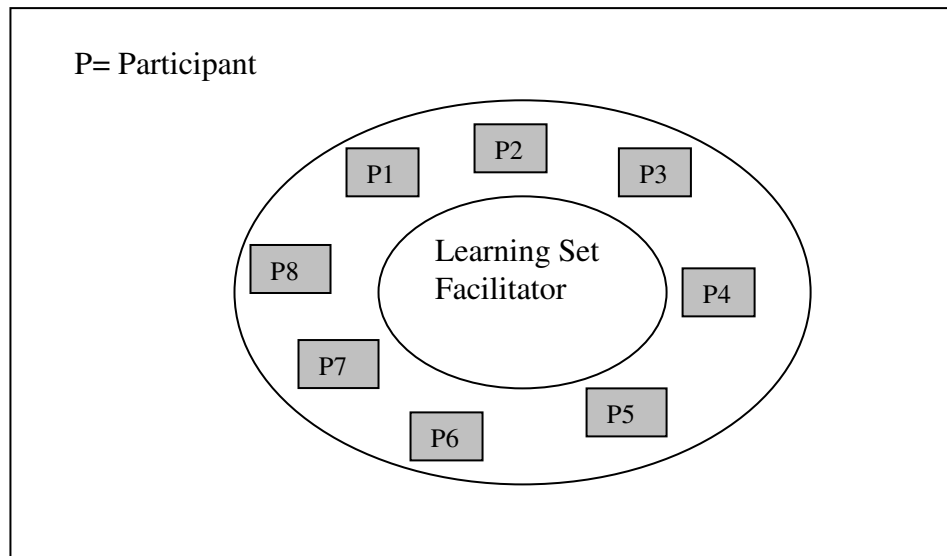


Figure 7.2 Learning Set – example
Source: Author

Figure 7.2 outlines the structure of the learning sets/networks that were utilised for this research project. The learning set facilitator (the researcher) in the centre acted as an external assistant to ensure that the focus of the sessions remained on the appropriate dimension and to ensure that each voice was heard. The benefits of a participatory action research approach, for the purpose of this study, include the following:

- It is an interpretive approach to problem solving which is in line with the ontological position of the researcher.
- It creates a situation in which experience is challenged by review rather than accepted by unconscious absorption.
- Real problems and issues are discussed which provides more helpful and usable feedback about individual SMEs.
- Shared experimentation can reduce risks and maximise opportunities for innovation or adaptations, a relational capability.
- Shared experiences can assist the SMEs in the evaluation of their network ties and the benefits that networks produce.
- The fact that the researcher is either acting as facilitator or observing the set facilitates the gathering of rich and relevant data.

- The research is designed to address specific issues identified by the researcher, and the results are directly applied to the research propositions at hand.

Six interventions were devised for the seven action learning sessions. They were devised in advance, although were altered slightly throughout the course of the research to reflect the SME participants' level of relational capability. The interventions were devised around the six dimensions of relational capability as set by the researcher prior to the field research. The rationale for the interventions was the fact that previous research suggests that networks are not easily observed and consequently are rather difficult to analyse and measure (Birley et al. 1991). Therefore, whilst relational capability, as a theoretical construct, may not be readily observable or measurable, the six dimensions linked to relational capability can be derived and analysed. Setting measures through the use of interventions enhances the replicability of the research and hence its validity as it models how the effect can be reproduced. This is in line with Sobrero (2000) who stated:

To evaluate the impact of the embeddedness of individual actors within an identified relational set, one should be able to model how such effect is reproduced, observe some change on individual outcome, and control for possible alternate rival hypothesis.

The six interventions are described in detail below and a plan for the intervention can be seen in Appendix 1.

7.4.1.1 Realisation Dimension

As an intervention strategy, the researcher requested that the SME participants focus on, and graphically depict, their networks in terms of connections with suppliers, customers, competitors, manufacturers, distributors and other key stakeholders in their business. The intervention stemmed from an examination of the social network analysis literature which places a strong focus on network mapping (Scott, 2000; Krackhardt & Krebs, 2008). Although the view of networks as comprising intricate webs of relationships and interactions among suppliers,

customers, competitors, and non-commercial actors, as supported strongly within the IMP tradition, are the focus of this study (see Anderson et al., 1994; Achrol, 1997; Möller & Halinen, 1999; and Ritter et al., 2002), graphically mapping networks was deemed appropriate by the researcher to enhance the SMEs realisation. The rationale for this exercise was to try to enhance the SME's realisation of networks in an industrial IMP sense exclusive of connections which are based on formal or personal ties. Confusion between the terms 'network' and 'networking' has been highlighted in the literature chapters, hence the researcher aims to ensure that in discussing 'networks' each SME holds the same interpretation of the term. Gibb (1990: 60), in a critique of the quantitative/deductive designs prevalent in small business research, showed how the term 'market' could be interpreted in a variety of ways leading to various forms of ambiguity. Similarly, networks could be viewed by the SMEs as personal contact networks (PCNs), formal networks, strategic networks or industrial networks.

The researcher at this point also requested that the participant SMEs discuss their most beneficial networks. In line with Purchase and Ward (2003), who conducted a qualitative research study into business relationships, gathering data on different aspects of actors' perceptions of their relationships, the researcher sought to determine the participants' perceptions of networks and the actual value of connections to their business. Key qualitative measures for this dimension included the participants' descriptions of the value that they gleaned from their network activity, their network perceptions in addition to the degree of importance that they attributed to each connection.

7.4.1.2 Assessment Dimension

To gauge their level of the assessment dimension the SMEs were asked to describe their position within their networks. This was due to the fact that the researcher felt, in line with Campbell and Wilson (1996), that network members themselves do not recognise or identify their network position. As an intervention exercise, the SME owner/managers were encouraged to expand their connections through their existing network ties. This intervention was based on social network

analysis techniques which encourages the mapping of SME networks, in addition to mapping the networks of others. Although social network analysis measures new and existing connections quantitatively, discussing the route to new beneficial ties allowed the researcher to determine the process of SME network expansion and to build on studies by Gilmore et al. (2006) who found that SME owner/managers in Australia and Northern Ireland experienced difficulties when handing over or expanding their marketing networks. Through looking at the process of expansion, the researcher was in a position to determine the extent to which the SMEs managed their networks and viewed them strategically. The researcher argues that networks must be assessed and altered to mirror the enterprise needs as they change and grow. This is in line with Larson and Starr (1993) who argue that networks must be assessed over time in order to understand how exchange relationships are transformed from simple, dyadic exchanges to dense multi-dimensional and multi-layered organisational relationships.

In terms of assessment, issues such as network density and diversity (Dubini and Aldrich, 1991; and Granovetter, 1982; Hansen 1999) have been widely cited in the literature. Cromie and Birley (1992:239) found that increased network diversity can lead to “a wide range of experience, information and contacts”. Similarly network diversity may increase efficiency and flexibility when firms have complimentary areas of specialisation and facilitate risk sharing between firms (Bartlett and Franičević, 2001). Additionally, many researchers have conducted previous studies into the strength of network bonds through focusing on issues such as trust (Davenport and Prusak, 1998; Roberts, 2000; Andrews and Delahaye, 2000; Dwyer et al, 1987; Morgan and Hunt, 1994; Kalafatis and Miller, 1997; Geyskens et al, 1999) and commitment (Dwyer et al., 1987; Morgan and Hunt, 1994; Kalafatis and Miller, 1997; Geyskens et al, 1999).

The interventions for this dimension, as set by the researcher, aimed to measure and document the subjective criteria through which the SMEs assessed their network connections in addition to the means through which they expanded their network contacts. In particular, the researcher analysed the extent to which relationships were reciprocal, and the emphasis that the participants placed on strong and weak ties.

7.4.1.3

Access to Knowledge Dimension

In order to understand the access to knowledge process, the participants were asked to describe the means through which they had acquired and integrated knowledge through networks in the past and to provide a plan in which to do the same in the future. The participants would list at least one information need pertaining to their business and look at their network maps in a bid to access the knowledge. This intervention would introduce the notion of looking at other actors' networks as a potential knowledge source. This intervention was derived from an analysis of the strategic management literature which asserts that networks can act as a source of reliable information and a viable method of knowledge creation and transfer (Hamel, 1991; Nonaka, 1994; Powell et al., 1996; McEvily and Zaheer 1999). Therefore, this study also strives to understand the process through which SMEs can co-create new knowledge through integrating their knowledge with the knowledge of other network members. This concept builds on, and extends, to the SME sector, Okhuysen and Eisenhardt's (2002) definition of knowledge integration as a process, whereby individuals combine their information to create new knowledge.

Key measures that the researcher used to gauge the access to knowledge dimension were the ability of the SMEs to integrate and use network knowledge. Through an in depth description of their past processes, the researcher could better understand the participants' willingness to share information (based on Ciborra and Patriotta, 1998; Hansen, 1999; Empson, 2001). For the researcher, an important dimension of the willingness to share information is the real and perceived reward/risk from participating in such processes similar to studies by Hansen et al. (1999) and Hayes and Walsham (2000). According to the researcher, the type of knowledge required and accessed by the SME actors was particularly important as it determined the extent to which strong, embedded ties were needed. For example, Uzzi (1997) and Hansen (1999) argued for strong ties in the case of transfer of complex, tacit knowledge whereas weak ties promote the transfer of simple knowledge. Granovetter (1985) noted the benefit of weak ties for diversity of network knowledge. Similarly, Hardy et al. (2003:340), based on a longitudinal, qualitative study of the network relations developed by a Palestinian

voluntary organisation, found that collaborations that have high levels of involvement and high levels of embeddedness are positively associated with the creation of knowledge.

7.4.1.4 Access to Opportunity Dimension

As an intervention exercise, the participants mapped out opportunities that they felt they would like to achieve and matched it with the network actors that could potentially assist in their realisation. The motivation behind this intervention was twofold. Firstly, it assisted the researcher to comprehend what exactly constituted an opportunity in the eyes of the SME actors, that is, what the SMEs were lacking and what they felt was achievable through relationships. This intervention was based on the premise that although the strategic literature highlights that networks can be used to search for opportunities (see McEvily and Zaheer, 1999), it is less forthcoming in what constitutes an opportunity. Secondly, the process of matching opportunities with network actors' input facilitates the researcher in fully understanding the process through which SMEs either strive to, or attain opportunities through networks. The researcher also gauged, at this point, the types of opportunities that had arisen for the SMEs through their networks in the past.

For the access to opportunity dimension, measures included the participants' ability to use networks in accessing opportunities and the opportunities gained throughout the course of this study. Previous studies (Jarillo, 1986; 1988b) highlight that networks enable SMEs to access external resources, necessary in the pursuit of their opportunities. The aim of this intervention is to advance one step deeper to analyse the process through which such resources are attained.

7.4.1.5 Co-Adaptation Dimension

The concept of adaptations has been used extensively in the work of the IMP Group (Turnbull and Cunningham 1981; Håkansson 1982; McKee et al., 1989; Ford, 1990; Stoica and Schindehutte, 1999). The relationship strength required for adaptation has also been explored, for example, Kraatz (1998) examined weak

and strong ties among intercollegiate consortia finding that strong ties with other organisations in a network increase the probability of successful adaptation when facing environmental turbulence.

As an intervention exercise for the co-adaptation dimension of the relational capability construct, the participant SMEs discussed the process of past co-adaptation with the researcher. The participant actors outlined the key adaptations that they had made to their products/processes including price and packaging adaptations, adapting existing products for new or current customers (based on studies by Håkansson 1982; Turnbull & Valla 1986; Hallén et al., 1991) and adapting for foreign markets (see Wilkinson et al., 2000). The intervention also stemmed from an analysis of previous studies conducted by the IMP group and strategic management literature. That is, the intervention sought to examine whether co-adaptation was based on conscious joint decision making (Brennan and Turnbull, 1997), whether the participants were willing to make short term sacrifices for long term results (Dwyer, Schurr and OH, 1987; Anderson and Weitz, 1992; Moorman et al, 1992; Uzzi, 1997; Kratzer, 2007) and/or a willingness to invest in the adaptation process of network members (see Gundlach et al, 1995).

This intervention proved useful as a measurement technique as the researcher could accurately gauge the type of co-adaptation that the SME participants engaged in. The intervention also sought to determine the key network actors involved in the co-adaptation. Much previous IMP literature focuses on the role that customers play in the adaptation process (Ford, 1980). However, the aim of this study is to look at the co-adaptation process to describe the value of other network actors in the process. Additionally, the researcher sought to discover whether adaptations were proactive, reactive or interactive. This is an attempt to move beyond the literature which highlights natural co-adaptations that arise due to the continual interaction of parties in a relationship (Hallén et al., 1991; Brennan & Turnbull, 1997, 1999; Ford and McDowell, 1999; Ritter, 1999) or formal, planned adaptation through alliances which is prevalent in the strategic management literature. The SMEs, during this session, also brainstormed on possible future co-adaptation opportunities that they could make. Again, the type

of co-adaptations sought and the preferred actors/networks to adapt with were analysed.

7.4.1.6 Co-Innovation Dimension

Much research has focused on measuring the relationships between marketing orientation and innovation (Narver and Slater, 1990; Jaworski and Kohli, 1993; Deshpandé et al., 1993; Han et al., 1998; Tuomi, 2002). For example, findings by Salavou (2002), consistent with Pelham & Wilson (1999), suggest that marketing orientation and innovation in an SME context are highly interrelated. However, fewer empirical studies have focused on the role that networks and relationships play in SME innovation. The researcher, at this stage of the study, aimed to discover the means through which networks could facilitate SME innovation processes. For the co-innovation dimension, the researcher discussed each SME's innovation processes in detail in a bid to help them understand that it is not a process that they conduct alone. Through an analysis of such processes, it is hoped that the participants will be better posed to outline the process through which they can co-innovate in the future following this research study.

It is a much debated in the network literature whether, in networks for innovation, ties should be sparse and weak, to allow for variety, flexibility and low cost of exploration, as claimed in the thesis of the 'strength of weak ties', or should be 'cohesive', to facilitate trust and collaboration (Granovetter, 1973: Burt, 1992; Reagans & McEvily, 2003). On the one hand is the view that dense and strong ties allow for social control and facilitate the build-up of reputation, and social capital, in the form of trust and social norms, which facilitate collaboration (Coleman 1988). On the other hand, Granovetter (1973), in his famous article on 'the strength of weak ties', proposed that weak rather than strong ties are appropriate for access to new information. Through an in-depth analysis of the SME innovation process, the researcher aims to further shed light on the strength of weak/strong ties debate in the context of SME networks.

Much previous literature has focused on large firm innovation through networks. Technological innovation within networks has been researched qualitatively for larger corporations. For example, Shan et al., (1994) showed that cumulative cooperative ties with commercial firms that were established by 85 US biopharmaceutical start-ups between their foundation in 1983 and 1989 positively influenced their cumulated output (patents issued) over the same period. Baum et al., (2000) examined the performance implications of 142 biotechnology firms founded in Canada during the six-year period from January 1991 to December 1996. He found that innovative performance, reflected in start-ups' patenting and R&D spending growth, was most clearly and strongly influenced by their alliances. The stronger impact on innovation-related performance is consistent with the widely-held belief that networks form a locus of innovation in high-technology fields (Powell, et al., 1996). This is in line with the IMP literature which asserts that innovation is increasingly recognised as being the result of the combination of different knowledge and expertise that exist within different organisations (Johnsen and Ford, 2000).

Von Hippel (1988) found that in some industries, more than two-thirds of the innovations he studied could be traced back to a customer's initial suggestions or ideas. Von Hippel argued that a production network with superior knowledge-transfer mechanisms among users, suppliers, and manufacturers will be able to 'out innovate' production networks with less effective knowledge sharing routines. This study will also focus on the role of customers in the SME innovation process in addition to the contributions of value chain members as a whole. This is in keeping with research carried out by Takeuchi and Nonaka (1986), Womack et al. (1990), and Lamming (1993) which indicated that certain companies appear better able to explore and exploit the capabilities of not only individual suppliers but also a large part of the supply network as a whole. The researcher argues that this intervention and subsequent analysis is particularly relevant in an SME setting where actors are faced by the challenges of resource scarcity.

Field notes were written immediately following each of the seven sessions. As the participatory learning sessions were not recorded, the researcher took extensive

notes during the session. A member of the entrepreneurship team with whom each participant was familiar, attended each session to observe the participants and note their activity. Due to the level of recognition between the independent observer and each participant, it was clear that his presence did not impact on the actions and thoughts of the SMEs. The independent observer was very useful to the researcher as, following each session, he read and added to the researchers field notes and validated her key points.

7.4.2 Interviews

Interviews often represent a compromise between more structured and quantitative data-collection methods and in-depth qualitative methods such as those thus far described in this study. As an independent method, they were utilised in this study to strengthen the research validity and reliability. All interviews and sessions were conducted with the owner/managers themselves. This was deemed important by the researcher as, due to the nature of the exercise, they were the actors who could make immediate decisions within the company and were fully responsible for the organisations network activity.

Semi-structured interviews were utilised in this research both in the Finnish and Irish context with the aim of developing an understanding of the respondent's world (Easterby-Smith et al, 2002:87). Regarding the Finnish SMEs, each interview was conducted in Kuopio at the SME owner's premises. Due to the distance involved, the researcher made comprehensive preparations prior to the trip. She studied each SME's website and obtained detailed company information to understand the operations of each company. The researcher outlined a series of issues to be explored with each participant prior to interviewing (Patton, 1990:280). The reason for this was twofold. Firstly, the interpreter requested a list of possible questions to ensure that she fully understood the terminology which would be utilised throughout the interview. Additionally, the researcher wanted to ensure that each issue was covered in its totality and to ensure that the relevant data was gathered. An interview protocol was devised, the same as that employed in the Irish context. The interview protocol can be seen in Appendix 1. The question structure was loose, allowing for variations to emerge on a case-by-case

basis as the researcher was unaware of the level of understanding that the Finnish participants had in terms of their networks. All of the interviews were taped and transcribed immediately following the interviews. To ensure validity, the interpreter, who is a lecturer at the university, read the typed transcripts and researcher's comments and verified them.

From the Irish perspective, the same interview protocol was utilised and each participant was interviewed three times. The participants were interviewed on commencement of the programme. This served many purposes. It familiarised the participants with the researcher and gave the researcher an opportunity to discuss the nature of the study in more detail answering the many questions posed by the participants. It also allowed the researcher to discover their perceptions of networks and their current level of network activity centred on the six dimensions. The same protocol was utilised at the end of the research study to show how their perceptions had altered and how their level of relational capability across the six dimensions had changed. The participants were also interviewed both mid-way through and at the end of the action learning sessions. The aim of these interviews was to gain more in-depth knowledge of issues mentioned in the participatory learning session and similarly clarify issues discussed. Due to the evolutionary nature of the data collection and the participant specific issues which the researcher covered in the second and third interviews it was deemed suitable to follow an unstructured interview path. No interview protocol was devised and each interview varied in length. The overlap between data analysis and data collection was particularly useful at that point of the study. Regarding validity, following the second and third interviews with the participants, the researcher asked the participants to read their interview scripts to ensure that stories had not been misinterpreted or important facts omitted.

7.4.3 Documentation

Documents attained for the purpose of this study included company and product brochures, presentation materials, business plans, newspaper articles and company information on websites. This information was very important as the SME companies were diverse and for the most part highly specialised. Therefore,

reading such materials was imperative for a full understanding of their operations. This was particularly true in the case of the Finnish companies where access was limited due to distance. Ensuing from an analysis of the documentation, the researcher was in a position to view partner organisations as, for the most part, they were either directly or indirectly detailed on the Finnish actors websites. This gave the researcher an idea of the key relationships and networks of the SME owners prior to the commencement of the fieldwork. Post interviews, this information was analysed in conjunction with the interview and field notes to ensure consistency with the findings. The Finnish were considerably more open regarding such documentation than their Irish counterparts. They had presentations regarding their companies prepared for the researcher, in English, detailing the main aspects of their business plans.

7.5 Data Analysis

Data analysis consists of examining, categorising, tabulating, testing or otherwise recombining evidence to address proposition of a study (Yin, 2003:109). According to Eisenhardt (1989: 539) analysing data is the heart of building theory from case studies, however, analysing case study evidence is especially difficult because the strategies and techniques have not been well defined (Yin, 2003:109). Considering the ontological stance of this research, the ultimate goal of the analysis is to describe the finding in light of relational capabilities and its six dimensions through the process of analysis and interpretation.

7.5.1 Data Management and Coding

A striking feature of research to build theory from case studies is the frequent overlap of data analysis with data collection (Eisenhardt, 1989). Field notes, documentary sources and interview scripts were an important means of accomplishing this overlap for the purpose of this research study. Through regular review of the data, important issues raised by the SME owner/managers were identified. Reflective remarks and memos were inserted by the researcher to facilitate reflection and analytic insight and assisted the researcher in identifying themes, developing categories, and exploring similarities and differences in the

data, and relationships among them. Additionally, through overlap of data analysis with data collection and the freedom to make adjustments during the data collection process the researcher was in a position to clarify issues with the participants as the study progressed.

To facilitate the analysis process, the researcher was trained to use NVivo, a software package to facilitate the organisation and analysis of interview and action learning session data. The NVivo computer software programme was utilised in the research process as a support system to assist the managing and analysing of the large volume of complex data attained during the course of the study. The software programme assisted the researcher in separating the findings from the six dimensions which had a tendency to overlap. All documents, including transcripts, field notes and any other relevant written materials, were imported to NVivo software. These documents formed a document system providing the basis for the processing and maintenance of all documents where appropriate (Richards and Richards, 1994). Initial lists of codes/themes were developed based on the conceptual framework including the six relational capability constructs. Within NVivo, the programme then allowed all documentary text to be highlighted and coded at what is referred to as a “node”. Coding involved segmenting the combined data into units (Hammersley & Atkinson, 1983) and rearranging them into smaller groupings that facilitate insight, comparison, and the development of theory (Strauss & Corbin, 1990). Again, this was conducted by the researcher whereby the initial nodes were linked in tree-like structures allowing categories of data to be broken down into linked concepts or sub-categories.

Figure 7.3 demonstrates the developed category system illustrating the relationship between data collected and the dimensions of the relational capability construct. As can be seen in Figure 7.3, the six dimensions of relational capability represented the initial codes/nodes for this research. Through the continued data collection and analysis, key themes emerged within each dimension which can be seen in Figure 7.3. For example, within the realisation dimension participant awareness of networks as industrial structures emerged as a key theme, as did the recognition of key network contacts, the perceptions of the actors and the realisation of networks as distinct from networking. Within the assessment

dimension, the link between networks and strategy became apparent as did network expansion through both strong and weak ties. The type of knowledge sought and acquired through networks featured as an important theme within the access to knowledge dimension. Themes which emerged through the access to opportunity dimension centred on a classification of the type of opportunities sought by the participants. Funding emanated as a key opportunity sought by the SME actors as did export opportunities, the opportunity to collaborate with new actors and the process improvements through collaborating with key business stakeholders. Within the co-adaptation dimension, the SME owner/managers' preference for collaboration versus individualism, in addition to the types of adaptation sought, were important themes for the study. Additionally, the degree and form of support in the adaptation process and the strength of relationships with co-adaptation partners was highly important. As can be seen from Figure 7.3, similar themes emerged from the final dimension of the relational capability construct, that is, co-innovation.

Common themes appeared across each dimension of the relational capability construct. For example, barriers posed in the access/attainment of the dimensions were similar and related to the particular characteristics of 'small firms'. In the same vein, in terms of marketing, the link between networks and marketing became clear to the participants only after the second session. Finally, whilst trust, commitment, communication, reciprocity and embeddedness emerged as themes throughout the entire research process, their importance, relevance and necessity grew as the study progressed, as can be seen in Figure 7.3.

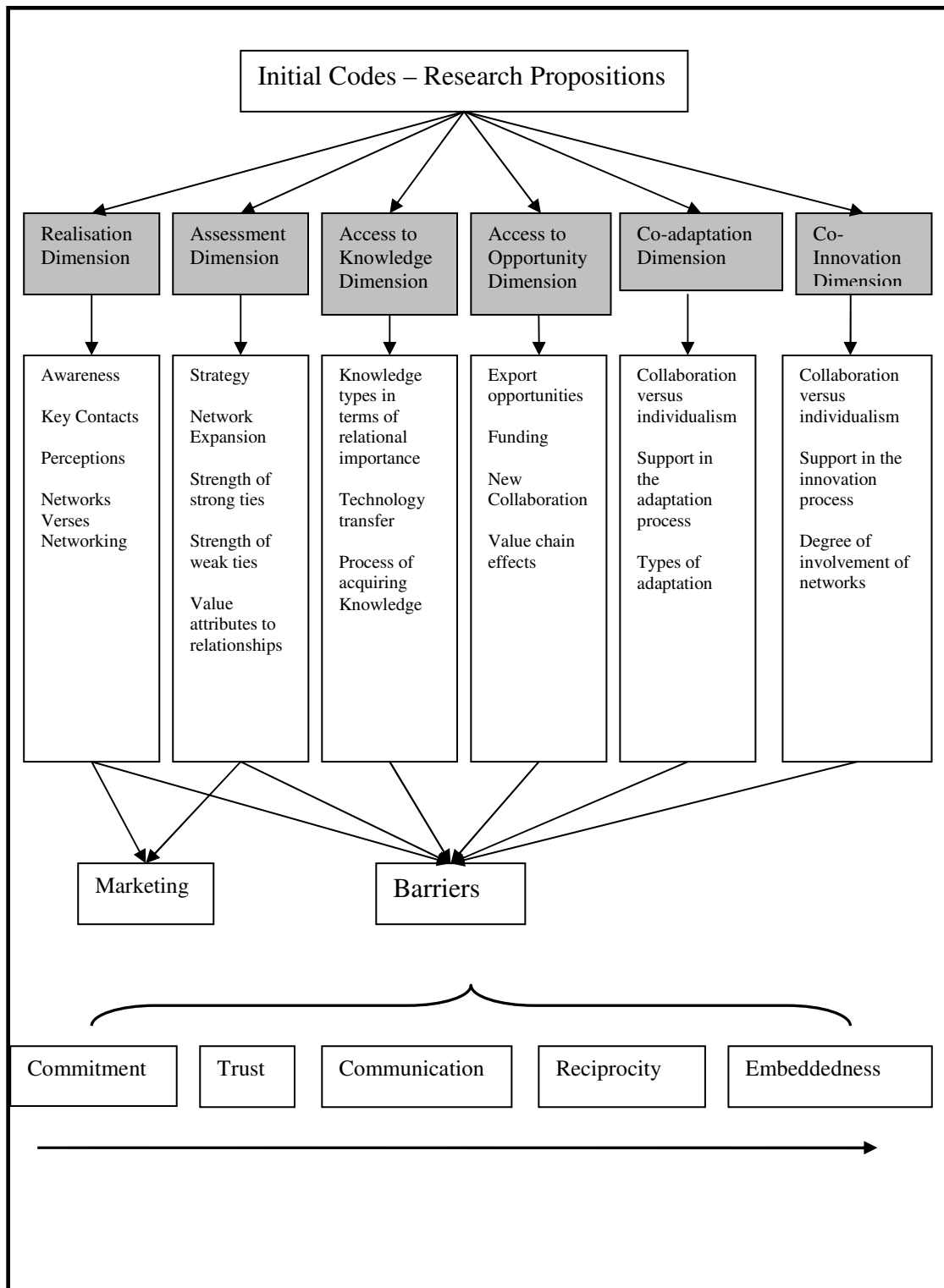


Figure 7.3 Analysis using NVivo Software
Source Author

Whilst managing and coding the data, the researcher simultaneously commenced her data analysis. In line with researchers such as Dey (1993) and Eisenhardt (1989), the researcher believed that being intimately familiar with each case as a stand-alone entity accelerates cross-case/country comparison. Each case was treated and analysed as an independent entity in the first instance and only after documenting each case fully, was cross-case/country analysis considered. As a result, as can be seen in Figure 7.4, the first layer of analysis considered each SME case, independent of the other actors in their outer networks and independent of the group sessions. Themes which emerged from this layer included each individual's attitude towards networks, the barriers that each company faced in operating within its networks and the perceived interconnectedness between networks and marketing.

From an Irish perspective, the semi-structured, in-depth interviews with the SME owners, in addition to the seven action orientated sessions, were considered the primary source of data for analysis (see Figure 7.1). From a Finnish perspective, the semi-structured, in-depth interviews with the SME owners were considered the primary source of data and were triangulated with the documentation to provide a fuller understanding of the six dimensions and hence the relational capability framework as a whole (Miles and Huberman, 1994). Organising the collected data in this manner provided an effective tool for extracting similarities and differences between individual companies, whilst highlighting patterns and themes across the cases (Pettigrew, 1985).

The second layer of analysis for this research was organised around the propositions, that is, the six dimensions of the relational capability construct. Although a within-case analysis was conducted for each SME, the second layer of analysis for this research, from an Irish perspective, aggregated the data gleaned from each intervention session. The researcher organised and analysed the information generated from each network session around the appropriate proposition, as recommended by Yin (1981). The data was further analysed separately both pre-intervention and post-intervention to gauge how the

researcher's actions altered over time (see Figure 7.4). Each Finnish case study was then analysed on a national level with the other seven Finnish cases. This allowed for country specific themes to emerge which differed significantly from the Irish context. This within-country analysis was deemed essential by the researcher as the methods utilised varied in each context. That is, the case study duration was very short in Finland and did not include a participatory action research element.

In terms of writing the analysis of this thesis, the researcher first described the findings from an Irish context. This was due to the fact that the Irish study was more detailed and in-depth, comprising six interventions, and hence seven learning sessions. As can be seen in Figure 7.4, the researcher analysed the group sessions around the six propositions and documented them in terms of pre-intervention and post-intervention. The Irish findings were then compared with the Finnish findings to reveal contextual commonalities and/or disparities.

An essential feature of theory building is a comparison of the emerging concepts, theory, or hypotheses with the extant literature (Eisenhardt, 1989: 544). Hence the final stage of analysing data in this research was to relate the findings to the research reviewed in Chapters 2-5 of this research study. From both an Irish and Finnish context the aim was to probe what was different, similar and why. This will assist in further understanding the concept of relational capability and seeing theory fit to practice; see how appropriate the six dimensions are and their usefulness in practice, seeing how the relational capability construct and the six dimensions fit with the theories underpinning this research including Social Exchange Theory and network theory and existing SME marketing theory.

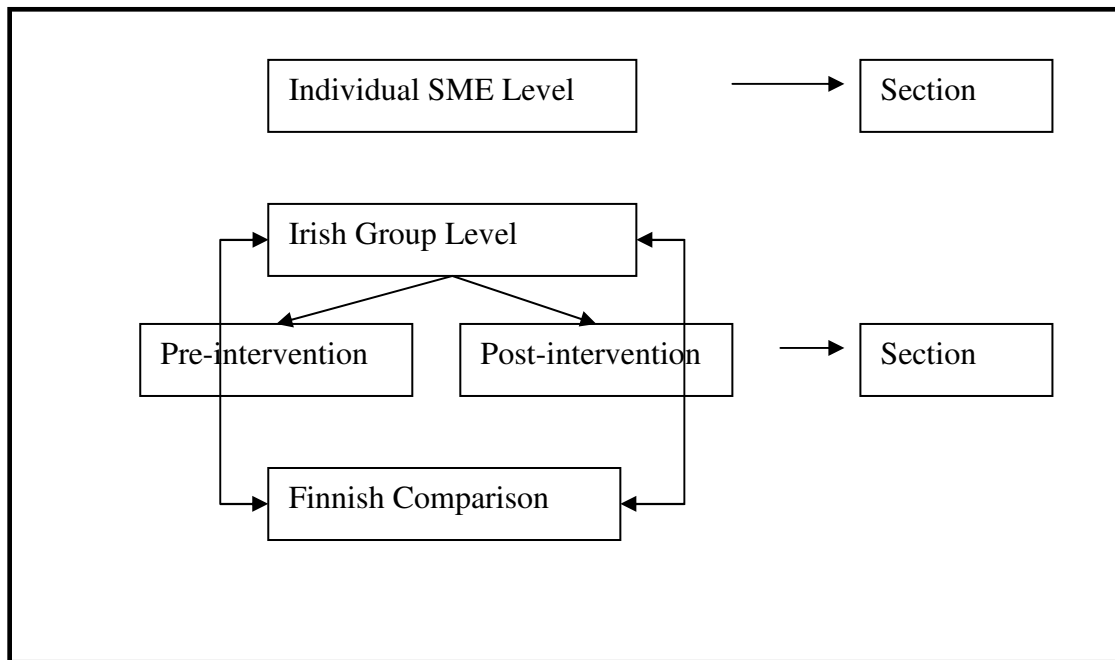


Figure 7.4 Layers of Research Analysis
Source Author

7.6 Participants' Profiles

As can be seen in Table 7.1 each Irish SME that engaged in this research study has less than 50 employees, with half having 10 or less. The participants were in operation for more than 3 years and operated in niche areas in which they had a specialist expertise. From an Irish perspective, the participants had previously engaged in an entrepreneurship programme, managed at Waterford Institute of Technology entitled the South East Enterprise Platform Programme (SEEPP). Each company had a knowledge-based, innovative business component with export potential, a third level qualification and several years of relevant workplace experience. The Irish participants operated within the business-to-business sector where they, for the most part, served few large customers. The sectors in which they operated varied, although they can be categorised as consumer goods, ICT, electronics or internationally traded services. Each participant was based within the South-East of Ireland.

Participants	Turnover	Number of Full/Part-time Employees	Industry Sector	Educational Background	Number of Years in Business
SME A	€2M	7/6	Consumer Goods	Degree	3
SME B	€400K	2/5	ICT	Degree	3
SME C	€2.2M	12/4	Consumer Goods	Masters Degree	9
SME D	€550K	4/6	ICT	Degree	5
SME E	€1.5M	4/10	Electronics	Degree	4
SME F	€700K	7/12	Internationally Traded Services	Degree	7
SME G	€300K	2	Internationally Traded Services	Degree	4
SME H	€550K	3/4	ICT	Degree	5

Table 7.1 Irish Participants' Profiles
Source Author

Each Finnish SME that participated in this research study has less than 50 employees (Table 7.2). The researcher strived to ensure that the Finnish SMEs were closely related to the Irish for comparison purposes, and the Finnish participants also had links with their local universities, either the University of Koupio or the University of Savonia. They operated in similar sectors to the Irish SMEs inclusive of consumer goods, traded service and ICT and were primarily serving the industrial sector with their goods/services. The SMEs were in operation for at least three years with many years of experience in their given field prior to embarking on their own venture. As can be seen in Table 7.2, SME 3 and 5, as family operated enterprises, have been in operation for more than thirty years. However, they have operated under current management for less than 10 years.

Participants	Turnover	Number of Full/Part-time Employees	Industry Sector	Educational Background	Number of Years in Business
SME 1	€1.7M	7/8	Internationally Traded Services	Masters Degree	3
SME 2	€1.2M	5/12	ICT	Masters Degree	4
SME 3	€3M	18	Locally Traded Services	Degree	37
SME 4	€3M	14	Consumer Goods	Degree	7
SME 5	€3M	16	Consumer Goods	Masters Degree	47
SME 6	€450K	3/4	Locally Traded Services	Masters Degree	6
SME 7	€1.4M	5/7	Locally Traded Services	Degree	5
SME 8	€750K	3/9	Consumer Goods	None	9

Table 7.2 Finnish Participants' Profiles
Source Author

7.7 Research Reliability

The goal of reliability is to minimise the errors and biases (Yin, 2003:37). This section of the thesis details the several proactive steps taken by the researcher to actively combat the popular attacks on the validity and reliability of case studies. Table 7.3 and the subsequent subsections, outline the core tests for objectivity, reliability, external validity and internal validity in addition to the core methods taken to alleviate them.

7.7.1 Internal Validity

Internal validity, or credibility, refers to the establishment of a phenomenon in a credible way (Lincoln and Guba, 1985). In terms of internal validity, the researcher clearly argued that this study was situated in the interpretive paradigm due to its ontological, epistemological and methodological stance (Chapter 6). Social exchange theory, due to its focus on the embeddedness of ties and

reciprocity, was selected as the theoretical lens through which to view relational capability construct inclusive of its six dimensions. In the process of collecting and analysing data, the triangulation technique was used to enhance the credibility of the research findings (see Figure 7.1). Multiple data collection techniques, data sources, procedures and strategies were in place, each yielding consistent results. According to Cohen and Manion (1986: 254), in social sciences triangulation:

... attempts to map out, or explain more fully, the richness and complexity of human behaviour by studying it from more than one standpoint.

In qualitative research, triangulation aims to enhance the credibility and validity of the results. Altrichter et al. (1996: 117) say that:

It [triangulation] gives a more detailed and balanced picture of the situation.

In-depth interviews, together with documentation and intervention session data were analysed at multiple levels (see section 7.5.3). Each case was analysed as a stand-alone entity, at a group level in addition to a cross cultural level.

7.7.2 External Validity

External validity, or transferability, refers to examining how applicable the research findings are to another setting or group (Lincoln and Guba, 1985). In this case, the application of multiple case studies offered a base for generalising. Although the SME participants differed in their industrial area and length of time in business yet common themes emerged between them. The researcher achieved transferability in her research design through an in-depth description of the interventions utilised (see section 7.4.1) and through the use of an interview protocol (see section 7.4.2). As this research is cross-national, cross-case analysis within one country was conducted first (Ireland) as the base for within-country analysis before cross-country analysis was conducted with Finland (Miles and Huberman, 1994). External validity was also enhanced through providing a thick description of each SME case and developing a case study data base using NVivo software. Procedures for coding were undertaken and documented in NVivo and

are outlined in Figure 7.3. Data generation was compared with the literature chapter to highlight similarities and differences with previous empirical studies.

7.7.3 Reliability

Reliability is concerned with consistency in the research. To ensure reliability, each interview in Finnish context involved two researchers, and an independent observer was present for each Irish intervention session. Interviews were taped and transcribed allowing the interviewer to concentrate solely on what was being said, rather than being continuously distracted by note-taking. In this manner, the researcher was in a position to further probe areas of interest, and uncover the process of SME networks. This was also facilitated by the open ended interview instrument and flexibility in the action research sessions.

7.7.4 Objectivity

Objectivity or conformability relates to the neutrality of the research (Lincoln and Guba, 1985). In recognising that the researcher, due to her epistemological stance, cannot totally eliminate her bias, adopted strategies to provide a balance for bias in her data analysis and interpretation. The use of both multiple case studies and multiple investigators enhance the objectivity of this research. Within an Irish context, during the analysis phase, findings were discussed with some members of the action learning networks. Additionally, the independent observer followed the trail of evidence established by the researcher during the data collection and analysis phases of the research study. From a Finnish perspective, interview scripts and memos were sent to the interpreter for review to ensure conformability.

Tests	Methods Employed	Phase of research in which tactic occurs
Internal validity (Credibility)	Researcher's assumptions, worldview and theoretical orientation Triangulation	Research design Data collection and data analysis.
External validity (Transferability)	Predetermined questions. <ul style="list-style-type: none"> • Set Interventions • Interview protocol Cross-case analysis and cross- country analysis Specific procedure of coding and analysis Compare evidence with the related literature	Research design Data analysis Data analysis Discussion
Reliability (Dependability)	Semi-structured interviews Develop case study data base	Data collection Data collection
Objectivity (Conformability)	Use multiple sources of evidence Establish trail of evidence Key informant review	Data collection Data collection Data analysis

Table 7.3 Interview case study tactics for internal validity, external validity, reliability and objectivity

Source: Based on Eisenhardt (1989, Linlcon and Guba (1985), Merriam (1988), Miles and Huberman (1994), Patton (1990), Yin (1994)

7.8 Research Considerations

Some ethical issues were prevalent which included respect for research participants, prevention of harm, assurances of confidentiality or anonymity, and maintenance of privacy. In the case of this research, participant consent was both negotiated and evolutionary, that is, consent was sought before and during the study rather than agreed as a one-off contractual event prior to commencement of the research. The researcher agreed to ensure that company turnover and identity were not documented in this study, issues which bore no relevance to the study at hand.

A further research consideration for the researcher was to ensure a balance in the learning sessions to ensure that the material was neither too theoretical, hindering participant understanding, nor too practical thus not contributing to scientific knowledge. Setting the balance between participation and observation in the learning was also a difficult task. However, it emerged that the SME actors, in a sense, controlled the researcher's level of participation and observation. This was due to the fact that, at times, they requested certain information from the

researcher to clarify issues surrounding the meaning of concepts which emerged in the group sessions.

In analysing networks, researchers must be aware of the effects that actors, outside of the control setting, will have on the findings. To this end, the researcher ensured that she had a full and accurate perception of the events as described by the participant SMEs. Within an Irish context this was facilitated by the second and third interviews, as described in Section 7.4.2. In Finland, due to distance, such issues were clarified via e-mail. For example, as can be seen from the analysis in Chapter 8; certain events, decisions, actions, or thoughts were described by the participant actors in relation to their networks. These events, due to the network focus of the study, for the most part included an input from other actors that were not part of the study. Other stakeholders had an indirect impact on this study and are described in the analysis chapter from a macro level (including government agencies), group level (the SMEs in the network), and participant network level (including members of each participant's network).

7.9 Conclusion

This chapter describes in detail the primary research approach used to guide the study. Justification for the research approach is presented at the start of the chapter along with case study selection process and criteria. Eight SME companies were selected by the researcher, from both Ireland and Finland for analysis, whereby each SME represented an individual case study. Case study methods, as discussed in Chapter 6, were deemed appropriate to gain in-depth understanding replete with meaning for the subject, focusing on process rather than outcome, on discovery rather than confirmation. Multiple qualitative data collection methods were selected to be applied in each case setting. Each applied research techniques utilised for this study was governed by the researcher's ontological, epistemological and methodological preferences as described in Chapter 6. As detailed in Figure 7.1, from Irish perspective semi-structured in-depth interviews, participatory action research and documentation informed the research whereas the Finnish study comprised documentation and semi-structured interviews. Six interventions were devised and described in this chapter for the

seven action learning sessions. The approach taken in data analysis, data management and coding are presented including themes which appeared across each dimension of the relational capability construct. Each theme is further explored and analysed in the following chapter in line with the layers of analysis as depicted in Figure 7.4.

DATA ANALYSIS AND FINDINGS

Chapter 8 Data Analysis and Findings

8.1 Introduction

Chapter 7 detailed the means through which data was collected for analysis for this research. This chapter provides an analysis of the data accumulated during the research period and is organised around the six dimensions of the relational capability construct. As depicted in Figure 8.1, the Irish findings were aggregately analysed on a pre-intervention and post-intervention basis prior to a comparison with the collective Finnish findings. Chapter 7 explained that many different layers of analysis are present when analysing networks studies. To this end relationship links are described at an individual level (the participants' networks) a group level (the SMEs involved in the participatory learning sessions) and a macro level (the participants' links with state agencies).

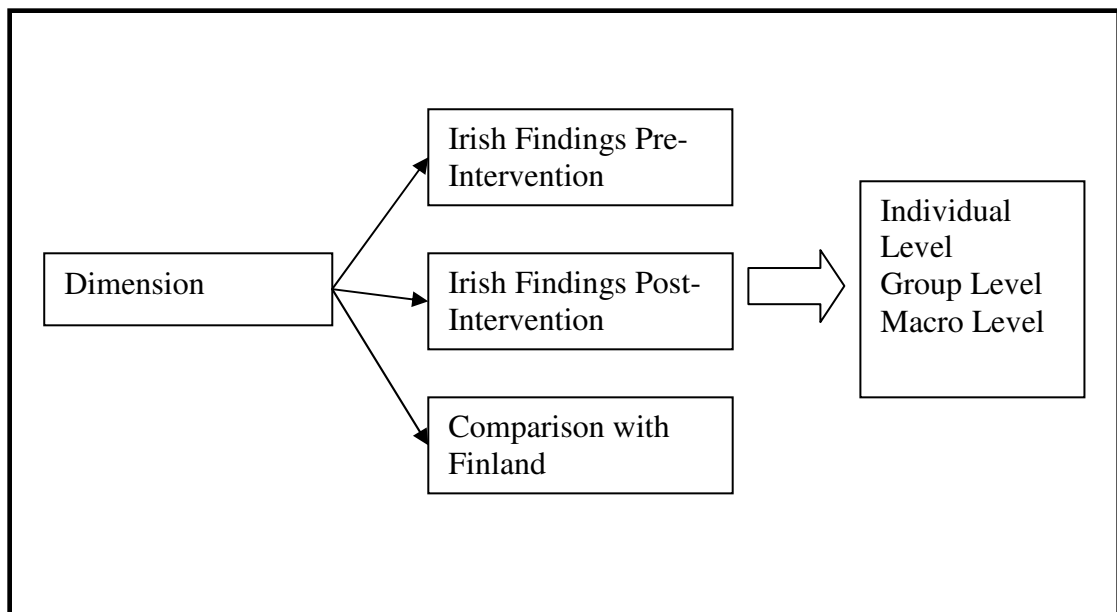


Figure 8.1
Source

Analysis Structure
Author

8.2 Realisation Dimension

Proposition 1 **SMEs must realise that they are part of a web of networks that can enhance their marketing efforts.**

This proposition argues that in order to fully benefit from networks in terms of marketing, SMEs must realise firstly what networks are. Following this, they must understand the web of relationships that exist for each SME, their position within such relationships and finally how SME networks can be used to facilitate marketing. Through analysis of the initial interview transcripts and the first participatory action learning session two key themes emerged, informing the researcher that low realisation existed from an Irish perspective. The first theme, networks as social structures, highlights that the Irish participants view networks primarily as friendship-based personal ties which may or may not have an effect on their business and networks. This statement is based on an analysis of the fundamental indicators which ensued from an examination of the conditions within networks that the SME owner/managers noted were favourable to operate. The second theme, networks as a vehicle for sales, emerged through a description of the value that the SMEs recognised as issuing from their networks. Post-intervention Irish participants' realisation was enhanced altering their view with regards to the key players in their networks (see Figure 8.2) with value chain member taking the place of friendship ties at the top of the hierarchy. However, the pre-intervention themes were still prevalent in the SME's discussion concerning their relationships with customers, suppliers and competitors.

8.2.1 Pre-intervention

8.2.1.1 Networks as Social Structures

On an individual SME level, each Irish SME participant acknowledged that they operate within networks, leading the researcher to believe that realisation was high. However, on closer analysis, it was revealed that there remained a need to enrich their comprehension of the subject as common misconceptions of the

nature and dynamics of networks were held by the majority of participants. As can be seen in Figure 8.2, networks, for most, were viewed through a social lens comprising informal discussions with friends, family members and business people in a social setting. Aware that they were embedded in relationships, the types of interdependency that tied the individual actors together were based on kinship and friendship. The concept of networks as depicted by the IMP group of research was unfamiliar to the group, with the terms 'networks' and 'networking' being used interchangeably. Furthermore, dyadic relationships and networks were viewed synonymously. While discussing networks, the SME owner/managers were in fact describing one-to-one relationships and interactions with individuals. The participants were unable to detail the thread binding various actors or groups of actors together.

From a group viewpoint during the sessions, the participants outlined indicators favourable to networks which further highlighted their stance of networks as a predominantly social phenomenon. Many associated network success with age. The perception is that the older and more experienced you are in the business world, the more advanced your network connections will be. This point was based on the premise that older actors would have crossed paths with more individuals and had more meetings, both formal and chance, with fellow business people. Similarly, according to the actors, the more ties, both weak and strong, which have been forged, the better their network connections, with little regard to the purpose or value of these ties. They remarked that the wider the distribution of business cards the more opportune, identifying the fundamental goal at trade fairs and conferences is to hand out their business cards to as many people in the room as possible. Yet little value was placed on determining whether the recipient could potentially benefit from or be of benefit to the SME. The participants also noted that unless there was a sales motivation, they rarely followed up on acquaintances made at such events.

Another favourable indicator isolated by the group was the belief that the more sociable you are the better you are within 'networks'. Being capable of working a room to your advantage was recognised as an important business tool with one member of the group being heralded a 'natural'. This participant attended many

events, extensively distributing his business information and cards. Interestingly, within the setting, this particular individual had the smallest proportion of sales and the only SME who could not define his target market or members of his value chain. A second declared himself “hopeless with networks”, stating that he is shy by nature and has difficulty making his presence felt at conferences and events. However, it evolved that he is excellent with online networks and maintains virtual communication with all his contacts. Given that his business deals in highly specialised computer equipment and that his networks are all internationally based, this is, coincidentally and fortunately, probably the most effective means for him to create and maintain networks. As was noted regarding this participant by SME A:

You have to fish where the fish are. If your world is global, network online.

During a discussion concerning the view that the Americans are more open and long-term in their vision of networks and more successful in their network operation, the Irish participants further illustrated their view of networks as a social phenomenon. They maintained that the difference lay in the Irish culture of constantly seeking prompt returns on their network and relationship investments rather than nurturing and sustaining connections over time. According to SME H:

On a trip to America a few years ago I was taken to a Rotary Club meeting. I was made feel completely welcome and at home at the meeting and was included in the conversation at all times. Then last year, as I was walking down Patrick Street in Cork on a Sunday morning, the guy who brought me to the meeting called for a chat. He said that I had just popped into his head and he was wondering how I was getting on. Definitely, once you attend a meeting or join in on a network in the States they never let you go.

The dominant opinion was that Americans are more successful at social networking than the Irish. The Irish find it more difficult to discuss their business issues and converse freely in a network setting or equally to regularly attend network events. As stated by SME G:

In America, we are more passionate about our networks. We join many formal networks similar to the Chamber of Commerce in Ireland and meet regularly. In addition, I think that we are more open to taking calls from strangers referred to by people in our networks. In my opinion using networks to build trusted relationships and develop advocates is far more productive than using networks to gain customers.

8.2.1.2 Networks as a Vehicle for Sales

When attributing the importance of networks to SME marketing, the participants discussed the importance of networks as a vehicle for sales more than as a means to conduct or enhance their relationship marketing. In terms of the proposition this illustrated that the participants:

- a) had a low realisation of networks
- b) held a narrow focus in relation to marketing, thinking merely in terms of potential sales
- c) had a short term view of networks
- d) often viewed sales and marketing as the same construct.

The main driver of their networks is not in building an interconnected web of long-term relationships but in trying to use potential network members to increase their sales in the short-term. Furthermore, a misunderstanding exists regarding the dimensions of relationship marketing and networks, a point demonstrated by the fact that a large portion of the session was dedicated to discussing how to avoid the potential negative effects of referrals.

The value of networks as a vehicle for referrals was examined and agreed that “an enquiry followed by a referral from a network contact is an easy sale”. The participants realised the importance of building relationships to ensure customer loyalty and retention noting that if customers are satisfied with the service they receive they may endorse you within their wider networks of suppliers, customers and friends. They were, however, more sceptical about third party referrals as some had had negative experiences in this area. Word-of-mouth, channelled by networks, emerged as a powerful marketing tool to facilitate sales. As an

example, participant H mentioned that he had taken out an advertisement in the Golden Pages for €10,000. From ensuing conversations with customers he knew that very few had come to him through the advert. He believed that he generated business because he provided for a small niche market, covering a small geographical area and that word-of-mouth primarily led customers to him. Similarly, the participants highlighted the use of network contacts in a bid to attain customers through 'name dropping', further proving their view of networks as a social occurrence. While 'name dropping' was perceived as yielding both positive and negative outcomes, it was clearly understood as an important tenet of networks.

Online social networking sites were highlighted as a means through which marketing can be conducted through networks. Participant B stated:

When I launched my software based product, I sent a demonstration as far and wide as I could through online network software such as 'Facebook' and 'Linkedin'. Results have been positive in that a large number of people have tested our product. However it is too early to gauge exact figures.

Utilising such websites cannot be considered network activity as they have a short term focus with little two-way communication. The participant had no relationship with the majority of individuals that received the trial product and was not contacted by them again. Therefore, he could not initiate a discussion regarding the merits of the product, and could not trust feedback as he was unsure of its source.

A further discussion of networks in terms of favours indicated that the participants primarily contact people with whom they have a needs-based relationship. For example, one participant recounted how recently a phone call to a business associate was answered by "what do you want"? Another participant interjected that this was not necessarily a negative response. He continued that, from experience, "people who react like that are usually 'like-minded individuals' and you know that you will get a call from them at some stage looking for the favour, whatever it may be, to be returned". The participants also explained how they

strive to gain from every meeting and/or phone call that they make or receive. For example SME D said:

A company related to mine called me with a query last week. I was on the phone to the individual for nearly two hours but I can definitely say that although they called me looking for information I gained much more information from the conversation. It was actually more beneficial to me than to them.

Viewing networks through such means proves that the participants are still understanding networks as one-to-one dyadic relationships. Moreover, the interactions described are discrete actions, not linked in any way to other interactions and are generally on a ‘once-off’ basis. They do not show long-term collaborative communication or coordination between the actors. No reciprocity exists, although some did mention that favours are often ‘called in’. Again, such interactions are based on friendships and social ties as key stakeholders in the business could not be called on a needs basis for favours.

8.2.2 Post Intervention

Post-intervention, realisation was enhanced. As can be seen from Figure 8.2, the SME participants began to view networks as relationships within the value chain. However, it emerged that trust and the willingness to cooperate were limited, hindering the attainment of network benefits. Furthermore, only one SME owner/manager completed the intervention exercise which involved a discussion of his main customer network. He explained to the group how he manages and nurtures his relationships in a bid to extend his customer base. Another participant (SME D) expressed the fact that until that very moment he had no idea what the “network idea” was about. He felt the intervention task was difficult as he previously considered networks as a “by the way” activity, not something that could be graphically depicted or described. He spoke in terms of his international supply chain network, how it operates, and how by considering it as a set of connected relationship he can improve his management of it. This demonstrates that the owner/managers were learning from each other and, as such, benefiting from the action orientated methodology as set out by the researcher.

The discussion with the participants, post-intervention, paradoxically highlighted realisation and lack of realisation simultaneously. Key themes which emerged centred on their realisation with regard to the formal networks to which they are affiliated. However, such ties are beneficial as a one way stream and as such did not reflect the embedded, reciprocal and deep relationships that the proposition suggests. Another theme dealt with the perceived enabling and hindering factors associated with ‘being small’ when developing networks.

8.2.2.1 Formal Networks (Macro Level Analysis)

The participants at this point realised the role that formal networks played in their business growth. Six out of the eight participants originally commenced their business through affiliation with the same larger organisation. The members stated that they approached Enterprise Ireland seeking financial assistance and were redirected from there to SEBIC (South East Business & Innovation Centre). The SEBIC team worked with their business ideas for several months and then directed them to Waterford Institute of Technology to apply for an Enterprise Platform Programme. When they were interviewed for the programme and subsequent funding, the Enterprise Ireland contact was one of the interviewees, which they felt assisted their acceptance onto the programme.

Regarding formal networks, mentors from the above academic programmes emerged as key dyadic network contacts as trust exists in a long-term relationship. Mentors were intimately familiar with the running of operations and the industry and, as a result, their advice was dependable as they were perceived as having no “hidden agenda”. One participant (SME C) also felt that his mentor was responsible for much of his network activity. He felt that as a key business person in the area, his mentor always knew who should be contacted to fulfil certain activities and made the connection on his behalf. Another concurred with this (SME A), stating that his mentor, as a manager of a large local organisation is widely known and is constantly introducing him to people that can assist him in his venture. He commented that:

My mentor can work a room well and has no hesitation in introducing himself to anyone. That is a skill that I would like to have and that I am aiming to improve through the course of these sessions.

Again, the above comments show that there remains, to a certain extent, a tendency for the SMEs to discuss their networks in terms of social activities or of meeting people on a need basis. Also, they have yet to describe a relationship that extends beyond two people which are reciprocal in nature.

8.2.2.2 The ‘Smallness’ Effect

The participants argued for power as an important tenet of networks favouring large firms. The industrial view of networks, in their eyes, was solely related to power at a firm level. From a firm level perspective, the participants stated that networks have no relevance to SMEs as they do not have the financial and human mass to support them. Their point was that networks are more beneficial to large firms as not only do they have more employees but equally have more weight in the form of shareholders. One participant (SME A) explained further detailing the case of a former employment in a firm which manufactured a product that was rejected by small shops and supermarket chains alike because so many competing products existed. Following a few months of negotiations and arguments, the product was accepted due to the fact that the many thousand employees and shareholders refused to enter these premises until they saw the product on the shelves. Nonetheless, the participants were aware that they had many advantages over their larger counterparts in terms of building relationships with stakeholders in their business. They recognised the value of their communication skills and visibility as head of their organisations agreeing that “it is all about getting yourself out there” (SME H). They communicate their product offerings as extensively as possible and feel that this form of interaction is the impetus for others to initiate relationships with them. Product and industrial knowledge were also factors that the participant realised could positively affect their networks activity. In small business, their view was that specialist expertise in their industry was more beneficial than specialised expertise in a business discipline, especially in terms of networks (SME E).

Communication skills are of little value unless you are comfortable with the area you are discussing.

It was noted that in order to build relationships in a business-to-business setting you have to be able to discuss your offerings and potential future offerings with stakeholders. Immediate decisions and quick quotations need a degree of accuracy and problems need to be solved with urgency in order to retain customers.

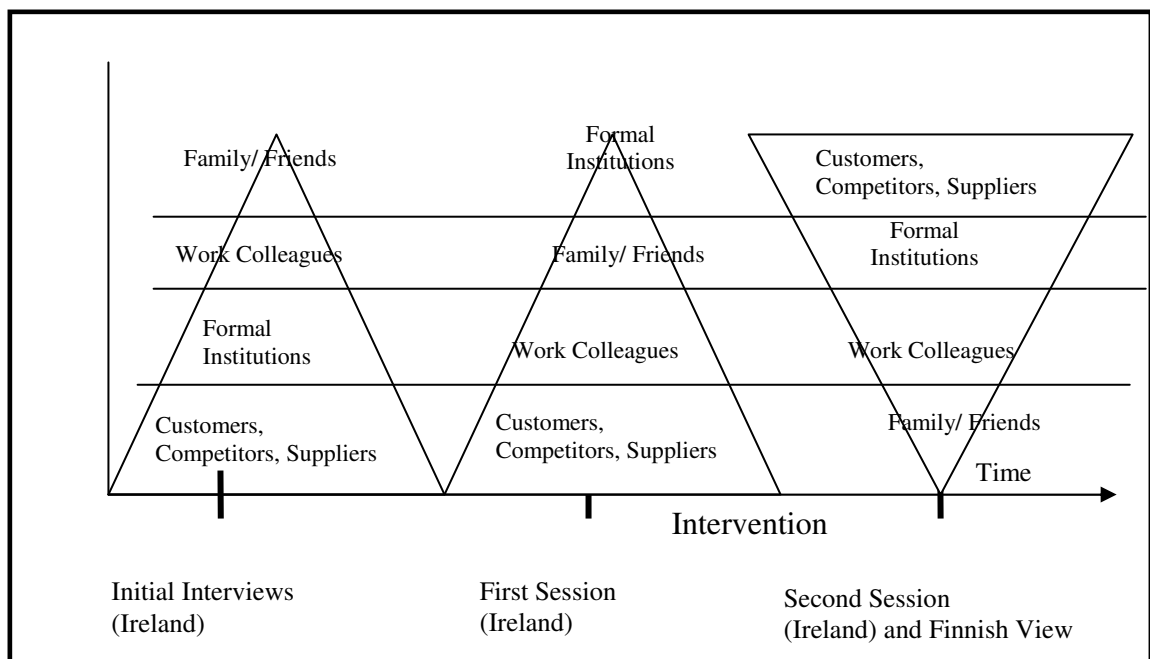


Figure 8.2 Hierarchy of relationships
Source Author

8.2.3 Cross Comparison with Finland

A cross case comparison of the key themes of the realisation dimension can be seen in Table 8.1. The Finnish SME participants had a high realisation capability viewing the term 'network' in an industrial sense as depicted by the IMP group of researchers. Networks were discussed as a means to facilitate their day-to-day and long-term strategic operations with individual actors enhancing their offerings. According to SME 6:

Networks are very important for all business sectors. Although the idea of networks is relatively new in Finland, maybe 15 years old, all companies now embrace networks and accept the value and possibilities that can emanate from and through them.

High realisation was evident through a description of the reciprocal benefits that they attributed to building strong, long-term connections with suppliers, distributors, competitors and other network actors such as the facilitation of smooth value chain operations and the co-development of product prototypes. However, similar to the Irish participants, relationships were discussed as dyadic structures involving two nodes or in some cases a series of processes with two nodes at each stage of the process. Personal contact networks were also discussed by the Finnish participants. However, a key differentiation was that the focus of the relationships was industrial as opposed to social in nature. For example, the participants discussed personal ties with former colleagues and other SME owner/managers and the pertinent information that had stemmed through such rapports. Thus, it seems that the importance of personal contact networks is linked to the experience that the SME owner has within the given field prior to the inception of their own businesses.

The Finnish participants had a more positive attitude towards networks than their Irish counterparts. This was evident from their immediate willingness to participate with the researcher whereas it took two months to recruit the Irish actors for the study. This can be partially attributed to their high level of realisation capability. They were aware of past gains achieved through networks and wished to build on this and continue to benefit in the future. Networks, for the Finnish participants, are an accepted, conventional means through which business activities are conducted. Additionally, they have a non-competitive attitude towards their business which enhances the potential of their networks. They are all willing to cooperate and communicate with each other in order to conduct both their day-to-day and long-term activities more effectively. Coordination of activities is seen as an enhancer rather than a threat.

In comparison the author feels that the Irish view of networks as a social relations phenomenon contributed to their negative attitude which in turn had an impact on

both their realisation and their non-completion of the intervention exercise. As a case in point one Irish participant (SME C) had a very negative attitude towards networks stating “it was a pompous and arrogant thing to do”. The SME owner was clearly thinking in terms of social networks based on favours as his marketing efforts relied on trade fair and conference attendance to make important connections that could be nurtured overtime to assist in his business venture. Another argued that networks as the researcher presented them are unrealistic (SME A). He said that 95% of networks are informal. He furthered the point challenging previous episodes by asking “how did you know the people you contacted for assistance?” Some participants answered “through personal relationships originally”. However, more than half argued that they felt their main network contacts were their customers and suppliers. Clearly the Irish participants were looking at networks in terms of their own potential benefits as opposed to the joint opportunities for improvement view held by the Finnish.

The Finnish participant SMEs’ attitude towards growth has an impact on their attitudes towards networks. Nearly half of the participants are currently seeking out partners for their business in a bid for rapid growth. SME 2 noted:

We are looking for more cooperation with larger companies. We want our company to grow quickly and we cannot do it alone.

Although not always sales related, regarding networks, the researcher remarked that each Finnish relationship was goal orientated and had a purpose. In addition the participants did mention important elements contingent on their positive attitude towards networks such as trust, reliance, and commitment. Trust was a major source of differentiation between the two contexts effecting realisation. The Irish SME participants have very strong, firm boundaries in place, whereby relationships with the outside world are limited by a fear that they may lose business to competitors. As such, relations with competitors are limited although each strives to discover the operations of their competitors from a distance. A significant potential barrier to the realisation process is the independent mentality of the selected participants which needs to be overcome in order to progress and

utilise their networks to benefit their marketing. Conversely, the Finnish participants operated in a more open way facilitating cooperation with partners.

	Ireland	Finland
Realisation	Low	High
Network Focus	Social	Industrial
Relationship Duration	Short-term	Long-term
Key Relationships	Friendship/Kinship	Value Chain Members, Academic Institutes
Benefits	Referrals, Word-of-Mouth	Joint business procedures
Networks/ Marketing link	Sales, Referrals	Word-of-Mouth
Trust	Weak, with strong, firm boundaries	Strong and more transparent operations
Attitude	Negative	Positive

Table 8.1 A comparison of key realisation findings between Finland and Ireland
Source Author

Some commonalities and disparities existed between the Irish and Finnish context in relation to the realisation dimension. As this study links industrial networks with SME marketing, an important tenet of the dimension is the extent to which the SMEs realised the connection between the two constructs. All of the SME participants who engaged in this study, save one, noted that they conduct their marketing through relationships with others in a network context or extended networks through word-of-mouth. They associated word-of-mouth with networks and viewed them as a powerful marketing tool. However, the Finnish participants did not actively seek referrals preferring to choose more carefully selected agents and distributors for their products and services. They do not allow themselves to be exposed to the reputation risks associated with name dropping and blind referrals.

In terms of being small, the Finnish participants also recognised the importance of building links with a larger network contact in order to make their operations more

credible. They recognised that through affiliation and piggybacking on the reputation of regulating bodies, universities and other such important connections they could enhance their own.

Early on in the company's life we realised that in order to be credible and competitive in the field, a rapport with the professionals from universities, research centres, and relevant user agencies was necessary. (SME 1)

The Finnish SMEs recognised ties with academic institutes as a route to new links with customers and potential partners. The Finnish noted that they rely on the university and the networks within them for the marketing of their products. For example, The Innovative Magnet project brings large and small companies together at the Teknia Science Park to facilitate the introduction of the small companies to the large companies with the intent of the former selling their products or services to the latter.

Last week, I met a company in the science park at Kuopio through the Magnet project. The company has a turnover of over €8 billion and has 22,000 workers. They were interested in our company's services and I'm hopeful that I will meet them in the future and potentially operate with them. (SME 2)

Conversely, the Irish participants spoke in terms of 'keeping in' and being 'known' by academic institutes and government agencies. Their motivation in this regard was to ensure the attainment of future funding and training opportunities offered by the organisation.

The researcher believes that the differences in the level of realisation between Ireland and Finland can be attributed to the strong links that the Finnish participants have with universities (macro level ties). Through close collaboration with academic institutes throughout the many stages of their business development, the Finnish participants have fostered a culture of collaboration and communication. The benefits attributed to having close, embedded ties have been made visible to them and have acted as a core lesson in subsequent relationships and networks.

8.3

Assessment Dimension

Proposition 2 **SMEs must proactively manage their networks to allocate time based on usefulness, strengthen worthwhile bonds, realise the benefit of weak ties, and expand their networks.**

According to the researcher, the assessment capability refers to the process by which SMEs create, use and maintain relationships with relevant market actors, their ability to interact with other SMEs and their capacity to expand/disband their networks as relevant. At this point in the study, the participants had an acceptable understanding of networks as depicted by the IMP group of researchers. In recognising that it might be a viable strategy to proactively manage their networks, they noted that they lacked the time to assess and manage their relationships. The current study argues that in order to manage and assess networks, it is essential that the SME owners acquire the skill to attribute worth to their relationships. The value that they ascribed to network contacts and what they hope to achieve through networks is an important theme. This interrelates to proposition one, as to assess their networks they must realise who comprises them. Additionally, the relational capability construct dimension is dependent on the participants' ability to look beyond their own networks into the relationships and networks of others and to expand their networks accordingly. This process is depicted graphically below in Figure 8.3 in terms of SME 1. What this means is that, in addition to viewing their own networks comprising customers (A, B, D) distributors (A, B) and other SMEs (2), they could potentially look at relationships through the eyes of their networks' members. With the capability to assess networks in this manner they could reposition themselves to gain access to new networks through their existing ties (customer A or customer B) reaching the network comprising SME 3 and Customer E as denoted by the red line.

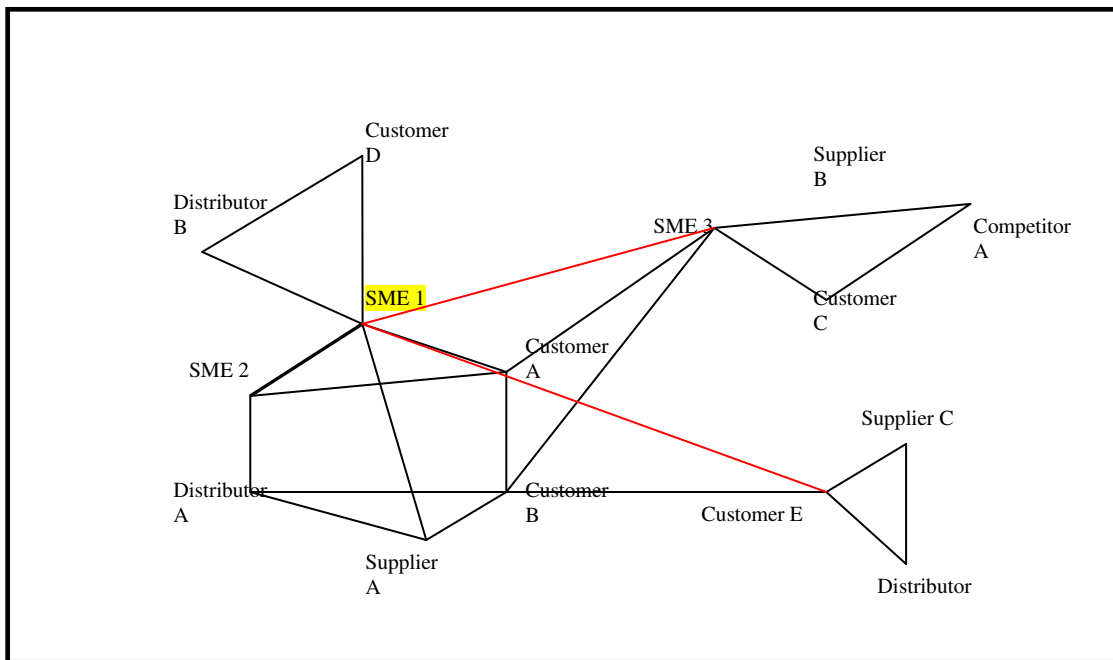


Figure 8.3 Networks Maps
Source Author

At group level, another key theme emerging from the network session (both pre- and post-intervention) that had an impact on their assessment capability, related to the level of strategic focus regarding their networks. Post-intervention, the key themes shifted to such topics as network diversity, density and expansion.

8.3.1 Pre-intervention

8.3.1.1 Value

Value is a subjective perception, viewed from an individual level as each SME owner/manager's perception of value is different. This subjectivity creates diversity in the perception and interpretation of value. The SME owner/manager's perceptions of value within relationships varied greatly which in turn had a significant impact on the means through which they would assess their networks. Value was not limited to financial and sales motivations but rather reflected their personal and more generalised value systems. For example, some participants prioritised 'being known' as a motivation for engaging in networks. This point was emphasised by the presence of many participants in formal, macro-networks with the primary aim of elevating their stance. Such behaviour was particularly

evident and a purposeful incentive for attendance at formal events concerning state bodies. Whilst the researcher at this stage of the study considered the above to be extreme time wasting, as the sessions progressed she became aware of other underlying motivations. SME H stated:

I am constantly striving to build stronger relationships with the likes of Enterprise Ireland. When I approached them for funding four years ago I was unknown to them, just another entrepreneur looking for funding. Now, after four years of attending as many meetings and conferences as I possibly could, and talking to the right people, I have made myself visible. I am invited to meetings and conferences as a guest of the agencies.

While it is clear that this participant enjoys the social status acquired from the dyadic relationship, what is less clear is that the fundamental motivational factor for attending these functions is, in reality, to benefit from the funding and training opportunities which have presented themselves through such relationships. There are other core impetuses at play which must be extrapolated in order to fully understand value.

The ability to attribute a concrete and true value to relationships is an important aspect of the assessment capability. At this point, pre-intervention, the participants were capable of rating the worth of networks that were either time or resource heavy (conferences/trade events), or containing a degree of formality (BNI-Business Network International network). For example, one participant (SME F) exited the BNI network because, compared to available alternatives, it had little impact on the company performance. In evaluating the company's dependence on, and involvement with the BNI network, in addition to a rational evaluation, he felt that time could be utilised more profitably by increasing interdependencies with current relationships with a view to network expansion.

The BNI network places pressure on each member to make successful referrals and to consider solutions to other business dilemmas. Although beneficial, its value is dependent on the other members who often have little knowledge of each other's industrial area.

The participants, at this moment, also viewed value in terms of an unbalanced reciprocity in their favour. In assessing their relationships, they generally expected the rewards experienced by them to be high as opposed to proportionately distributed. They were clearly aiming to gain more from relationships than they were willing to give. This reflects the individualistic attitude of the SME participants whereby they were unwilling to share information or coordinate activities with nodes that either represented a competitor or could potentially have close ties with competitors, thus limiting their network scope. For example, from the figure above, SME 1 would show little interest in building stronger relationships with customer C or supplier B in a bid to make connections with their network as they have strong links with competitor A. Moreover, their network focus was short term. They expected immediate returns for their network efforts and assessed their connections as such. Network connections and relationships did not endure once the connection was no longer necessary.

8.3.2.2 Strategic Focus

For the Irish participants, networks, or the building of relationships, were not integral to their strategy, and not something that they considered they had to refer to, think about or manage on a day-to-day basis. As networks were previously considered purely in a social sense they were not mentioned in their operational business plans. This had important implications for their assessment capability as it led to reactivity in relationships. Rather than proactively seeking to strengthen connections and use existing network connections to create more relationships, they passively operated within the framework of their networks paying little attention to their structure and function. This often worked to their disadvantage as, as was noted in the session by SME F:

I have been in the situation on many occasions whereby I need to make a connection with somebody who is known by a close customer. However, by the time I get in contact with them, it is often too late and the particular opportunity has passed me by.

8.3.2

Post-Intervention

Post-intervention, in terms of the proposition, the researcher observed gradual changes occurring. At an individual participant level, they began to develop a more realistic idea of the network concept. Participants better understood the value of considering their network members' networks with a view to finding future potential connections. They learned to recognise the merits of proactively managing their relationships. As already mentioned, the key themes which emerged during post-intervention centred on network density and diversity. Generally, on an individual level, the participants preferred dense ties. However, within a group discussion they began to understand the appeal of a wider set of interconnected strong and weak connections which could add more diversity to their networks. This is important in terms of assessment as it shows the researcher the process through which they subjectively assess and manage their networks.

Network expansion, as the key intervention, is also represented thematically. The preferred type of expansion, mainly online network expansion, suggests a penchant for 'arms length' links as close, embedded relationships cannot be developed in this manner. This is ironic as the participants stated that they would rather have many strong connections and strive to increase the number of strong connections that they have as opposed to viewing the benefits associated with weak ties.

8.3.2.1

Network Density and Diversity

Post-intervention, the participants discussed their network preferences in terms of having close, dense embedded ties or weak ties. Regarding the proposition, as previously mentioned, the inclination (with the exception of one participant) was to lean towards strong links rather than numerous disembedded ties. As SME B noted:

Both I and (another member of this group) can speak at length about our businesses as we know each other's business and issues intimately. To conduct such a conversation with another member of this group would not be as beneficial to either of us.

Last week I had a meeting with a person who I do not know that well, as such a weak tie, regarding my business direction and I feel that he was putting me in the wrong direction.

Strong ties were favoured by the participants as trust exists due to the fact that long term relations are already in place. Knowledge gained is superior as they have a more fine-tuned understanding of each other's businesses and close connections are more likely to give the time necessary to discuss and/or work on core business issues. Furthermore, the participants recognised that they are more likely to take action following advice and support from a strong business connection and/or make new connections through them. In assessing their networks, they stressed the importance of managing their relationships to ensure that strong connections remain strong and that weak connections are strengthened. However, according to SME A, it is essential to commence with weak ties in order to develop dense connections. It would be very difficult to expand your business if the focus does not centre on expanding connections. According to him, dense ties emerge from the accumulation of weak ties. He noted the value of having diverse connections, a mix of both strong and weak, in an effort to bring fresh information and perspective into a network setting.

Following the intervention, this participant noted that he had made one important connection in the previous month:

At a coffee morning club meeting I was introduced to a new, young entrepreneur as the ex-CEO of the large corporation that I previously worked for. He asked me if I knew anyone who could assist him with his new venture as he had the product ready and was looking to increase his customer base. I had a contact in Northern Ireland from my former employment and made an introduction between the two. They have since been in constant contact and his business has improved significantly from the time of their initial meeting. Through the connection in Northern Ireland the entrepreneur has been able to tap into many relevant and significant networks.

In the example above, the participants were able to appreciate the benefits reaped by the young entrepreneur from the weak connection to the group member. They understood that weak ties assist in building bridges between networks which, as

described above can help solve problems, gather information, and import unfamiliar ideas. In terms of the assessment dimension, it became implicit that the ideal network configuration for an SME should include a core of strong ties and a large periphery of weaker links. Furthermore, weak ties require little time to maintain and can be intensified if and when it is deemed necessary.

Consequently, in terms of the assessment process, the participants began to value the significance of taking time to look at their networks. They attempted to ensure that their ties were diverse and that, through them, they gain support in their operations. It became a higher priority to further concentrate on developing the networks that they required around them. They intend to continue to nurture existing relationships and aim to make new weak connections on a monthly basis.

A key component in the development of networks is the willingness to follow up an initial meeting with further communication. For example, SME H stated that at a conference event, he ticked the names of those with whom he had made contact and followed up with an e-mail the next day to those with whom he thought it would be beneficial to have a relationship. Others stated that to strengthen existing relationships, it was important to give timely responses to people that you knew well and to promptly return missed calls.

Maintaining their networks was seen as a priority amongst participants. In terms of maintenance, SME E spoke about a scenario where a key connection that he had nurtured within an organisation suddenly left the company. He felt that it was imperative to quickly meet his replacement and to create links in order to continue the comfortable relationship and the business with the organisation. This is also true for potential customers. It is important to be the forerunner and to strike up a relationship to ensure their custom. Thus the importance of assessing networks through “keeping an eye on what is going on” was ascertained by the participant.

For assessment purposes, the group suggested that it is helpful to look at networks in categories, for example formal support networks, academic, personal and so on. SME H decided to categorise his networks in terms of:

- Funding
- Training
- Sales

This demonstrates that the group had realised that their previous notion of making as many connections and giving out as many business cards as you possibly can is not necessarily using your networks. Instead they decided to look at the networks surrounding them and assess both the networks and their positions within them.

8.3.2.2 Network Expansion

Regarding network expansion, the participants made a significant effort with the intervention exercise. Interestingly, most of this expansion occurred virtually, and hence was more social in nature. For example, SME H set up an online network. Throughout the previous year he had been involved in a course in Dublin City University (DCU) with 50 other sales managers. He seized this opportunity to set up a network to keep in contact with the aforementioned class members, both the high profile and small companies equally. He noted that one person signed up every hour for the first 8 hours and believed that through this network he would potentially have the ability to view the other members' networks which would ultimately lead to further expansion.

More than half of the participants set up a linked-in account, an online industrial network site. This suggests that online networks are beginning to become more important in the eyes of the participants. In understanding that technology flattens the communication hierarchy and provides opportunities to improve and expand their network contacts, they also comprehend that they do not replace them. For example, one participant noted that he will travel as far as necessary to meet a customer "eyeball to eyeball". He noted that even if an interpreter is necessary, it is good that a customer can visualise you and vice versa.

SME C suggested looking for existing formal networks that could be utilised for sales purposes. For example, he suggested that one of the group members contact

the local ‘women in business network’ as he felt that there would be at least 30 people in that group that would benefit from and be interested in his product with further networks stemming from each individual. Another participant stated that he had followed a similar strategy. As can be seen from Figure 8.4 below, the participant started with one customer, customer A, to whom he sold a custom made software package. Customer A belongs to a network with an excess of thirty sister companies operating within Ireland. He related how he pursued a strategy to meet the potential customers via his strong ties with customer A, from which he earned a working relationship with at least half of them.

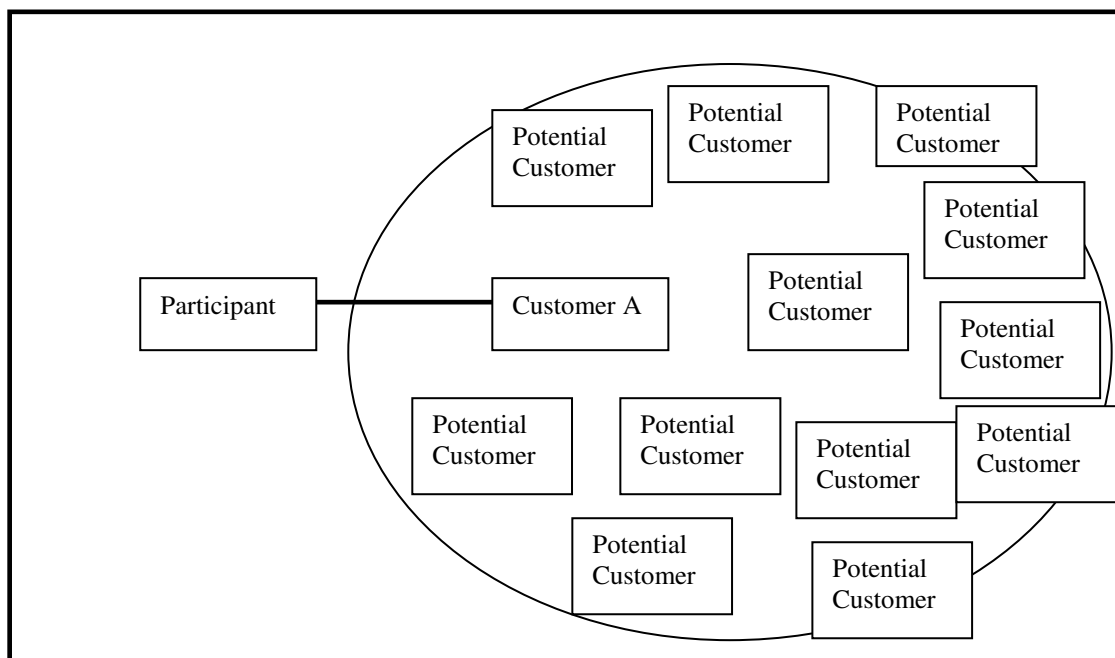


Figure 8.4 Network expansion
Source Author

Participants also remarked on the key positions that distributors have within their networks. They have direct access to the end customer, and hold significant power in their relationships with customers. As a result, SME E organised to visit his core distributors in the UK in order to embark on a ‘road trip’ of current and potential customers. In assessing his networks, he decided that it was essential to strengthen ties with existing UK based customers and distributors in addition to creating weak ties with potential future customers.

8.3.3

Comparison with Finland

A cross case comparison of the key themes of the assessment dimension can be seen in Table 8.2. Both similarities and disparities were present, with significant differences fading as the Irish participants realisation improved. The Finnish participants viewed value through an IMP lens. From the outset, they had a more practical and proactive approach than their Irish counterparts placing more emphasis on relationships with their suppliers, customers, distributors and partners (see Table 8.2). In terms of assessment, they concentrated on value chain network relationships. The high level of priority attributed to these networks was evident from the attention given to the management of these connections and the quantity of time allocated to them. SME 8 noted:

It is essential for our company to maintain a good relationship with the two companies involved in the production of our product. We rely on both of them for the entire production process and have done since company inception. This gives us more time to focus on the sales and marketing side of the business.

Similarly, SME 4 said:

Without suppliers we would have no product, therefore, we maintain a good relationship with each company that produced our raw materials.

Hence, the relationships are actively managed, and they regard them purely in practical, business terms. This management is so important that some of the participants, although having limited human resources, engaged an employee or themselves to spend the majority of their time managing their relationship networks. This demonstrates the high value placed on networks. The Finnish participants stated that the quality of their products is based on continuous co-operation with various research institutions, industrial experts and professionals in the area and are the result of long-term research and rigorous testing.

Network assessment is also high on the list of priorities for the Finnish. The participants, to counteract time constraints and profit fully from these networks,

regularly assess their networks and choosing carefully their relationships and their network activity. They are proactive in their relationships and do not wait, for the most part, for customers to come to them. In addition, although they do not all attend trade events, they are all constantly looking for new connections by various means. Time and financial pressures ensure that they are inventive with their network efforts and hence rely on the science parks, trade magazines, innovation relay centres and EU programmes managed by universities. The constantly evolving nature of the Finnish networks contrasts greatly with the Irish view of networks which once established, are perceived to be more static entities.

Regarding strategy, networks featured heavily in the participants' strategy with all but two companies linking the two concepts. According to SME 5:

I have a business strategic plan and networks feature strongly in them. Through analysis of the plan we realised that the demand for our product was in slow, yet steady decline. Therefore, we began to think about what other areas we could potentially branch into and our strategic plans included the networks that would assist us, should we be able to break into them.

In terms of strategy, some of the participants noted that they co-create their strategy with network members. They felt that this synchronisation was beneficial to all members. To maintain this alignment, they all have a business plan that is rigorously implemented. Relationships and networks are part of the plan which they revisit annually.

In relation to network density, participants spoke of the importance of the Innovation Relay Centres (IRCs). In terms of weak ties, they explained that they have access to seventy centres worldwide and can look up other companies' profiles. Should any company within the network wish to meet, they can arrange to do so and thus strengthen the tie between them. Conferences are held within the IRCs which were also deemed useful. People engaged in similar types of business can become acquainted in these forums and present themselves, their companies and their needs. Similarly, the participant SMEs can offer their services to other companies which they consider would benefit from the services that they provide. This two way flow of services and information implies a degree of reciprocity. For

one participant, such conferences were particularly useful in terms of finding partners with whom to cooperate to build, where appropriate, strong relationships.

Yet, network density in Finland does not rely solely on IRCs. The SMEs focused on creating strong ties with their suppliers, customers, distributors and partners. They regularly scan the environment to increase their number of connections whilst ensuring that their density of existing ties remains constant. This is a further demonstration of the Finnish participants' constant assessment of their networks. For some, the majority of their business comes from a few, large customers and it is important to have a good relationship with them and to make sure that they keep up-to-date with their developing needs.

The companies emphasised the maintenance of strong relationships with customers. Keeping in touch with the customers is, and will continue to be, an integral part of their business. They see considerable value in repeat custom and one participant has visited all of his Finnish customers at least twice since their last purchase sale. The Finnish participants revealed that they assess customer networks based on the information which can be gathered from the customer. It was suggested that building relationships with certain customers, suppliers or distributors can be more beneficial than others in terms of generating:

- Information regarding what is happening within the business area
- Further sales
- Valuable information regarding future needs and requirement of the company to facilitate new product development
- Feedback in relation to their products and/or services

Network expansion was mainly described at a macro level by the Finnish participants. They felt that the majority of their expansion came from having close ties with the university as they could gain access to the university's networks. For example, they felt that through EU programmes universities are always creating new networks and transmitting new knowledge to SMEs. Network expansion activities stem from participation in EU funded programmes. Universities are the

key institutions which distribute funding for programmes and it was perceived as vitally important to have strong ties with them. Additionally, on a micro/individual level, the Finnish participants are continuously looking for new connections and feel that they are fundamental in the management of SMEs in terms of attaining new and diverse information.

	Ireland	Finland
Assessment	Medium	High
Value	Viewed value in terms of 'being known', and the potential financial and sales gains that could be realised through networks <ul style="list-style-type: none"> • Short term focus 	Value stems from building relationships with value chain members <ul style="list-style-type: none"> • Long term focus
Network Management	Low network management skills Reactive approach	High network management skills Proactive approach
Strategy	Passive – not part of their formal strategy	Features heavily in their business strategy Co-create strategy with other network actors
Network Density	Focus on relationship maintenance with profitable actors Preference towards strong ties	Strong ties are preferable on a micro level Weak ties are attainable on a macro level
Network Expansion	Virtual Through customer networks	Macro level University Innovation Relay Centres

Table 8.2 A comparison of key assessment findings between Finland and Ireland
Source Author

The Finnish, similar to the Irish participants, noted the benefits of using technology in their networks. Face-to-face meetings are not always feasible when dealing with their customers, suppliers and distributors. Akin to their Irish counterparts, they acknowledged that there is no substitute for meeting people but they acquiesced that improvements in technology in terms of the internet and

teleconferencing have assisted them in ensuring constant contact and cooperation with networks and potential network contacts.

8.4 Access to Knowledge Dimension

Proposition 3 The ability to generate, integrate and utilise knowledge from network flows, emerges as a distinctive dimension of the relational capability construct.

In terms of access to knowledge, this study argues that the ability to generate, integrate and utilise knowledge from network flows, emerges as a distinctive dimension of relational capability. Access to knowledge is an important dimension of the relational capability construct as the sharing of knowledge can reduce the cost of production through the allotment of intangible assets such as technology know-how. Most of the network literature regarding this dimension states that much beneficial knowledge is transferred through networks, in addition to the fact that knowledge can be co-created in networks. However, the process or means through which knowledge is transferred within an SME context is less clear. This proposition argues that the formation of new knowledge is dependent on the interaction of actors within a network. Specifically, the more an SME can rely on a wide set of high involvement relationships, the more effective its generation of knowledge will be. The task of the SME owner is to establish the coordination required for knowledge integration. The most common dimensions of knowledge are tacit (expertise, intuition, insights, what people know but cannot explain) and explicit (can be expressed in words, texts, diagrams). These sub-dimensions of the access to knowledge dimension (post-intervention) in addition to the process of access to knowledge (pre-intervention) as described by the participants are detailed below.

8.4.1 Pre-intervention

8.4.1.1 Access to Knowledge as a Process

The participants acknowledged the merit of networks in knowledge creation, in addition to the fact that knowledge had to be integrated into their processes to be of worth.

Networks are all about information transfer. Information comes from talking to different people. However, it is up to me to digest and collate the information in terms of relevance to my business. (SME B)

The participants are aware that collecting information is only one step in the access to knowledge capability. In terms of process, the SMEs noted that utilising networks to facilitate knowledge creation is only possible if you know what type of information you require and who possesses the necessary information. Therefore, the process that the participants discussed in relation to their enterprises is depicted graphically below in Figure 8.5.

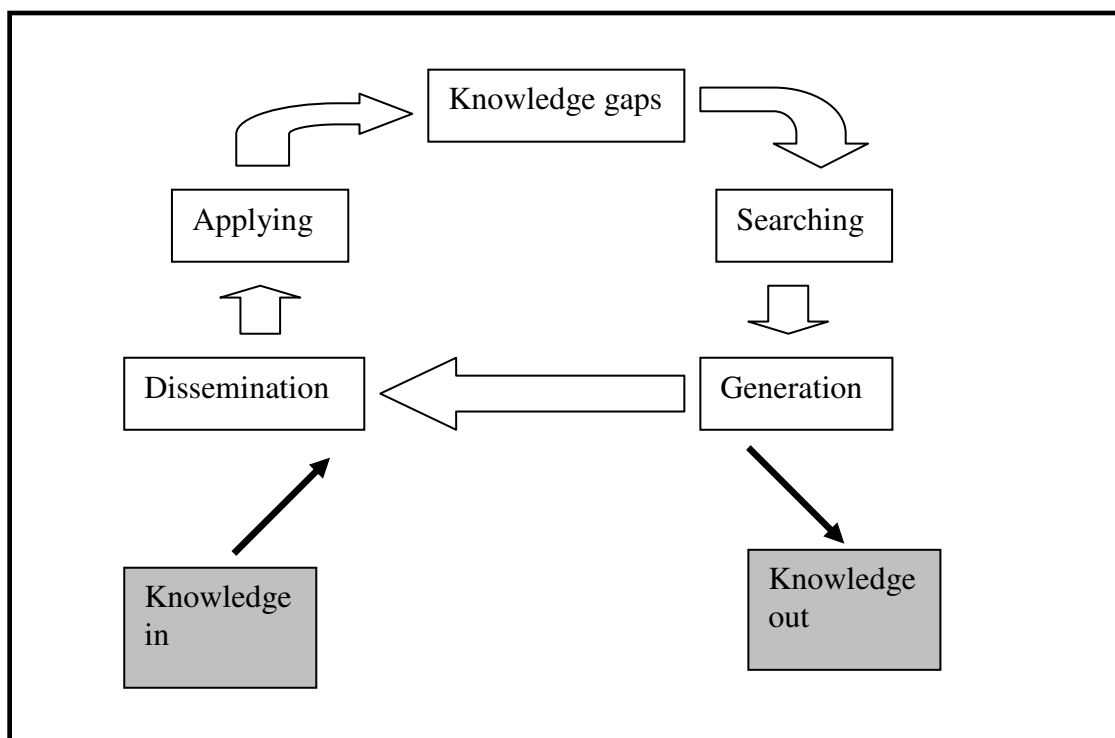


Figure 8.5 The process of access to knowledge for SMEs
Source Author

The first step is to reveal knowledge gaps pertaining to their respective businesses (Figure 8.5). The value of a Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis was highlighted by the SMEs as a useful tool towards exposing these knowledge gaps in addition to delineating their core knowledge competencies which could be reciprocated in a network setting. As was noted by SME G:

An analysis of our business in terms of our strengths can help us to highlight our core areas of competence which could assist us in conveying them to others. All too often we assume that others know what we do best which is not necessarily true.

The participants recognised their tendency to gloss over weaknesses preferring to concentrate solely on strengths. Yet they appreciated that in order to access and utilise network knowledge it was important to uncover and overcome these weaknesses.

The second step highlighted by the group was the movement towards searching for knowledge within networks (Figure 8.5). The SMEs noted that the first place to look for knowledge is within their networks as it is the most cost effective route. They also suggested that knowledge emanating from their networks was more likely to be accurate and trustworthy as it stemmed from relationships consolidated over time. They felt that as they moved outward from their immediate networks the information gleaned would/could be less reliable.

Regarding knowledge generation, access to knowledge in a timely manner is important. Such generation, they agreed, was dependent on the closeness of the relationships within the network, the type of knowledge sought, and to a lesser degree on technology and physical proximity. In other words, in order to effectively generate knowledge, it must be possible to access the appropriate person. It is easy to identify proficient individuals but if they are not within reach they are not a network contact. As SME G explained:

There are many people who I know could assist me with my business for example, Eamon Ryan the Minister for Communications, Energy and Natural Resources. However,

unfortunately I cannot tap his brain on a weekly or even yearly basis.

‘Knowing what other actors know’ is essential for timely knowledge generation. Following two group sessions and frequent interaction between the participants, it was unveiled that they did not fully comprehend each others core areas of competence. According to SME F:

Access to knowledge seems to be reliant on communication. For others to be able to approach me for knowledge they have to know what I know. Similarly, for my company to approach another, I’d have to be pretty sure that they either have the knowledge or know somebody who has.

The above quotation shows that the SMEs are starting to think in terms of networks. Regarding access to knowledge, the participant is essentially stating the importance of conveying core areas of competence within networks. Should network members lack the necessary information for an SME to solve a problem or to reap benefits from an opportunity, the next step would be to look at network actors’ periphery networks.

The dissemination of knowledge involves analysing information in order to evaluate its usefulness. The participants were aware that the knowledge acquisition process is time consuming so felt it was imperative to ensure that knowledge generated through networks was relevant to the opportunities and threats that they are facing. The functional knowledge can then be integrated into the processes of the SME and applied and utilised within their individual context.

The inclusion of ‘knowledge out’ in the process described by the SMEs shows an improvement in their attitude towards reciprocity. ‘Knowledge out’ was described in terms of relationships and networks whereby the participants focused on ensuring the applicability of the knowledge to the recipient.

Give and you shall receive. Rather than drop a 200 page report to another manager give them two relevant pages... view knowledge through the eyes of the recipient. (SME H)

At the pre-intervention stage of this dimension, the participants showed a more in-depth understanding of the access to knowledge dimension than the previous two dimensions, realisation and assessment. This led the researcher to believe that each SME now possessed the realisation capability and could start to think about their networks and relationship strategically, namely through the eyes of the IMP group. The SMEs were beginning to discuss relationships in terms of networks as opposed to dyadic ties and to look at other networks in search of potential connections for the purpose of knowledge transfer.

8.4.2 Post-intervention

As an intervention, the researcher asked the participants to describe the process by which they had either acquired knowledge through networks in the past or to devise a plan to do so in the future. Key post-intervention themes focused on knowledge dimensions mainly tacit, explicit, internal and external. The Irish participants had much more interest in discussing this dimension of the relational capability construct than the assessment and realisation dimensions. They deemed it to be more relevant to their business and they wished to learn how to access additional information through networks of diverse, embedded relationships.

8.4.2.1 Knowledge dimensions

To facilitate the discussion, the researcher will discuss knowledge in relation to its dimensions namely tacit, explicit, internal and external. They are depicted graphically below in Figure 8.6 in terms of relational importance.

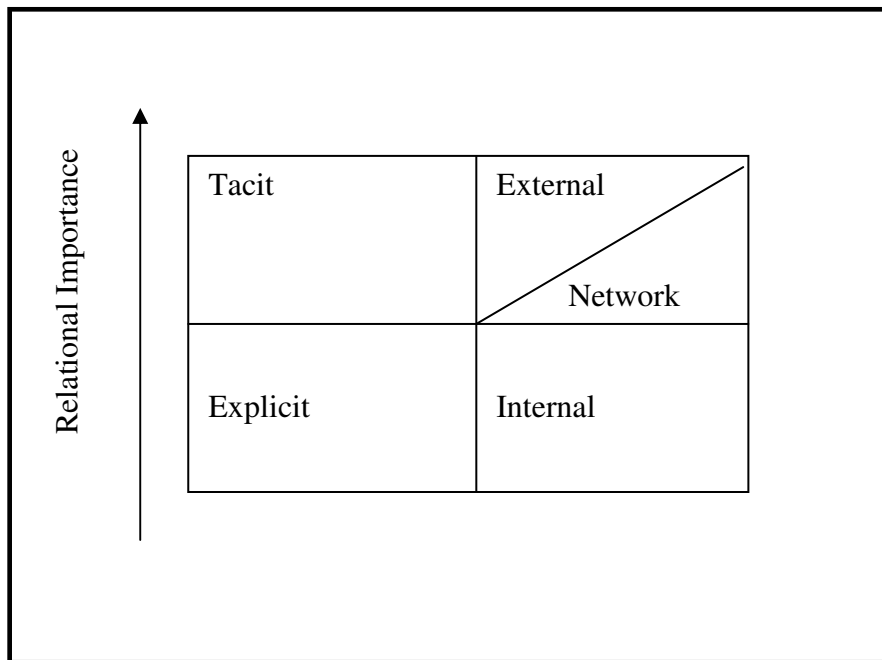


Figure 8.6 Knowledge in terms of relational importance
Source Author

8.4.2.2 External Tacit Knowledge

According to the participants the exchange of external, tacit knowledge requires repeated interactions and thus is dependent on close relationships within a network (Figure 8.6). Additionally, the interplay between external tacit knowledge and internal knowledge requires investment in social processes such as communication and coordination. For example, at an individual level, inclusive of his network members, SME A noted that he was struggling with the innovation process and required external specialised expertise (tacit knowledge). As shown in Figure 8.7 below, the SME approached the supplier in order to access this information as he was aware that even if the suppliers did not themselves hold the knowledge, that they would have access to it through their own networks (depicted in red dots). As the SME and the supplier had close ties through years of repeated interactions, the supplier searched his networks and put the SME in contact with a known specialist in the area in a bid to provide the additional knowledge required. The SME owner/manager's company integrated its own internal knowledge with the external, tacit knowledge from the expert to develop the product. The specialist's external, tacit knowledge was internalised through close coordination, communication and joint learning between the two companies. As a result it was

decided that learning is the process that creates knowledge and a learning strategy is appropriate for managing tacit knowledge because tacit knowledge is managed only in action.

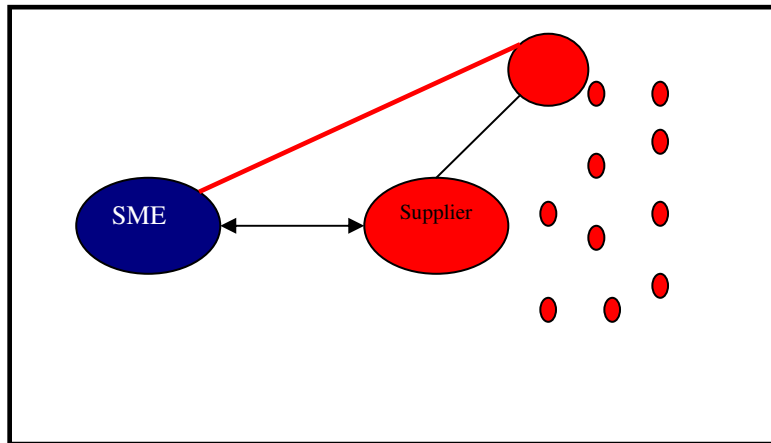


Figure 8.7 Accessing knowledge through a supplier
Source Author

External knowledge is not easy to capture, store or distribute because identifying the knowledge that is valuable is a very difficult task. The value of internal knowledge is easier to gauge as it stems from within the firm's boundaries and the firm has the ability to assess its usefulness. The participants stated that it is complex to attribute a true value to external, explicit knowledge due to the abundance of freely available information, especially with the proliferation of the Internet. Therefore, careful scanning and monitoring is imperative to uncover the appropriate material. Similarly, it was expressed that close relationships with other network actors facilitates the evaluation of external knowledge (tacit or explicit) emanating from networks. This is due to the fact that repeated interactions characterised by mutual trust, commitment and communication enables the internalisation of knowledge with joint learning creating new knowledge. SME C noted how a close relationship with a distributor in a foreign market allowed the continuance of exports following a change in the country's import legislation. As can be seen from Figure 8.8, prior to the enactment of the new legislation, the SME owner/manager had a strong relationship with the distributor. However, new laws rendered the importing of the product illegal and thus the SME owner had to consider new options in order to maintain the supply of goods to his foreign customers. With a view to overcoming the obstacle, the distributor suggested that

the SME outsource production to a local manufacturer within the distributor's network. This solution has been mutually very effective as the distributor continues to supply the merchandise for the SME yet through another manufacturer.

I have come across challenges that are difficult to see a way through. One of the added benefits of building trusted relationships within a network of people with similar challenges is being able to share your issues, to have a sounding board for ideas and problems.

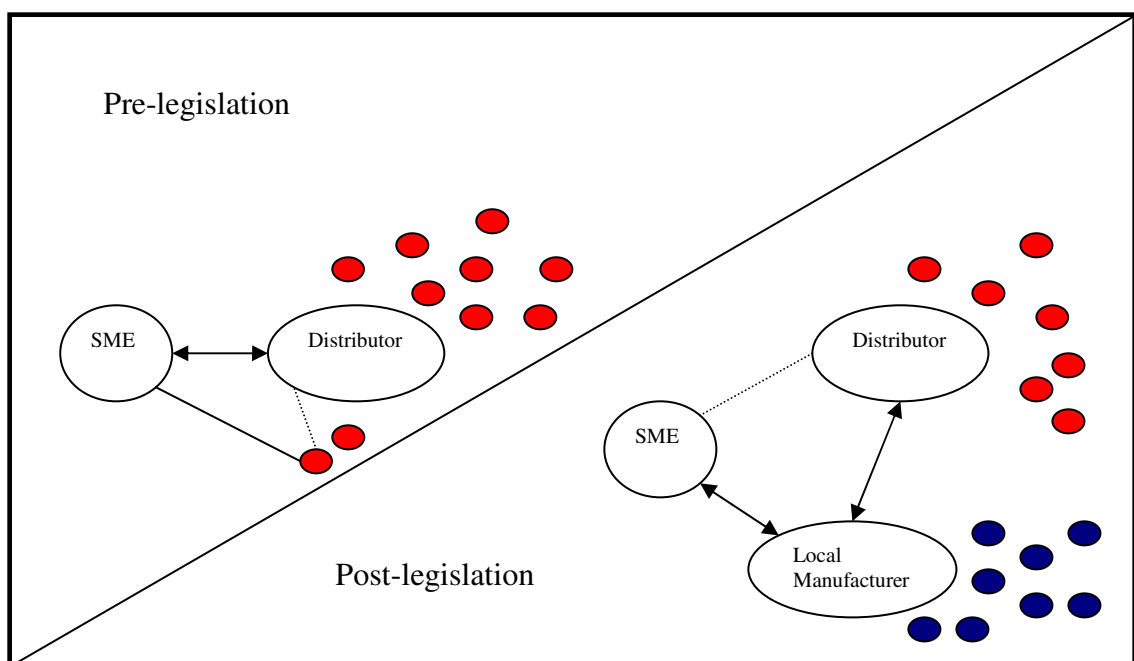


Figure 8.8 Knowledge to continue exports.
Source Author

Other participants recognised the value of distributors in terms of access to knowledge, particularly in foreign markets.

They know the lay of the land. They know the local key players, including customers, competitors and suppliers. They keep me informed of changes in the market and introduce me to new customers on each visit. (SME E)

8.4.2.3 External Explicit Knowledge

From a macro level, formal agencies (in particular Enterprise Ireland), were highlighted in terms of gaining access to external explicit knowledge. Enterprise Ireland, according to the participants is ‘a network within itself’. The participants who engage in exports, although dependent on local office staff, were placed in contact with the Enterprise Office in their export country of choice through a consultation with their local Enterprise Ireland office. As can be seen from Figure 8.9, the local office was in a position to introduce them to the relevant players in their field in addition to providing a competitive analysis of the industry in a specific country context. They also recognised that through interaction with the key stakeholders, suppliers, customers and distributors (Figure 8.9), they would have the potential to delve further into their networks as depicted in red and blue (Figure 8.9). All of the participants who deal in exports (or plan to do so in the future), agreed that the use of Enterprise Ireland networks is the first step in the exportation process.

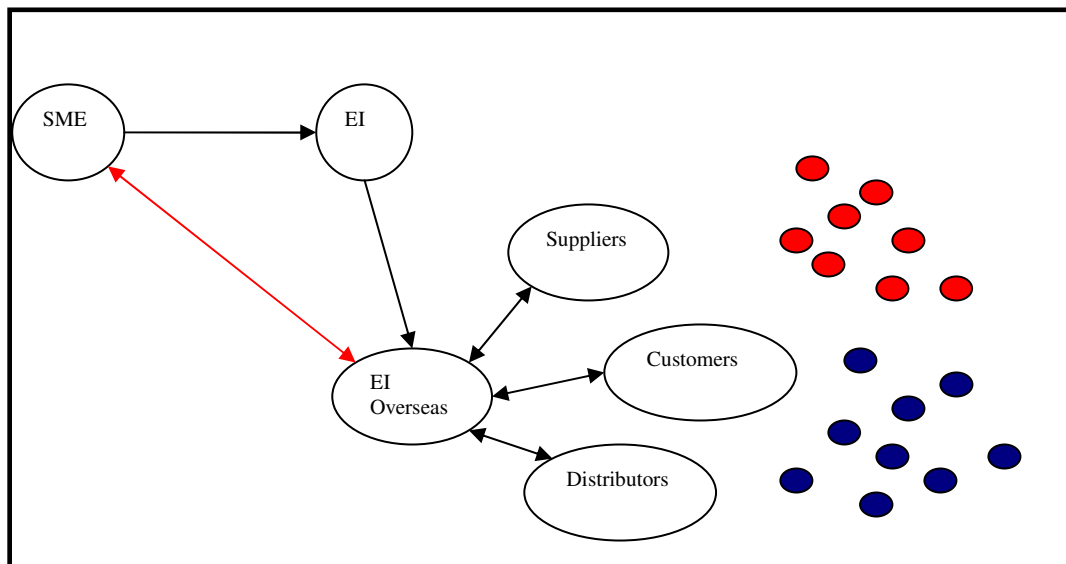


Figure 8.9 Enterprise Ireland Networks
Source Author

The formation of new knowledge depends on the interaction of actors, inferring that the more a firm can rely on a wide set of high involvement relationships, the more effective its access to knowledge capability will be. Relationships and networks must be in place to serve as an opportunity for sharing knowledge.

External knowledge is held by outside agencies such as suppliers, customers and distributors. However, external knowledge, regardless of whether it is tacit or explicit, must take on significance for a particular SME through integration with internal knowledge.

Additionally, on a macro level, with regards to generating information from the public sector, the Irish participants explained how they strived to keep abreast of changes in the field by reading reports compiled by Enterprise Ireland, Forfás and other state agencies. This said, the copious volume of reports published renders the task of reading each one, or even deducing which ones are most relevant, very difficult. Examining each report was a time-consuming process. Nonetheless, all of the participants remain in touch with state agencies on a face-to-face basis in order to gain information about potential funding opportunities in addition to competitions that can lead to publicity and financial rewards. The researcher noted that in the case of SMEs who had in the past been affiliated with Institutes of Technology, the level of knowledge accessed, apart from generic training, was limited. The participants stated that their time was too limited to investigate the various projects being run at any given moment within the academic sectors. The reason cited for this was that the academic structures are too big, widespread and diverse and from their perspective, impermeable. Therefore, access to knowledge in the form of technology transfer was non-existent. One participant recounted how at one point he approached an academic institute in Dublin, only to be obliged eventually to resort to his own devices as he could not wait for the holiday period to end and the academic term to recommence.

All of the participants are renting incubation space from Waterford Institute of Technology and have, in the past, been affiliated with them. However, for the most part, are not gaining knowledge from the Institute. This possibly lends weight to the perceived inadequacies of formal support networks. When pressed as to why the participants did not seek support from the academic institutes, lack of time to become au fait with the projects that were being carried out within the Institute was the recurring answer. Rather than supporting the argument favouring the inadequacies of the formal support structures, this explanation of the situation

could highlight the inability or lack of motivation of the owners towards utilising such resources.

The main benefits derived by the participants relating to the access to knowledge dimension are summarised below in the words of the SME participants:

These sessions have made me think more about my networks which has been of great benefit to me. (SME F)

I have realised that you have to capitalise on the opportunity to 'put yourself about' whenever you can. (SME G)

I have realised that there are sources of knowledge close to me that I have never used before. This, in the future, could save me time and effort. (SME D)

This highlights that the participants are benefiting in a 'real' manner from the group sessions. They are learning from the experiences of other group members in addition to learning from the intervention exercises.

8.4.3 Comparison with Finland

A cross case comparison of the key themes of the assessment dimension can be seen in Table 8.3. Clearly, the disparities are significantly lower between the two contexts. This can be attributed to the fact that firstly, the Irish participants are continually enhancing their understanding of networks and secondly, knowledge is an area familiar to the participants facilitating the discussion. The participants from both contexts recognise the value of close, embedded ties in the transfer and integration of valuable knowledge. However, the Irish actors continually strive to gain more than they contribute to networks (see Table 8.3). A short term view of networks is still held by the Irish actors whereby they strive to gain access to knowledge immediately, as opposed to the Finnish view where relationships are nurtured and access to knowledge emerges over time. This is clear from the macro level findings whereby the Finnish participants gain access to knowledge through close cooperation with the academic sector (see Table 8.3).

In terms of knowledge sources, the Finnish participants noted that much of the knowledge that they acquire flows through their networks. They gain knowledge from fellow SME owners who often act in an advisory role.

I got a call from an agent in Russia looking to sell my products to the Russian market. The Russian market is an area that I would like to get into so naturally I was very interested. However, as I am only in business two years, I decided to take some time to consider the offer before entering into any agreements. I contacted another local company who are successfully exporting to Russia and they explained to me how lucky I was not to have agreed to become involved with the particular agent. (SME 8)

The participant SMEs stated that information was an important asset for their companies and hence something that they purposefully attempt to acquire on a regular basis. As experienced business people in their area, they have vast networks from previous employments, through which they can assemble a large amount of important information. For the most part, they noted that within Finland, the potential customer network is small, hence easily accessible.

On an individual level, SME 3 mapped out their networks in terms of information, as they felt that their networks are an important source of the knowledge pertinent to their business activities. Their networks, in terms of knowledge are depicted graphically below in Figure 8.10.

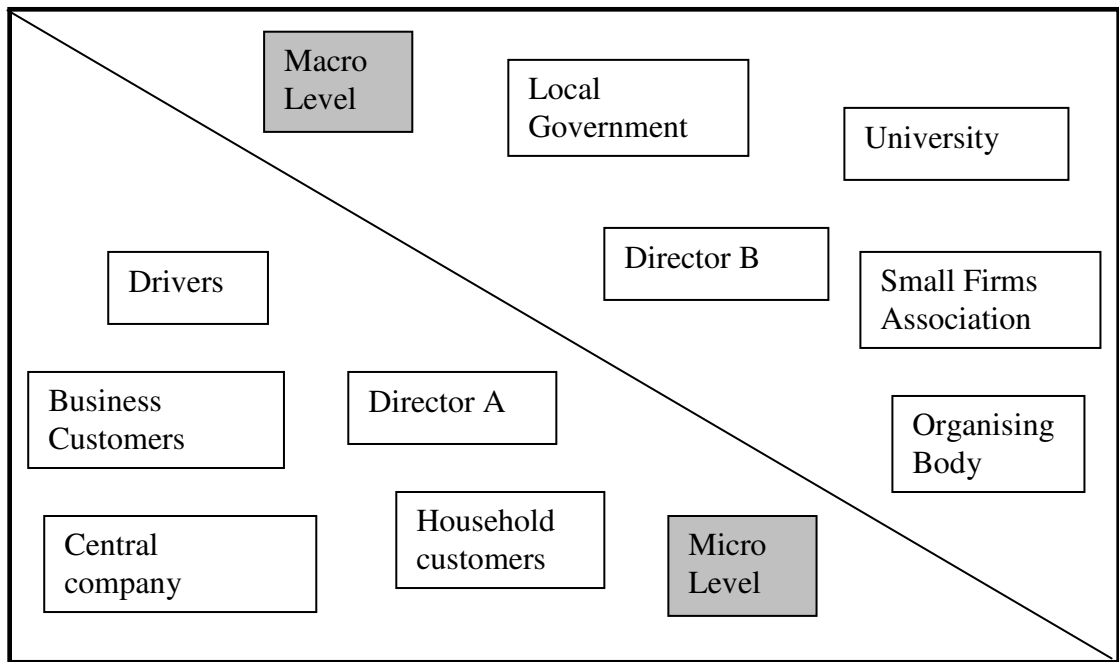


Figure 8.10 Participant in terms of knowledge
Source Author

Although they do not have a formal approach to knowledge acquisition, the two active directors of the company network for knowledge acquisition. Such networks are depicted graphically above. The two owner/directors of the company have specific networks from which they reap information. Director A maintains relationships with business customers. They contact her on a needs basis. Similarly, she contacts them as the rules and regulations change within their industrial sector. She may have to make visits to some large corporations, including schools at times, to give lectures regarding her specific field of expertise. In this manner, she acquires information regarding customer needs and wants directly from the customers themselves. Generally, it is the role of the employees to meet with small customers, from whom she receives all relevant feedback.

Director B operates on a macro level, meets with formal networks such as the university, the small firms association of Finland and a Finnish governing body. He is the secretary of the small firms association which has over 10,000 members and travels to Helsinki on a monthly basis for meetings. Through such meetings, he gains information regarding finance available for the sector in addition to meeting like-minded SME owners. He also maintains a close relationship with the

governing body relevant to his business to keep abreast with the ever-changing rules and regulations. Director B is active at local government level and thus manages to remain well-informed with progress at this level. Within this role, he also maintains relationships with other local business people in the area. One direct benefit is that he is aware of when the tender is due in his area that his business can put in for. Regarding time, the company stated that they were fortunate as they have time to access and utilise knowledge. They have more time to seek out information as they have employees to oversee the general day to day operations.

Regarding the knowledge dimension, the Finnish participants did not categorise their knowledge by dimensions. However, it was clear that much of their important information, in terms of the products/services that they provide, came from their value chain members; customers, suppliers and distributors.

Access to knowledge was hugely beneficial on a macro level for the Finnish participants. For example, formal bodies were important in terms of access to knowledge as five of the participant SMEs required access to the tender system. In Finland, as in Ireland, they maintain a relatively bureaucratic system for the public sector whereby when a product to be bought is more than €15,000 it has to be put for tender. Although this was publicly available knowledge, speed of access was an essential aspect for the participants.

Consequently, the participants not only attain knowledge through their networks but strive to use it to its maximum potential. This is particularly the case with the innovation relay centre and the 'Magnet project' (as explained in Chapter 2), whereby the participants proactively seek partners who they feel would be beneficial for knowledge acquisition. One of the participants mentioned that they have used both services successfully in the past. Through analysing profiles, they have made appointments and have engaged with similar larger companies for assistance and support. Similarly, they have been approached by and have collaborated with other companies through the same means, which implies some degree of reciprocity.

As stated by SME 6:

Networks start working favourably when small companies are able to ask each other for help/advice/information and give it. Therefore, to a certain degree, networks are driven by the personalities of the owner/managers. I feel that some SME owners are unwilling to ask for help. In order to benefit from networks you have to be able to seek them out and engage in them purposefully especially in terms of funding agencies.

On a macro level, technology transfer was prevalent in Finland whereby the Finnish participants indicated a high level of interaction with universities in terms of access to knowledge. In some instances the products are brought to the universities from where the company acquires productive information regarding the quality of their product and/or suggestions for improvement. The presence and significance of university interaction was highlighted by all participants, save one. Naturally, the universities were of heightened importance to the companies operating within the science park, however, in terms of knowledge, all benefited from the apparent ease of access and cooperation. The SME/university interaction was 'hands on' and practical in nature in Finland with two participants (SME 1 & 2), operating from the science park, stating that they had reaped many benefits through engaging PhD students in their research process.

Regarding reciprocity (see Table 8.3), the participants also noted the importance of communicating and sharing knowledge. For example, SME 8 writes a newsletter marketing his product to all potential users. This information is not sent solely in a bid to acquire sales, but more to inform the educational sector about relevant campaigns that are being run at government level. Similarly, another SME participant frequently disseminates information to their customers regarding the legislation governing the area in conjunction with the benefits and importance of making their businesses more environmentally efficient. They deem it their responsibility to inform and educate customers, corporations, schools and universities with regards to this key global issue.

	Ireland	Finland
Access to Knowledge	High Recognised integration	High Recognised integration
Relationship Preferences for the Dimension	Close Embedded Ties	Close Embedded Ties
Reciprocity	Favouring the Participant	Equally Distributed
Focus	Short-term immediate needs	Long term orientation
Macro	Exports –Enterprise Ireland Low Technology Transfer	Exports –Finpro High Technology Transfer

Table 8.3 A comparison of key assess to knowledge findings between
Finland and Ireland
Source Author

The access to knowledge dimension, as an intervention exercise, was hugely beneficial to the Irish SMEs. The participants, through discussing the process of attaining and integrating knowledge, felt better positioned to attain future knowledge dually through their direct and indirect networks. Their use of networks for the access to knowledge, in the past, was extensive, which was surprising considering how low their level of the realisation dimension was. Additionally, whereas the Irish participants focused on value chain members in their discussion of the access to knowledge dimension of the relational capability construct, the Finnish participant SMEs focused on the valuable knowledge attained through macro level networks, through policy agencies and universities. This could further suggest a contextual difference in the orientation of the participants towards networks. That is, a macro level approach to the dimension would insinuate a long term direction and view towards networks, necessitating an investment of time and effort prior to realising any immediate benefits in terms of knowledge. Conversely, in analysing the dimension in terms of company stakeholders, the Irish participants were clearly seeking immediate, short term returns for their investment of time and effort. It became clear to the researcher that the participants, both Irish and Finnish, spoke with greater ease regarding the

access to knowledge process than the assessment and realisation dimensions. This could be attributed to the fact that the concept is more familiar to them, a natural activity implemented on a daily basis with more practical connotations than the realisation or assessment dimensions.

8.5 Access to Opportunity Dimension

Proposition 3 Access to opportunity is a relational capability that can improve the exchange process between SMEs in a network.

This proposition argues that SMEs can access opportunities through their web of business connections. For example, as SME owners, the participants are adept at sensing opportunities from their environment and, should financial/human resources not pose a barrier, acting on them. However, the means through which they utilised their networks in this process is less clear. Additionally, their view of what constituted an opportunity varied, with the majority of Irish participants expressing opportunities and networks during the initial interviews in terms of sales, leads, referrals and trade events. Regarding referrals it was noted by SME E:

Following a referral from an existing network customer there is an 80% chance of securing a potential customer.

SME F stated:

I have in the past attained customers through attending conferences. Through interaction with potential customers and the wide distribution of my business card I can generate opportunities for sales.

Clearly, the Irish participants' views of the access to opportunity dimension of the relational capability construct at the preliminary stages of the study were limited. However, since the commencement of the action learning sessions, their understanding of networks and their operation have steadily become more sophisticated, thereby shaping their understanding of access to opportunity pre-

intervention. The key themes which emerged from an Irish context both pre- and post-intervention are described in the following sections. Post-intervention, actual tangible benefits were attained through the access to opportunity dimension. Comparison with Finland is examined at the end.

8.5.1 Pre-Intervention

The key themes emanating from the group session were in relation to the main opportunities stemming through networks and the network contacts involved in the process. Close relationships with customers have led to opportunities for the participants in terms of referrals (see Table 8.4). According to one of the participants (SME F):

When a potential customer contacts us through a referral, we already have the advantage of an endorsement from a satisfied client. This leads to credibility and trustworthiness which are essential in securing a deal.

Therefore, the SMEs agreed that networks of customers can provide access to many beneficial opportunities and are thus relationships which need to be nurtured. This stems dually from an outstanding service that leaves a deep impression on the receiver, as well as from regular communication. Similarly, prestigious clients were also mentioned in terms of opportunities.

Although many opportunities were mentioned throughout the session, the main thread of the discussion was opportunities in terms of exports, technology transfer, collaboration, opportunity through network influence and experience. In terms of opportunity, the participants were aware that there existed a clear distinction between dyadic and network relationships. Access to opportunities stem from dyadic relationships whereas, converting them into a reality was facilitated through networks. Additionally, the participants' attitude towards risk proved to be a key enabling factor in the access to opportunity capability. Traditionally associated with risk taking, the actors spoke in terms of the potential rewards that can emanate through opportunities rather than the risks associated with them.

8.5.1.1

Export Opportunities

The participants discussed access to opportunities in terms of exports with networks of distributors playing a crucial role in the process. For the actors, access to foreign markets would have been hampered without recognised distributors ensuring the efficiency of product delivery, pursuing payments and dealing with customer support. As can be seen from Figure 8.11 below, the SME connected with the customer through the distributor. The strength of ties between the SME and the customer will be dependent on the product offerings by the individual actors, whereby the more specialised the offering the closer the relationship between the SME and the customer. The distributors utilised their networks to access opportunities in the form of additional sales for the SMEs. The distributors, to a large extent, sell related products, that is, many components which can be used by the same customer in the building of their end product. As was noted by SME E:

Our distributors sell other components that are used in conjunction with ours. When a customer calls them (potential customer Figure 8.11) they will ask if they have a supplier for the component we sell. If not, they will put the customer in contact with us (blue connector)

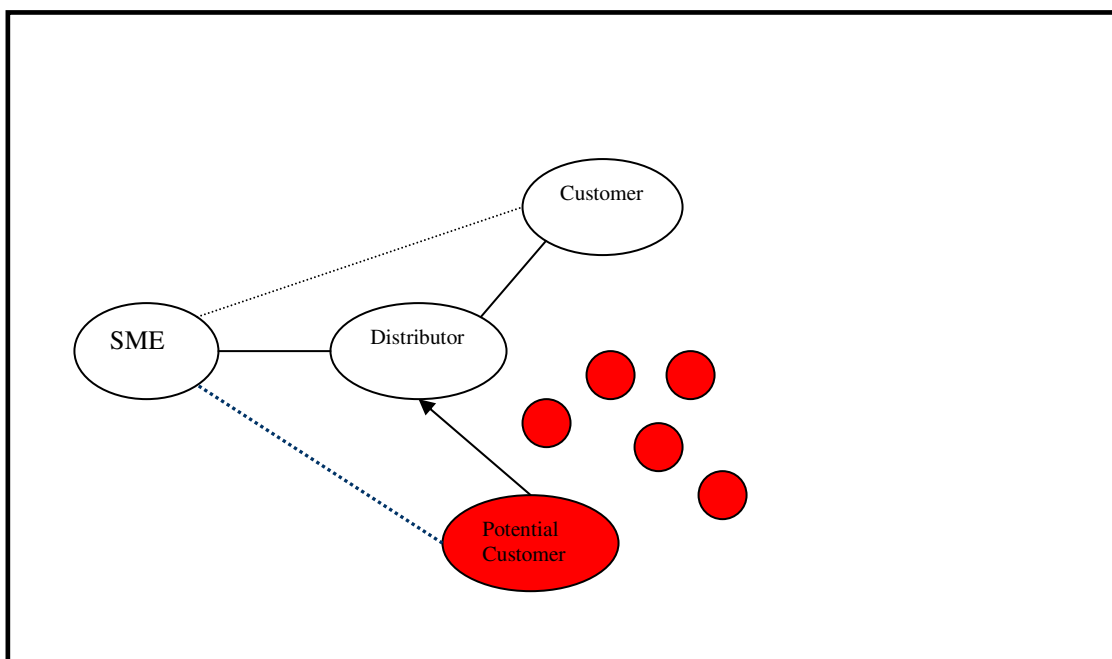


Figure 8.11 Access to export opportunities through distributor network
Source Author

Network and key relationship maintenance were highlighted as a means to ensure the continuance of opportunities.

With a complex product, the customer will work directly with us for design purposes. However, I will always give the distributor 10% of the sale price as they made the initial connection. This ensures that they will continue to recommend our products. Similarly, if a customer contacts us directly I will involve the local distributor to keep them motivated. (SME E)

This illustrates that, rather than trying to eliminate stages in the value chain to reduce costs, the SME participants actually strive to maintain their value chain relationships in a bid to access future opportunities and minimise the factors differentiating them from their larger counterparts.

8.5.1.2 Macro Level Opportunities

Networks with academic institutes and government agencies have led to opportunities for the participants. Through Enterprise Ireland, the participants have been given the possibility to build links and collaborate with the academic sector through the provision of innovation vouchers. With regards to opportunities, the attainment of the innovation vouchers involved a dyadic relationship between the individual SMEs and the state agency (Figure 8.12). However, the value of the opportunity was dependent on the networks surrounding the SME and the academic institute (Figure 8.12). For example as noted by SME D:

The innovation voucher has given us the opportunity to continue with the day to day running of our business while two experts from Waterford Institute of Technology (WIT) are working on a new application for our product. Holding office space at WIT, we used our connections in the centre of entrepreneurship to figure out the most relevant persons to assist us. The experts have been very generous with their time and have introduced us to relevant personnel within their department.

Access to opportunities has been achieved through the provision of funding to universities by government agencies. While this finance is not directly injected into the SMEs and the agency has no obvious involvement in the SME operating

processes, opportunities arise as the SMEs can approach the universities for product testing research opportunities. In turn, it is possible for them to gain access to the networks inside and outside the universities (Figure 8.12). According SME A:

Enterprise Ireland has injected €140 million into the food sector through partnerships with UCC, UCD and UL. Many research and training and development programmes have ensued through the funding, with the aim of supporting the development of a market oriented, competitive and innovative food sector particularly in the growing ‘foods for health’ sector, which meets the highest standards of quality and safety.

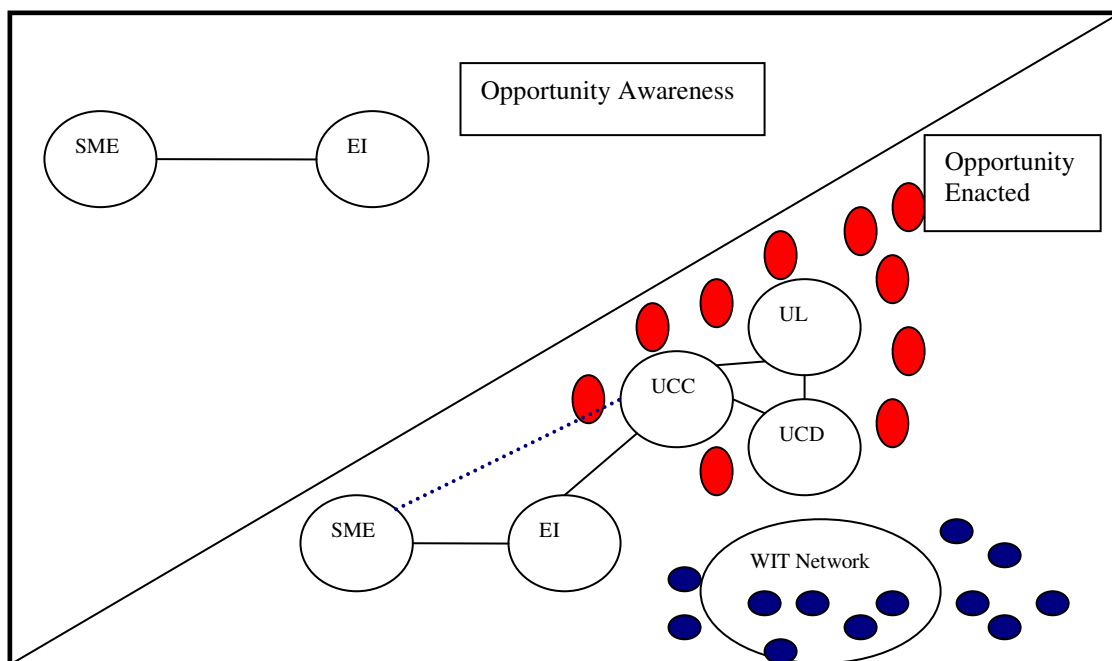


Figure 8.12 Opportunities through Technology Transfer
Source Author

Each of the SMEs participated in an entrepreneurship programme at Waterford Institute of Technology. They noted that, through participation in the programme, they enhanced their general management and strategic skills which has led to many opportunities in their venture. A serial SME owner/manager (SME G), with nearly 30 years experience, stated that there is always room to learn and has reaped many awards through the programme in terms of networks. He has had the opportunity to discuss his ideas and challenges with experts in the field. The programme has given him the focus that he needs to move forward with his venture and fellow

participants act as a sounding board for each other, giving time also to new owner/managers operating within the business.

Regarding access to opportunities in the form of state funding, the actors stated that the process is so complicated, time consuming and difficult to attain that they often wondered whether their efforts would be better employed in another capacity. However, relationship maintenance was highlighted as a means to secure future funding by the SMEs who received CORD funding (as explained in Chapter 2). SME H noted:

Following state funding, I contacted Enterprise Ireland with regard to the value derived and explained exactly the means through which the finance was utilised to benefit the company. Through this communication and cooperation I feel in a better position to secure further funding.

8.5.1.3 Opportunities for Collaboration

More than half of the participants stated that they would like funding in the form of investment but are not actively seeking it. The main reason for this apparent lack of proactivity is that they are unsure of where to go or who to approach regarding this issue, a problem which they feel could be facilitated through networks. Two of the participants in the action learning network discussed some other trajectories or possibilities that have been useful for them in the past relating to attaining or making investment.

My accountant called me last month with a business proposition. As he was aware that I sold my last company to a US based firm, he asked me whether I would be interested in investing in a new, similar start-up. Following discussions with the new entrepreneur, I invested in the company. It is an area that I am so familiar with that it takes little effort in terms of assisting with the sales end. Within two weeks it is already showing a considerable profit. (SME H)

Another participant (SME B) expressed the value of talking to solicitors in terms of venture capital. From dealing with numerous small and large corporations, they

know what could be expected to succeed in the market and are also familiar with those who are most probable to invest in a particular type of venture.

SME H set-up a website, part of which details a directory of agencies that can provide funding, training and education. Access to the funding site was set up mid-way through this programme which highlights that the owner/managers realise that one of the main barriers thus far has been finance related. The actors also noted that in terms of collaboration, inducements must exist for both parties for opportunities to be realised. It was decided that the greater their stock of knowledge, resources and networks the greater the firm's attractiveness to partners, and the greater the firm's collaboration opportunities.

8.5.1.4 Access to Opportunity through Network Influence

The interconnectedness of networks has the ability to provide opportunities to individual actors. When an SME successfully designs a product for a customer, the product may potentially have an impact on the customer's network, independent of the SME actor.

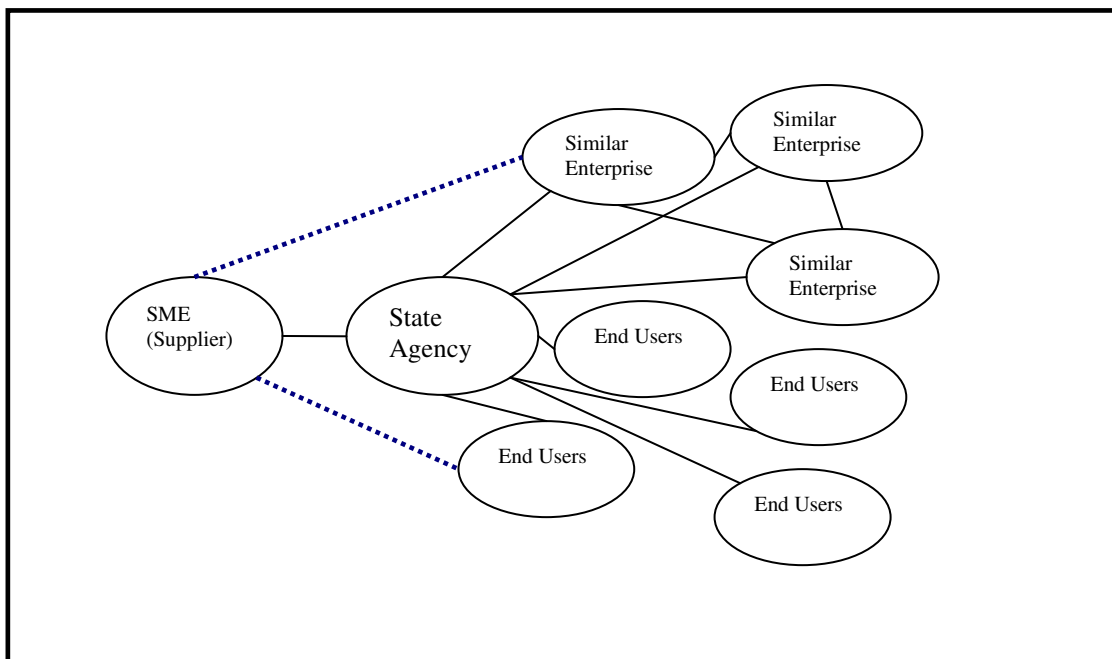


Figure 8.13 Influence on customer networks as an opportunity
Source Author

Conversely, a successful product design for a customer can benefit the SME by gaining entry for the company to the customer's networks. One of the participants (SME H) offered the following example illustrated (in Figure 8.13) above to the group. In this instance, by supplying the state agency, the SME manager/owner's product will reach all sister agencies. Because of the product attributes and the influence of the lead user, the SME gained access to the network of state agencies through their dyadic connection with the initial customer. The SME's network has expanded offering him the opportunity to service more than half of the 40 agencies operating within Ireland. End users of the product have also approached the SME with enquiries and sales. Thus it was ascertained that the attainment of a large, prestigious customer can facilitate opportunity generation through their networks and association with them. SME E gave a further example of this concept.

I have been trying to organise a meeting with the head engineer in a French firm for the past three years. They use a product similar to ours in the assembly of their product and I feel that we could be very beneficial to each other. However, due to our 'smallness' this has not been possible. Recently we signed Sony as a client in France. Since then the doors of the other large company have opened and we are to meet in the near future.

8.5.1.5 Opportunities through Experience

Business experience, functional experience, and industry experience were all useful for the discovery and exploitation of opportunities. Through years of operating in their chosen industries, the actors had built up a large network of connections in the field, stemming dually from previous employment and their new ventures. Past employment represented a source of access to opportunities for the actors. The majority of actors met their business partners while in previous employment, two of them through redundancy offers. Their skills usually differed from those of their chosen partner, for example, one participant is a sales and marketing expert and he set up with three technical experts from the same organisation. Although they came from different fields of expertise, the participant had the advantage of discerning their qualities and suitability of

partnership through his previous relationship with them. Also, stemming from experience, the participants were aware of the key customers, suppliers, distributors and other stakeholders in their industry. None of the SME participants posed a threat to their previous companies as they focused on a small part of the value chain in their offerings. In fact, for some, their previous employers represented their largest customers.

8.5.2 Post-Intervention

The researcher asked each participant to map out what they would like to achieve and match it with the networks that could potentially realise it. The post-intervention themes are given on an individual level as measurable and transparent results emerged. Two of the participants stated that they were reviewing their business processes in a bid to determine whether outsourcing should be seriously considered in order to save time and finance. This process, they realised, would take time. However, they did look to the two group members who successfully outsourced for more information. Five of the participants discussed how they were progressing in terms of their task.

8.5.2.1 Macro Level Opportunities

Many macro level opportunities were realised through the networks. One participant discussed his failed attempt to be granted the Commercialisation of Research and Development (CORD) grant (see Table 8.4). The aim of CORD funding is to bring a new product idea/business venture from a third-level educational institution to market. Following the lengthy application process, and subsequent rejection, SME B discussed the application with the network members. It was suggested to him by a learning set member that he approach SEBIC with his application and go through the process again.

The whole team at SEBIC worked with me to get the funding. They took a practical view, gave me 'real world' feedback, ripped the application apart and put it back together again.

This participant was impressed with the speedy response from SEBIC and plans to return to them in the future regarding business angels.

At this point, it is important to note that the network, as set by the researcher, is starting to prove beneficial in itself in terms of opportunities.

Following the previous discussion regarding the innovation vouchers, two other participants decided to seize the opportunity and contact Enterprise Ireland.

Although the process is not yet complete, I have every confidence that our company will attain an innovation voucher. We have previously been in receipt of CORD funding and have maintained a good relationship with Enterprise Ireland. (SME H)

Another company decided to research the opportunity of exporting their service to the UK. They approached Enterprise Ireland due to the fact that other participants had stated that they were powerful in their overseas capacity. The SME owner/manager had also enjoyed positive experiences with the organisation in the past through the provision of sales training and health and safety training. Such training had enhanced their business mainly in terms of their confidence levels and sales skills.

The outcome from our meeting with Enterprise Ireland concerning exporting was very positive. We were very impressed with the overseas network potential through EI. However, we feel that we are not quite ready to make the move yet. Through discussing our options with EI we have become aware of the complexity associated with foreign sales and were advised to work to full capacity and prove ourselves completely in the Irish market before venturing abroad. (SME D)

All of the above testimonials are at a macro level and have been encouraged and achieved as a direct result of this study, through operating in the group. This shows that once the participants are conscious of what is available on a macro level and the means by which to achieve their goals, they are working to an

advantage. It also illustrates the depth of learning which can be accomplished through interaction in a peer group setting.

SME F resolved to fully utilise the opportunities that presented themselves through information technology. He has enlisted the support of a fellow participant to teach him how Customer Relationship Management (CRM) technologies operate in order to retain all relevant information about his customers.

Four of the participants decided that with their combined experience as SME owner/managers they would take the opportunity to assist new entrepreneurs. They approached the start-ups and informed them that they were available at all times to act as a sounding board and assist them in anyway that they could while they were trying to start their ventures. Since then, many of the new companies have approached them.

The outcomes above demonstrate how, from an Irish perspective, gains were achieved at an individual network (customers, suppliers, distributors etc) level, at a group level and at a macro government level.

8.5.3 Comparison with Finland

The Finnish view of macro level opportunities delved more into creating and maintaining close links with the universities rather than solely looking for funding. With regard to processing improvements, some of the participants noted how their relationships with universities permitted a more rapid transition of product to market by carrying out testing at the university. In the case of one participant, the technical education department in the university assisted him in the development and structure of his product. The products were tested by the university on the company's behalf to ensure their strength and durability as many components were connected by welding (SME 8). The presence of close relationships with universities relieves the companies of the financial burden of employing more individuals to carry out the procedure. In addition, the individuals conducting the testing are experts in the respective areas and would be difficult to

engage without this relationship with the college. Another advantage of maintaining close links with the university lay in the opportunity to discuss issues pertaining to their business with like minded individuals (SME 1).

Although my area of business is very different from the other companies in operation in the science park, we can chat about our issues, funding opportunities and successes in the canteen. For the most part, we face similar issues and on occasion have helped each other to solve problems.

One company (SME 2) noted that they have students working with them on product development and testing as part of their PhD studies linking them even closer to the universities. For this company, the link has been a huge opportunity in terms of technology transfer. The Finnish participants also praised the management training that they received through the university. As specialists in their respective fields, they stated that the business knowledge acquired through participation in university-led programmes has enhanced their businesses and assisted them in their growth. As SME 7 noted:

The course provided by the university was very relevant to the start-up stage of business that I was experiencing at the time. However, for me, the opportunity to approach the academic staff for advice and support as the business has developed and grown has been even more beneficial.

For some participants, one of the most important opportunities stemming through their networks is the ability to test various distribution processes. Although mentioned by many, SME 4 who is experiencing rapid growth, both domestically and abroad, is aiming to determine the most efficient export strategy on a country by country basis. Hence, the company is willing to try, using different relationships, various processes in order to deliver its product. Although such opportunities can be viewed from both an individual level and from the participant's network levels, the researcher feels that it can also be viewed from a macro level. This is due to the fact that much of their export activity is enacted through close cooperation and relationships with Finnpro. In the same vein, the majority of participants noted the value of building close ties with Finnpro as they provide the opportunity to export through the generation of country and sector

specific information. This is a similar role to that highlighted by the Irish participants in regards to Enterprise Ireland. However, in Finland, Finnpro has assisted some of participant firms in their search for a suitable overseas sales agent.

Time, as an opportunity, was mentioned by the Finnish participants in relation to networks yet, interestingly, not by the Irish (see Table 8.4). They recognised that time saved through interaction with their networks, in terms of accessing information pertinent to their business, has given them time to be more innovative, to pursue sales and to build closer relationships with key stakeholders in their business. The key time-saving network members, according to the participants, are employees. The participant companies, who had a sales force in their employment, illustrated their importance in bringing back information regarding both domestic and international markets and customers. In addition for many, the building of relationships with particular customers was primarily the responsibility of agents, distributors and sales teams allowing time for the owners to develop products, relationships and joint processes with suppliers, distributors and manufacturers.

SME 8 explained how he could concern himself with other areas due to the time saved by establishing close relationships with the two companies responsible for the manufacturing of his product.

I have been supplying the same equipment since my business was born many years ago. The manufacturers of the two main components have been working with me from the very first day and do not require me to work with them at any stage during the development process. This allows me the time and opportunity to seek more business and more sponsors.

The Finnish participants noted the opportunities which networks presented to acquire partners, that is, opportunities for collaboration (see Table 8.4). As previously mentioned, one company explained that this opportunity arose through the Innovation Relay Centres and the Magnet project in operation at the science park at the University of Kuopio. Other participants stated that they maintain networks with many people in anticipation of finding an ideal partner with whom to cooperate. Such participants are willing to relinquish some power and capital in

their business in order to grow more quickly. These participants favour partners who are related to their business area and who can add elements apart from financial to their company. They are projecting long-term synergies and are taking their time to ensure that the relationship will be compatible on many levels. Opportunities through experience (see Table 8.4) were another aspect mentioned by the Finnish participants. Many had operated within specific fields for many years and knew all the important players in the area. This lengthy experience also ensured intimate knowledge of their products and as such can reap opportunities immediately.

	Ireland	Finland
Access to Opportunity	High Recognised opportunities	High Recognised opportunities
Type of Opportunity	Customers – Referrals Distributors – Export Macro – Funding, Training Experience	Distributors – Export , strive to make process improvements Macro – Product testing and knowledge transfer Experience
Focus	Short-term Capital Injection	Long-term Partners for Collaboration
Main Benefits	Access to Funding (CORD) and Innovation Vouchers	Time Saving Access to potential collaboration partners (IRCs and Magnet Programme)

Table 8.4 A comparison of key assess to opportunity findings between Finland and Ireland

Source Author

Therefore, as can be seen in Table 8.4, in terms of access to opportunity, the Irish participants showed an enhanced understanding of the value that can be derived through viewing networks through an industrial lens. Initially discussing opportunities in terms of referrals, they showed enhanced ability to conduct their

marketing through networks through discussing issues such as opportunities to export through close collaboration with distributors. This clearly indicates that they are moving towards a similar level of understanding as the Finnish SMEs, although their focus remains on short-term goals.

8.6 Co-Adaptation Dimension

Proposition 5 Proactive product or process adaptations are achievable by SMEs through networks. Such adaptations may occur between SMEs or within one SME based on discussions within the network setting.

Following the initial discussion with the Irish participants, the researcher was able to extract the factors positively affecting the current adaptation process of the SMEs involved in this research paper, potentially facilitating co-adaptation. Figure 8.14 illustrates that the strength of relationships with network members has an impact on the type of adaptation sought and/or achieved by the Irish SMEs who participated in the study. In terms of adapting product price, although it influenced the relationships within a value chain, the ability to adapt prices was not dependent on these relationships. Conversely, adapting products for foreign markets was greatly facilitated by strong ties with distributors, customers and their respective networks. Regarding capabilities, it emerged that the actors' expertise could be described as an internal capability representing the tacit and explicit knowledge held by each individual actor. Whilst important in the co-adaptation process, certain business procedures were shown to be more positively in line with co-adaptation through networks. Each facet is described in detail in the following sections concluding with a cross comparison with the Finnish participants.

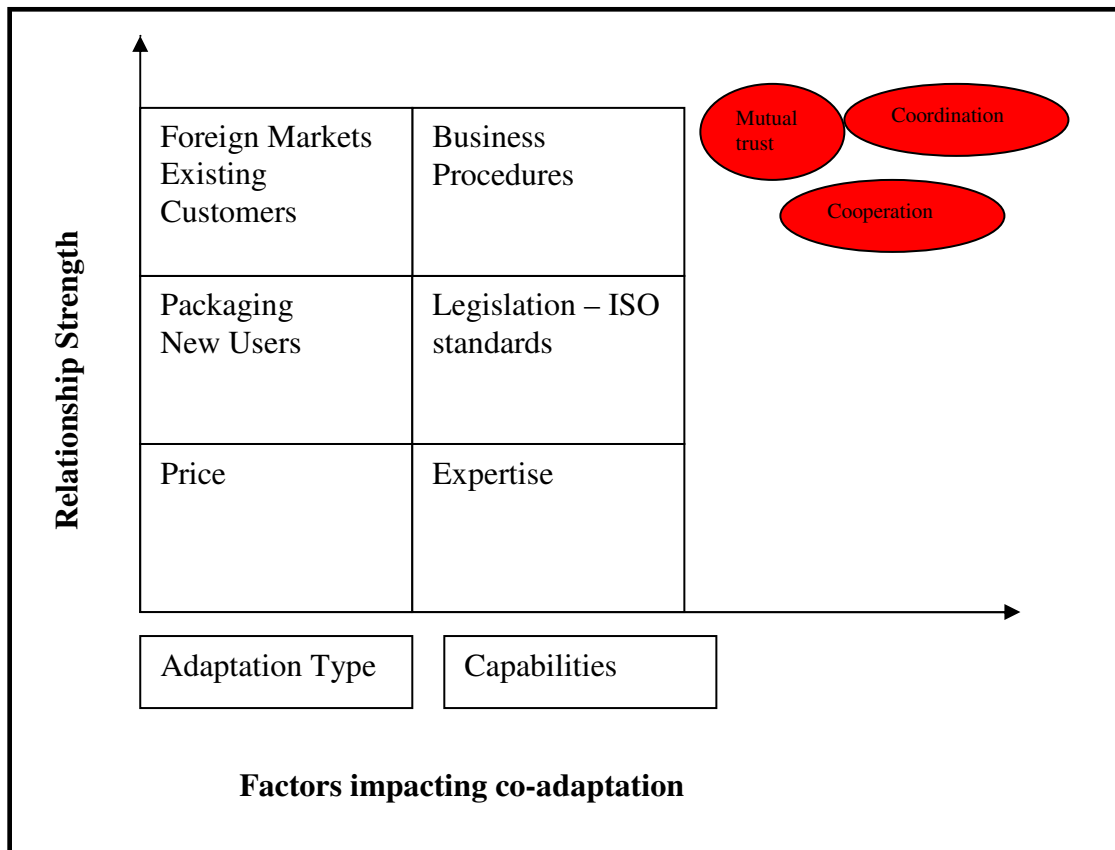


Figure 8.14 Factors impacting on co-adaptation in relation to relationship strength.

Source Author

8.6.1 Pre-intervention

8.6.1.1 Business Procedures

Some of the participants engage in mass customisation and co-adapt their product for each customer based on specifications defined by the customer. Whilst this dyadic structure provides tailored products to meet client needs, it does, however, render comparison of prices with competitors difficult and the focus is realigned from price to benefits.

Our products change all the time and are customised on a customer by customer basis. We offer ‘mass customisation’ providing a custom solution for all devices in the market. (SME E)

This participant called this process “customer design-in” and felt that most products are custom designed for the end user, delivering high performance goods for the client. He stated that:

This provides a ready made channel and lessens risk of product failure. The custom products can also be sold to other players in the market – we now have an extra part we can hopefully just modify by tuning for other devices. Each time the customer feels that the product is specific to them.

Co-adaptation through dyadic relationships was customary where a small number of larger companies represented the client base. Co-adaptation strengthened the relationships between the customer and SME as a result of the coordination and communication mechanisms created for the product development and testing (Figure 8.14). Mutual trust characterised the co-adaptation process as:

- a) the SME had to ensure that the customer would accept and pay for the product
- b) the customer had to trust that the SME was competent in its ability to analyse information
- c) they had to procure reliable adaptation solutions
- d) the client was required to trust the competence of the SME in product delivery.

The latter was particularly important where the customer provided financial support during the co-adaptation process.

Adaptation was facilitated by the fact that it was implicit in their business plans, accepted as something that must be carried out. All participants displayed a willingness to adapt, especially for their larger customers. The common view is that “adaptation is incremental innovation” and that “you can only adapt so many times prior to innovation”. Co-adaptation was seen as the norm where long term relationships existed between large customers and suppliers, and necessary in order to cope with environmental changes in addition to changes in customer, supplier, or distributor needs. For the actors, involving other stakeholders was a less precarious adaptation strategy, as they were guaranteed demand for supply. In

addition, adaptation was seen as an alternative to innovation with less financial input at the outset. According to SME F:

I have yet to adapt a product at a loss. My adaptation strategy follows information from distributors, customers and staff. Therefore, I am fairly assured of the need for change before embarking on it.

For SME H:

Co-adaptation is essential. The market and products are changing so rapidly that alone I could not keep up with the pace.

8.6.1.2 Expertise

The SMEs' specialist expertise in their area also facilitated adaptation as they were able to see potential adaptation opportunities (both abstract and minor adjustments) and act on them immediately. Expertise is an internal capability, held by the individual SME owner/manager and does not require a high level of relationship strength (Figure 8.14). However, this research argues that in order to co-adapt, relationships are necessary to integrate internal expertise with external knowledge from network contacts. Some of the participants adapted their products to increase their customer base and boost sales for rapid growth. With certain alterations, they realised that they could target new user groups and increase profits with minimum risk and investment. For example, SME G set himself the challenge of learning how to programme a computer that was unused in his employer's office in the early 1980s. Through facilitating the owner in this manner, the SME owner/manager realised that a gap existed in the market to build programmes for computers. As it was the early 80s, no software programmes existed that could be purchased 'off the shelf' or otherwise. As a true entrepreneur, he quickly converted his idea into a product which he designed with three fellow employees for the investment industry as it was the industry in which he was employed at the time. The programme allowed employees to build databases of customers, conduct search queries and store all information electronically which was pertinent to each individual customer.

As it was an instant success, the SME owner and his business partners decided that with minor adaptations the company could develop a similar system for the medical field. Building relationships with medical practitioners, they co-adapted the package so that it stored patient records and was inclusive of all of their visits and check-ups. Again, realising the value that the product brought to the medical industry, they co-adapted it through relationships with dentists and automotive experts for the dental trade and automotive trade. The owner/manager created licensing agreements with a company in San Francisco, an idea that was relatively new at the time, allowing him and his company to write front end applications and tie them into existing accounting software.

Thinking abstractly and utilising his core expertise, the SME owner realised the potential for his product in the fast food industry. This adaptation was more complicated as it involved the manufacturing of a computerised, point of sale system for pizza ordering. The actors involved in the co-adaptation process are graphically depicted below in Figure 8.15 and described in terms of their interaction in the co-adaptation process.

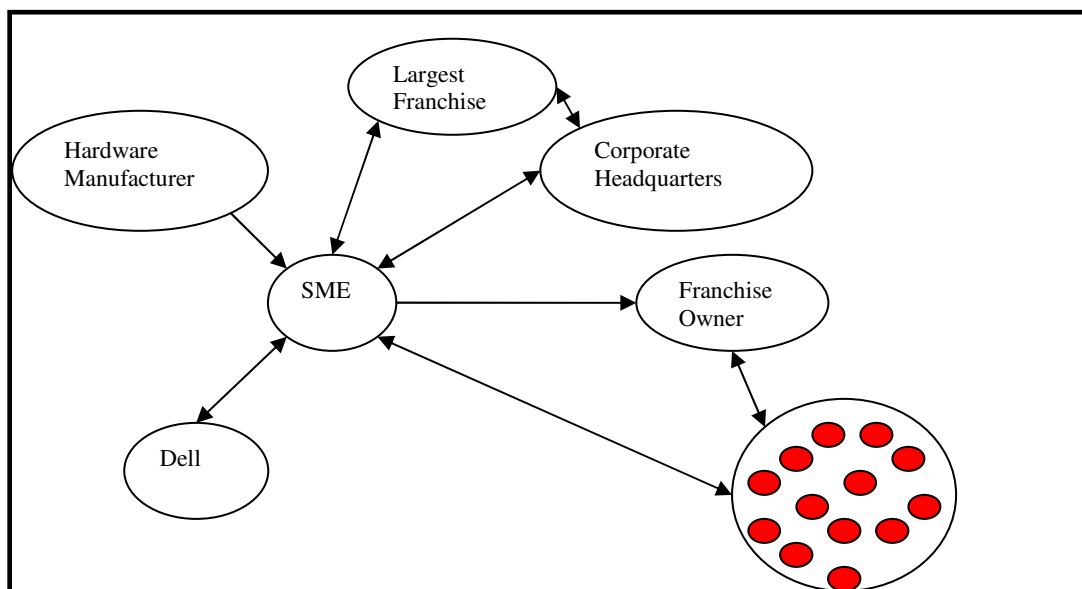


Figure 8.15 Using networks for adaptation
Source Author

In terms of his relationships, the SME owner elaborated on how building relationships with key players assisted him in the adaptation process and bringing

the adapted product to market. He initially approached a franchise owner with the idea (Figure 8.14). He offered this 'lead user' a free system in return for assistance in the development process. The franchise tested various systems and acted as a spokesperson for the project with other franchise owners in his networks (red dots). The participant also contacted the corporate headquarters of this particular chain highlighting the value that this software would give to the franchises nationwide. The franchise owners were very interested as they were in favour of the standardisation of procedures within the individual stores. Due to this interest, the headquarters set up a meeting with themselves, the largest franchise owner who was responsible for four hundred stores and the SME.

He was subsequently approached by one of the then leading hardware manufacturers who had heard about the venture and was looking for a partnership opportunity. They would provide the hardware to meet the needs of the software as manufactured by the owner/manager. The relationship grew, allowing the owner/manager and his company to develop the first touch screen technology in 1986. Following the completion and testing of the software on all platforms, there was an issue regarding pricing. The partner manufacturing company wanted to charge triple what the owner/manager anticipated the price of the product would be. They decided to bring the entire operation in-house. They struck a deal with Dell for the hardware and selected a further seven stores to fully test the capability of the product. A licensing arrangement was then made with the corporate end of the business who suggested that they target the European market. This was in their best interest as it would standardise procedure in all outlets, a process favoured by many franchises to ensure stability and quality of service.

There is much to be gained from adapting within networks. The example above highlighted to the participants the value of moving from dyadic structures to network structures. Participants could clearly see that such adaptation allows a company to speed up operations. It also enhances the company's ability to use resources that they do not otherwise control. They gain financial resources and human resources in the form of expertise from other network actors. This example also highlighted the fact that challenges can be met along the way but can be surmounted. It also showed that trust within these networks takes time to build.

8.6.1.3

Legislation

The participants spoke in terms of how the regulations governing their industry area facilitated co-adaptation through ensuring that at least mid-strength relationships develop between industry stakeholders (Figure 8.14). Co-adaptation opportunities arise through the systems and procedures that must be followed in order to meet ISO industrial standards. For example, the participants are obliged to conduct vendor reviews, hold mandatory meetings with suppliers, distributors and large customers. Such meetings build the network relationship strength and allow for discussions regarding new trends and products in the market.

Consumer service audits facilitate adaptation. It helps us to determine what products are successes, what new products or adjustments are required and what changes the customers would like to see. (SME A)

8.6.1.4

Type of Adaptation

The type of adaptation also has an effect on relationship strength. For example, for the participants, altering prices involved minimal relationships with network contacts (Figure 8.14). Three participants noted that they adapt the price of their products on a customer-by-customer basis. For some, the price adaptation is dependent on the degree of product adaptation required whereas, for others, price is dependent on the volume of products ordered. The participants also noted that they adapted their pricing strategy on a country by country basis. Currency rates, delivery charges and rate of sales all had an impact on the prices charges. Payment processes also varied on a customer by customer basis. One participant stated that competitors and those selling related products were very valuable in discussing which customers it was safe to extend credit to.

In addition, from an Irish perspective SME D stated:

The tender system mitigates against SMEs such as ours. When applying for a job on www.etenders.ie I feel like I have to lower my margins in an attempt to secure the work and compete against the big players in the industry.

Co-adaptation of prices occurs during price negotiations with customers and suppliers. It is depicted as not requiring close ties. However, some of the participants did mention that they have ended relationships with long term suppliers due to increases in prices. Co-adaptation also occurs with distributors as they need to agree to change their prices together. Many network actor's offerings affect the price of goods or services, according to the participant, so they must be considered and any change must be discussed with them in order to ensure that the relationship does not end.

Adapting existing products for sale to new user groups required a mid-level of relational strength (Figure 8.14). Many of the participants engaged in this type of adaptation, usually with the assistance of at least one member of their network. For example, SME B recently adapted its software to serve a new user group. The adaptation was conducted jointly with a close customer to meet a new customer's needs, hence a dyadic relationship.

We were trying to think of ways to boost sales and write lists of potential customers that we could target with our product. However, when the list was complete we realised that we needed a new strategy to boost sales as we already had a considerable share of the market for our product. Therefore, we adapted our product so that we could target a whole new user group. The financial investment required was minimal, yet we have received substantial earnings from the adaptation.

SME C noted that although they have not adapted their core products they have adapted their packaging. This, he noted, had been made possible through relationships with their suppliers. The new packaging helps them to distinguish themselves from their competitors and is more user-friendly. Similarly, they have adapted the packaging for each foreign market that they have entered due to language differences, on the recommendation of their distributors.

The participants varied in their reasoning behind altering their products and/or services for new use or new conditions. However, the most commonly cited explanation was to maintain satisfied customers, a relationship which was further

enhanced if they were involved in the process. Each SME owner/manager recognised the value of customer retention and the cost of replacing lost business. Their core aim with regard to adaptation was make the necessary alterations that customers dictated. Adapting products and services for existing customers requires a high level of relational embeddedness (Figure 8.14) between the customer and the SME and was termed 'customer dictated adaptation' by the participants. The SMEs noted that they ask their customers what new products they would like to see, or what adaptations they would like to be made and set about making them. Often the customers make explicit suggestions regarding possible positive adjustments that can be made to products and services. Such adjustments, according to the participants, can often be applied to many products and many user groups. High level relationships are also necessary for adaptations for foreign market sales. Adaptation to packaging requires relationships with suppliers. However, relationships with distributors highlight the necessary adaptations. Some of the participants noted that necessary adaptations are often too costly and not worth the effort.

8.6.2 Post-Intervention

As an intervention, the researcher asked the participants to think about the adaptation process and the network support received at each stage of the process. Additionally, the SMEs were asked to brainstorm on possible co-adaptation opportunities, both within the session and before the next session with individuals from their networks. Key themes which emerged post-intervention were the support in the adaptation process and future co-adaptation opportunities

8.6.2.1 Support in the Adaptation Process

Support in the adaptation process is depicted graphically below in Figure 8.16. The stages involved in the adaptation process, as highlighted by the participants, are described briefly below.

1. Identify the need for adaptation.

2. Discuss possible adaptations. Each potential alteration must be fully analysed to ensure that it accurately meets the needs identified.
3. Look at each alteration in terms of the market and the cost involved. A market must be identified for each adapted product and costs must be examined to see if the alterations would be worthwhile or if they would be prohibitive.
4. Experiment with the alternatives. The testing of the viability and suitability of the product. For most, this is the first stage that requires a cash injection.
5. Test the products and make further adjustments. This allows for minor alterations to ensure the product meets the necessary criteria outlined in the first stage.
6. Commercialise – get the product ready for the market.
7. Distribute.

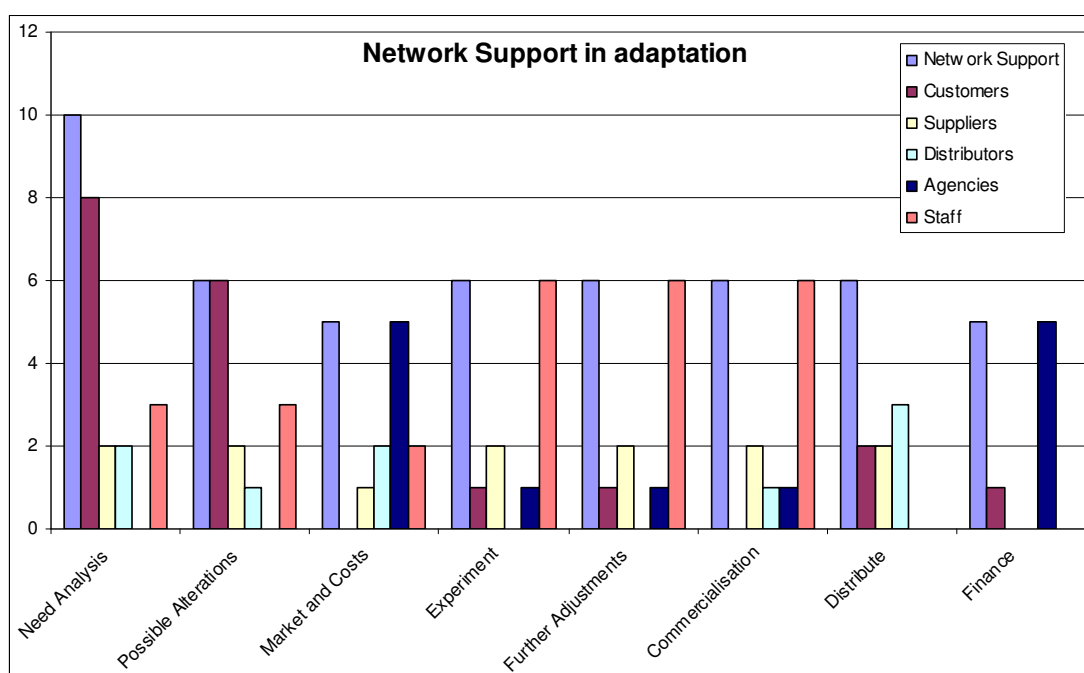


Figure 8.16 Network Support in the Adaptation Process
Source Author

Not any of the participants felt that they were fully supported in the adaptation process through their networks (Figure 8.16). In terms of identifying the need for product/service adaptations, each participant noted that, to some degree they had

assistance through relationships and networks. The most prevalent network comprised of customers where the majority of participants felt that it was through communication and carefully listening to their clients that they realised a change was necessary. For some, the customer requested additional features, whereas others had very close ties with customers and were thus able to discuss product features in greater detail. Distributors and suppliers were important, especially in cases where the SME owner rarely dealt directly with the end-user. Staff members were also identified as important in terms of idea generation.

In terms of discussing the various co-adaptation possibilities, relationships with customers proved to be the most cited by the participants. As SME D suggested:

Sometimes a customer will tell me that they want a certain additional capability from the software but will be unsure exactly what way they want the outcome to present itself. Basically, they have a general idea of what they want but we need to discuss options together in order for both parties to figure out exactly what it is that they really require.

The participants also noted at this stage that they ‘brainstorm’ with employees in their adaptation process. This, to the researcher, was interesting as it was the first time that the Irish participants noted employees as a part of their innovation process. They recognised that they need input from each area of expertise within the organisation and that everyone should or does have an impact on the adaptation process.

From a macro level, to ensure a demand exists for the adaptation and to conduct feasibility studies, networks with public agencies were noted as important in the co-adaptation process. Additionally, as noted earlier, at this level, Enterprise Ireland proved useful in co-adapting for foreign markets. The fact that they have established offices worldwide with marketing specialists was seen as a significant aid to the process. They conduct research for companies prior to exporting to test the likelihood of the product’s success and make the company aware of country-specific adaptations that must be made. They are involved in the co-adaptation process through the dissemination of knowledge. Additionally, two participants firmly highlighted the value of having close ties with distributors for conducting

market analysis at this point. For one, this was particularly the case when dealing with foreign markets.

Staff featured high on the scale regarding testing, adjusting and commercialising new designs and products:

Naturally our staff has the core expertise to carry out the physical adjustments. (SME E)

However, customers and suppliers were also responsible for testing and development in one particular company.

The companies that maintain close relationships with their distributors naturally highlighted their value and worth at the final stage of the adaptation process. Interestingly, customers were also mentioned at this point. SME E noted that:

In my view, distribution involves a lot more than the mobilisation of goods and services. In my opinion, customers greatly assist in the diffusion of products and services through 'positive word of mouth'.

Finally, in terms of financial support, only five participants noted that they had ever received financial support in the adaptation process, all through varying policy agencies and schemes and, in the case of one participant, through a customer. Therefore, as can be clearly seen, no one relationship has started at stage one and continued throughout the entire adaptation process.

8.6.2.2 Future Co-adaptation Opportunities

Regarding future co-adaptation opportunities through networks, the participants focused on the changes to their adaptation strategy in lieu of co-adapting their products or services. One participant highlighted that they were considering the possibility of insisting that customers financially assist them in the adaptation process. For these SME owners, many of their customers were state-funded enterprises and would understand the cash-flow issues associated with adapting products at their request.

Ideally we would like our larger customers to take some responsibility for the cost of adaptations during the process.
(SME E)

SME B spoke about the fact that his company has one very specific purpose-built product which cannot be adapted at the moment. However, he did state that there was a very innovative process behind the web-based application that could potentially be used as a back end for other programmes. To this end, he was approached by an SME owner in a related business looking for a similar application. Although the offer was financially attractive, he rejected the offer on the basis that it was not what he set out to do in the company. Three network members noted that what he rejected was a 'cash cow', as it would potentially generate extremely high profit margins which could be used by the business for other purposes. Although not part of their business plans, they felt that their 'cash cows', at lean times, kept their businesses afloat.

The participants also spoke in terms of partnerships to facilitate the adaptation process. They noted that they were blinded by solely looking for finance in terms of partners instead of what else potential partners could offer in terms of human resources, specialist expertise and distribution routes. From a financial perspective, they realised that by working together with various types of partners through the adaptation process, they could potentially share and thus reduce transaction costs. To some degree, cooperation is, in some cases, still accompanied by the risk of losing crucial information and competence to business partners. As such they have been proactive in identifying organisations which they could potentially collaborate with but have been reluctant to take the initial step. The fact that none of the participants discussed possible adaptations with their competitors further leads the researcher to believe that partnering with other organisations will be hampered by their fear of losing control of their ventures. In fact, through the analysis of this dimension, the fact that the majority of the SMEs had an adversarial attitude towards their competitors and no trust existed between them was highlighted (see Figure 8.17).

As shown in Figure 8.17, throughout the study it was found that there were factors both hindering and enabling the SME co-adaptation process from an Irish perspective. Co-adaptation was hampered by the SME's lack of trust. They feared losing important information to competitors and hence did not trust many actors. Additionally, they did not want to lose control of their companies or indeed a part of their companies. The Irish participants were mainly looking for a capital injection from a business angel as opposed to being more focussed on receiving the financial help from partners who could potentially assist them in the process.

However, there were also positive factors facilitating co-adaptation within the companies. The researcher believes that they would only increase in strength over time as confidence in the co-adaptation process through networks grew.

As the drive for growth increases, the participants will begin to see the positive sides to the process and the desire to move on to pastures new and break into new customer areas will outweigh the fear of losing control in their existing business. As communication skills develop between the actors in a network, the concept of co-adaptation through that network will grow. Each member of the network will be better able to define their needs and concerns succinctly and without fear of damaging relationships within that network. Also as 'success breeds success', the better the adapted product or service meets the needs of the clients, the greater the confidence of all members of the co-adaptation network in the network itself. The more expert the product, the greater the potential for developing further expert products.

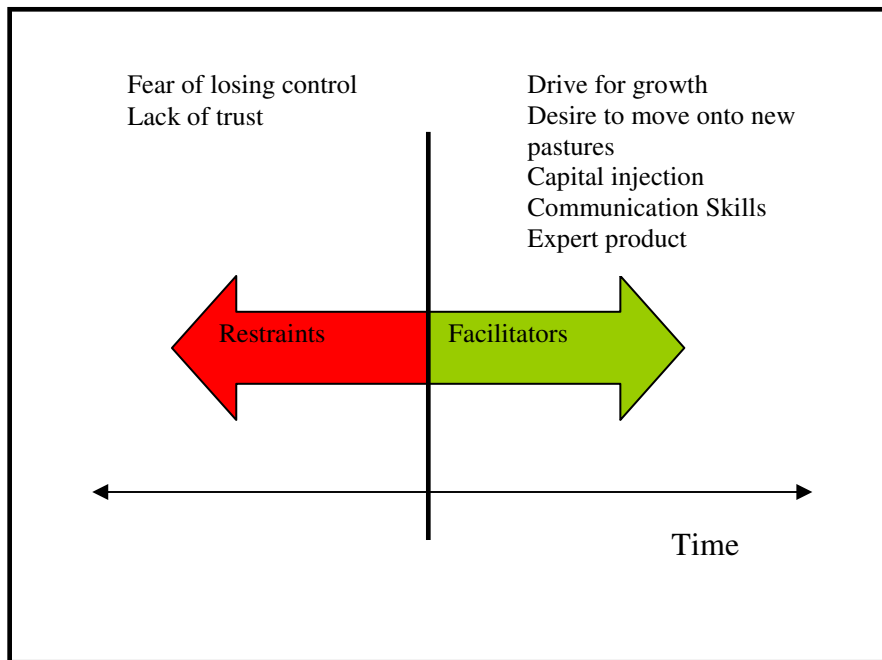


Figure 8.17 Restraints and Facilitators of SME co-adaptations through networks
Source: Author

The participants noted that adaptation is an evolutionary process and, as such, it is difficult to write lists of possibilities. They did, however, appreciate the fact that they could proactively manage the process in the future, incorporating members of their value chain and other network actors.

8.6.3 Comparison with Finland

All of the Finnish participants have adapted their products and services since the inception of their companies. In addition, all of the participants noted that the adaptations that were made would not have been possible without relationships with various stakeholders in their business. The Finnish SMEs naturally viewed adaptation as co-adaptation. The key network players in the co-adaptation process are depicted below.

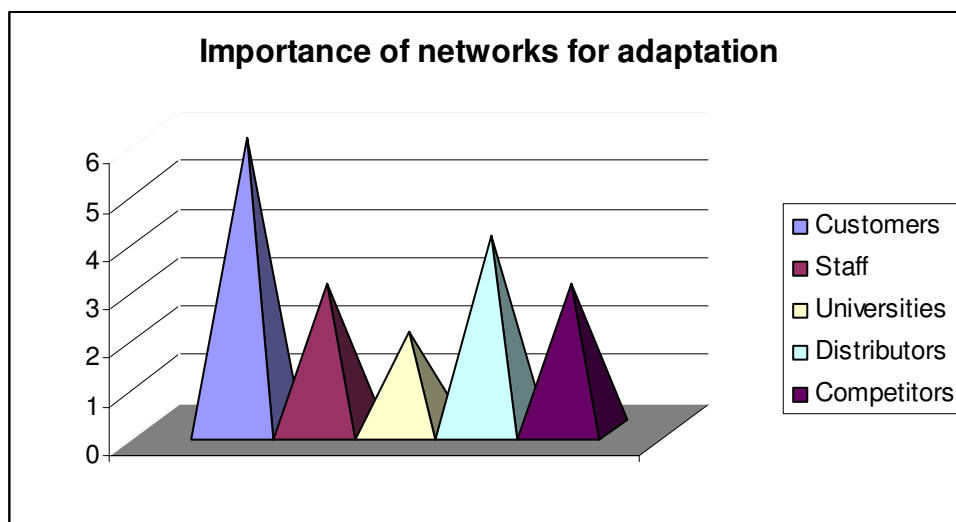


Figure 8.18 Network Support in the Adaptation Process
Source Author

As clearly stated, the Irish have engaged in co-adaptation using relationships with customers, suppliers, distributors and other stakeholders in the business. However, as can be seen through the previous dimensions, macro level networks greatly facilitated the Finnish participants in their adaptations through access to knowledge and access to opportunity. Prototypes were developed for adapted products at the universities and testing regularly took place by experts within the academic Institutes.

The motivations behind co-adaptations were similar in both contexts (see Table 8.5). As can be seen from the Figure 8.19 below, four of the participants noted that adaptation was a necessity in order for them to compete effectively in their field. This was also mentioned by the Irish participants, particularly those involved in high-technology industries where change occurs at a rapid level. Another factor which led to the necessity of adaptation was the decline in certain industries which forced the Finnish SMEs to diversify. For example, as noted by SME 5:

The population is decreasing so sales to primary level schools are getting smaller and smaller. I co-adapt through two types of networks out of necessity to keep my enterprise 'alive'. I co-adapt my product with other network member to keep the cost of necessary alterations at a minimum. However, I also used

my networks to diversify into a new industry, and have thus adapted my business plan.

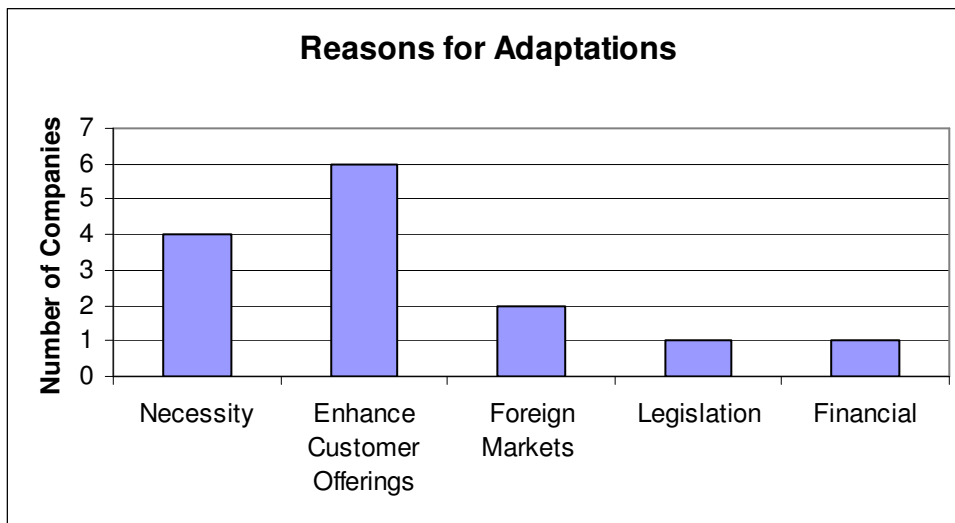


Figure 8.19 Reasons for Adaptation (Finland)
Source Author

The majority of the participating companies stated that the main focus of their adaptations is to enhance their offerings to their customers by focussing on their customers' desires, wants and needs. Again, the SME actors recognise the value of customer retention and positive word-of-mouth.

Two companies have co-adapted their products for foreign markets (SME 2 & 8). For example, one producer ensured that there are ten different ways in which his type of machine can be made and the customers can select which one they require. This was due to the fact that customers notified him that climate differences in Spain, Ireland and Finland would necessitate small changes in the machines. They co-adapted their core product to meet the individual needs of each customer. Such adaptations can be made with ease but require a specification of needs by the customer. This is in line with the customisation process as discussed in relation to the Irish SME actors.

At this stage, the differences between the two contexts are narrowing, which leads the researcher to believe that the Irish participants are starting to learn more about their networks (see Table 8.5). They are beginning to view them more through an industrial lens, which in turn will enhance their marketing activity through

networks. However, within a Finnish context, more pooling of financial resources exists in relation to the process.

	Ireland	Finland
Co-adaptation	High	High
Co-adaptation network actors	Customers, suppliers, distributors, State agencies (including academic) and staff	Customers, suppliers, distributors, State agencies (including academic), staff and competitors
Focus	Moving towards long-term	Long-term
Motivation for co-adaptation	Maintain customers, facilitate exports, meet legal requirements, to access new user groups.	Maintain customers, facilitate exports and meet legal requirements.
Attitude towards co-adaptation	Trust and Commitment Low Non-use of competitors in the process	Trust and Commitment High Use of competitors in the process

Table 8.5 A comparison of key co-adaptation findings between Finland and Ireland
Source Author

One of the major differences remaining between the Irish participants and the Finnish participants is in their attitude towards their competitors (see Table 8.5). As can be seen in Figure 8.18, the Finnish participants utilise competitors in their co-adaptation process. It makes good business sense for them as through jointly adapting they can lower the costs of the process. This proves that trust and commitment levels are stronger than with the Irish participants. Another major disparity is regarding the future adaptations that the SMEs seek in addition to the support that they aspire to attain in the process. Two of the Finnish participants are currently and proactively seeking partners with whom to co-adapt their products (SME 1 & 2). One participating company stated that their product can be tailored

according to the special needs of the client taking into account the nature of the product, the production process, alternative raw or starting materials and other relevant factors. They are currently servicing the food industry, testing the packaging materials. They can adapt their technology to test all materials for other major sectors. They are currently meeting with large firms and discussing their options regarding co-adapting their technology to meet the needs of the industry.

8.7 Co-Innovation Dimension

Proposition 6 **SME networks are a proactive means through which the individual firms can tap into the pools of technologies and human resources in order to jointly innovate.**

Relationships facilitate innovation through the combination of complimentary and assorted knowledge, and the expertise and resources that exist within different organisations. SMEs possibly do not control the necessary resources to innovate, and therefore, through collaboration with other network actors, may increase the probability of developing successful new products and technologies. By means of activities between network actors and using shared resources, collaborative or co-innovation can unfold. Networks act as an enabler to facilitate innovation in SMEs by merging lead users, suppliers and other SMEs.

The key themes which emerged from the group at a pre-intervention stage included a discussion regarding co-innovation from a dyadic to network process. This entailed a dialogue around the merits of involving more than two parties in the innovation process. The role of the internal network represented by the human resources within the SME was also examined.

8.7.1

Pre-intervention

8.7.1.1

Co-innovation from a dyadic to network process

The majority of the Irish participant SMEs have innovated products/services since the inception of their own companies. Whilst the participants agreed that the innovation process was not conducted alone, discussions with the participants indicated that innovation ensued from a series of dyadic relationships as opposed to within a network context. For example, the majority of participants mentioned relationships with customers in their innovation process. More than half of the SME owners noted that the customers' main role was the provision of a concept occupying an important role in idea generation. The participants remarked that building and maintaining strong relationships with their customers, together with regular communication, exposed the gaps that required attention and hence innovation.

To a certain degree we rely on our customers to either tell us or imply what innovations they would like to see. Through frequent meetings with them we increase our chances of discovering their needs and innovating to meet them. On occasion this has been merely a passing comment by a customer which has sparked an idea for us. We offer our larger customers a day of free consultancy each year, during which we discuss possible innovations on our part to assist them in their own innovative capabilities. (SME F)

Similarly, for the SMEs who engaged distributors, the main value derived during the innovation process was information leading to the innovation process (see Table 8.6). That is information regarding other competitor products currently on the market in conjunction with new emerging products for which they could potentially supply a component.

In terms of co-innovation with customers (Figure 8.20) the SME owners detailed how the customers often initiate the innovation process by approaching them with a particular requirement/ problem which they jointly develop to comply with their requirements.

Often a customer will not know exactly what they need. They will have a good idea of the desired outcome for a particular piece of software but little understanding of the best way to input the data for this result. Therefore, through continual interaction we jointly work on the idea until we have a high quality specification to operate with. (SME D)

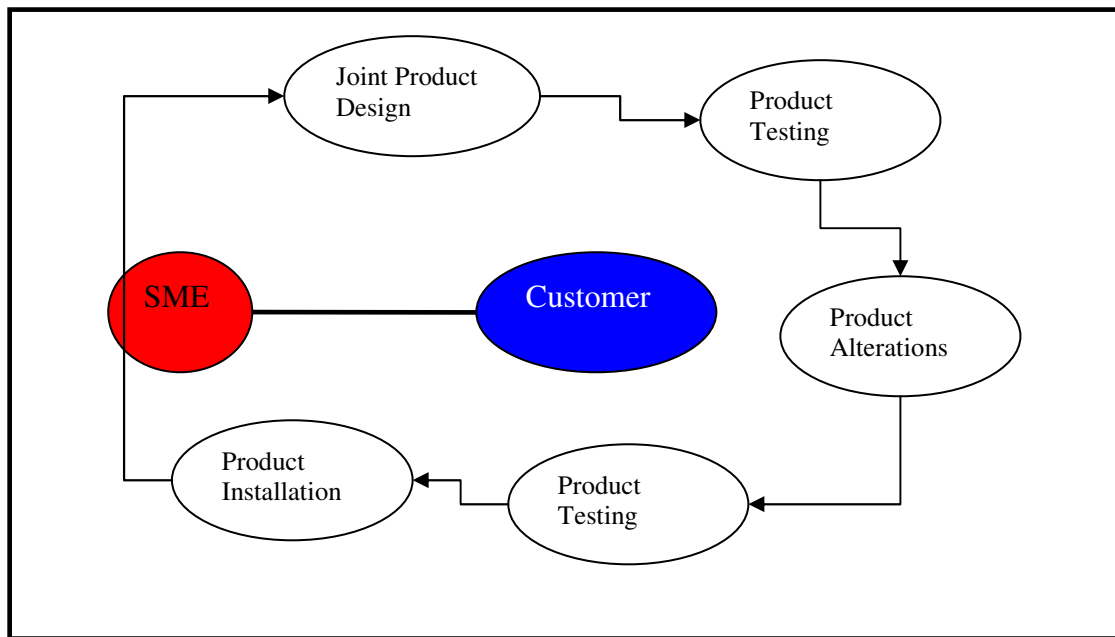


Figure 8.20 Co-innovation with customers – dyadic structure
Source Author

As can be seen in Figure 8.20, although the participants were discussing co-innovation, their description was dyadic in nature with only two parties involved in the transaction. Strong relationships joined the SMEs to their main customers where together they designed, tested, adjusted and developed the final product (Figure 8.20). However, in discussing co-innovation through networks, it was made clear that engaging others in the process enabled a rapid expansion of ideas, shortening the time span from initial concept to product completion. For example SME E noted:

One of my customers complained that his drivers were dissatisfied with the noise, size and leakage problems associated with the component that I provide. I approached the drivers and we designed a product together to eliminate their concerns. We approached the installer to discuss their requirements and the resulting product was very successful. The drivers were pleased

to have an involvement with the design; the sales team didn't have to deal with so many complaints and the company owner was satisfied to have resolved the issue.

This co-innovation network is depicted in Figure 8.21 whereby the SME owner co-innovated the product utilising the customer company, their customers (end-users) and their installers (external to the company). As explained by the participant, innovating in this manner eliminates the need for the product alterations or further testing depicted in Figure 8.21, making the process less costly, more time efficient and ensuring a satisfied repeat customer.

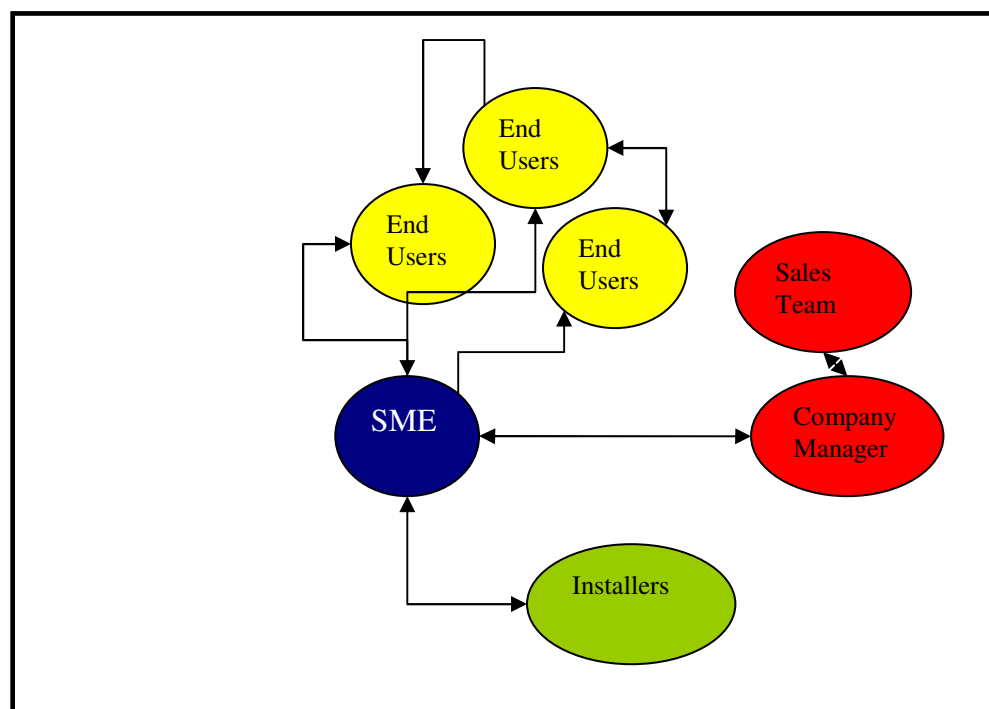


Figure 8.21 Co-innovation through networks
Source Author

In addition to focusing on past innovations and the role that relationships played in their outcomes, key enabling factors for co-innovation were also considered in the action learning, including the people who comprised each SME, the value the participants attached to learning and the participants' altered view of networks. The SMEs recognised that, with little or no research and development budget they were reliant on marrying relationships with their core internal process to innovate.

8.7.1.2 Capacity for innovation

The participants noted how their internal network, the composition of business partners, facilitated the innovation process. In one case, both business partners have very different areas of expertise, fields equally essential for the innovative process of the business. The fact that combined they have the necessary skills facilitates innovation, as they can eliminate financial and human resource problems and conduct most of the process themselves. Another SME noted that he consciously formed his human resources and board of directors to purposefully facilitate the innovation process.

My board of directors comprises a marketing expert, a logistics expert, and an important customer who is a professional in the field. This I feel gives us competitive advantage in new product development. (SME C)

With regard to barriers that hinder the capacity to innovate, severe resource limitations were featured strongly for the majority of the SME owner/managers. Internally, they face shortages of information, finance and management time. In fact none of the participants had an R&D budget. Externally, they are challenged by constraints that arise from their vulnerability to environmental changes. In addition, the participants noted that change is so rapid when compared to short product life cycles, that they are unlikely to engage in expensive innovation. The reality of the previous sentence is obvious when we consider that these participants were mostly in the software industry. As SME H noted:

We currently have two products with a further two products that we would like to innovate. It took us three years to get ourselves into a position where we could work on a product that was written on the white board in our office. It will probably be the same length of time before we can tackle the two ideas currently on it. We need a cash injection as our current products cannot financially support new ideas.

8.7.1.3 Macro Level Support

Participation in the one year entrepreneurship programme, at Waterford Institute of Technology, supported the SME owners in developing and accelerating their

business concepts. The participants described how even the application to the programme enhanced their innovations as they were given relevant and useful information at this early stage regarding their initial design. The mentor who was assigned to each participant also afforded an objective view of the issues that would prove to be challenging for their product. The application process to Enterprise Ireland for the Commercialisation of Research and Development (CORD) grant also increased their innovation capabilities as they were obliged to devise a strategy that could potentially lead to their company development into a high potential start-up. Acceptance and funding instilled a further sense of confidence in their innovation capabilities.

I was confident that my idea could potentially lead to a viable venture but it is reassuring nonetheless to have formal institutes agree. (SME F)

The participants clearly accept that learning is fundamental to innovation and recognise that learning is a continuous process. The entrepreneurship programme provided them with the opportunity to gain considerable experience firstly, by discussing innovative ideas with each other and secondly, during the learning sessions. In terms of co-innovation they felt that the Institute of Technology had played a key role.

The SMEs highlighted that experience can act as a core learning capability that facilitates innovation, the word experience being described in terms of managing their own operations and assuming responsibility for new projects. Many of the participants have multiple business ventures, and whilst their endeavours have varied they have, over time, accumulated through trial and error, significant knowledge of the products and services most likely to succeed in the marketplace and a large network base to assist them in the co-innovation process.

I have had business successes and failures and have learned equally from both outcomes. (SME G)

Industrial experience has assisted the SMEs' owner/managers in terms of co-innovation, particularly those whose previous role was related to innovation. Drawing from former appointments, some of the participants have had first hand

experience at innovating for a large company with a team of employees. Functions of the participants in this category were varied and included:

- the sole responsibility for innovation
- the diffusion of innovative products
- utilising joint ventures to facilitate exports and access to overseas markets

SME A was responsible for seeking partners in foreign countries within an existing distribution and sales network. In his opinion:

Exporting entails a lot more than selling products in foreign countries. It involves years of know-how, brain power, talent and driven individuals.

8.7.1.4 Government Finance

State assistance has supported each of the participants in their innovations through the provision of finance. In various ways, all of the participant SMEs have been in receipt of funding. Seven have had the benefit of CORD funding and six to date have received innovation vouchers. In addition, two of the companies have indirectly benefited from public money in the form of product testing in universities. While acknowledging that they could not have managed without this funding, the participants believe that more could be done by the government to facilitate SME innovation.

For example, SME E approached the enterprise board regarding laboratory space. His office was located at an Enterprise Centre, designed to provide low cost rental space and enterprise support for local businesses. He realised that there was an abundance of empty space and was hoping to operate a lab from the location. Furthermore, by occupying the vacant space, all of his Irish operations would be in the same building. He asked the Enterprise Board to convert the area into a laboratory. He would buy the equipment to furnish the room and would then rent from them on a long term basis. He was disappointed when his offer was rejected, based on the premise that there would not be enough earning potential in the

project for the board. The space is now dedicated to the training of hairdressers which the participant deems non-compliant with their aim of assisting small enterprises.

The same participant recounted to the group how he had approached Enterprise Ireland recently looking for finance on a matched funding basis. He produced the necessary paper work, a revised business plan and had many meetings with a representative from the agency. All was going smoothly until he received a call from a higher authority in Enterprise Ireland who rejected his request on the basis that he manufactures abroad. He felt that the whole process wasted a lot of valuable time and effort, mainly because the first representative never read the literature that he provided.

I feel that the Enterprise Ireland mentors should look after funding and grants. The government currently look at each application based on strict 'tick the box' guidelines. Each company should be reviewed on a case by case footing, which the mentors, with all of their specialist practical experience, would be able to do.

General consensus was that the SMEs had thought solely in terms of government agencies for finance. Their opinion was that, in operation up to eight years post CORD funding they had proved themselves worthy of additional support for innovation. The companies have maintained a steady cash flow and hired additional employees and feel that they are contributing to the economy.

8.7.1.5 Changed View of Networks

The participants' perception of networks has changed throughout the course of this research, potentially facilitating co-innovation. The focus of networks has shifted from a social view to an industrial view (Figure 8.22).

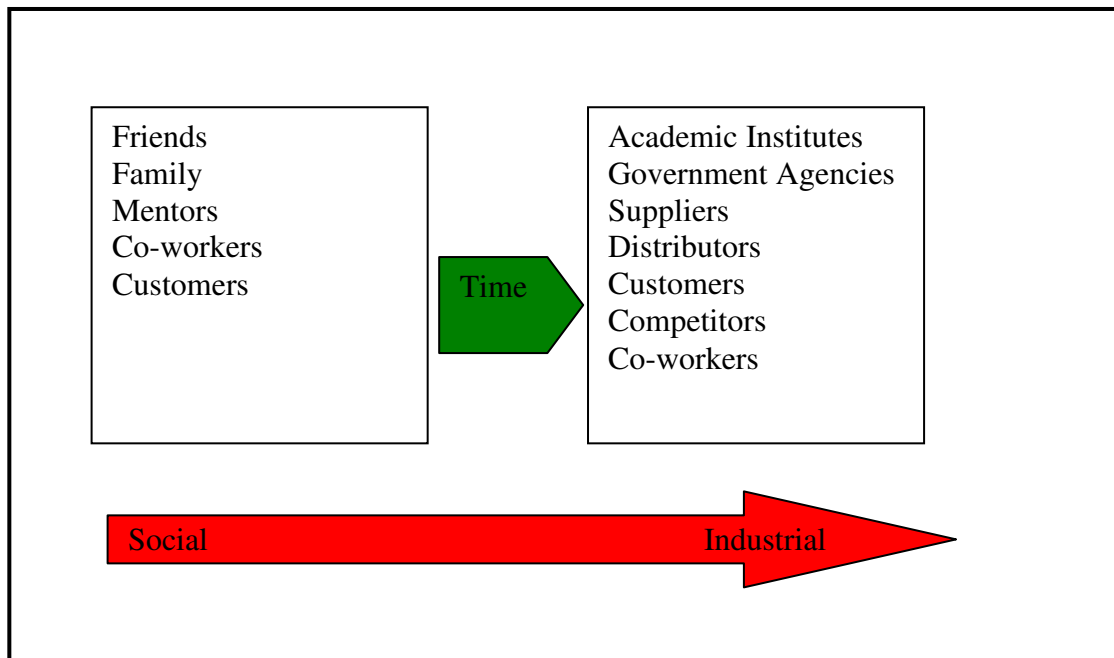


Figure 8.22 Perception of networks
Source Author

As can be seen in Figure 8.22, when discussing networks as innovation facilitators, the participants acknowledged that they can now strategically focus on their networks of relationships and strive to fit actors within their innovation process. Initially, during the first interview, the participants perceived the value of their networks, in terms of innovation, as a supporting, background role comprising mainly of friends and family with mentors, co-workers and customers playing a minor role. Seven months later their view has shifted to more closely mirrored networks as depicted by the International Marketing and Purchasing Group of Researchers. The SMEs clearly see the benefits of decisively utilising their networks in the innovation process.

8.7.2 Post-Intervention

As an intervention the researcher asked the participants to discover means through which networks could facilitate their innovation process. Originally the intervention was to procure a product which would be of benefit to their consumers. During the session it was resolved that “ideas are not the problem, it is the finance, time and personnel to move them from a white board to a reality”. Innovation is dependent on the interaction with and the contributions of other

parties including users, suppliers, distributors, competitors and various stakeholders. Two main themes emanated post-intervention namely embedding innovation into the DNA of the company and outsourcing as a co-innovation facilitator.

8.7.2.1 Innovation as a Continuous Process

Involving innovation in business processes early was discussed, as a means to alleviate innovation constraints because of financial restraints.

If innovation is considered from the very start it involves no extra work in the management process and time constraints do not inhibit its implementation. Innovation is no extra work if it is included in the DNA of the management process. (SME A)

From conception, at the companies registrations office, innovation should be mentioned in the mission statement and should feature in the short company description of the articles of association. At the HR stage, when recruiting, it should be inherent in the job description of each employee. In this way, each employee would take some form of responsibility for innovation, from idea generation to prototype production. In addition, innovation could be integral to the appraisal system for employees as it would have been clearly delineated in their job description from the outset.

In terms of innovation, suppliers, customers and other stakeholders should be 100% involved in the process. This can be facilitated through mandatory meetings as part of the business strategy. Day-to-day operations should also be conducted with improvement and innovation at the forefront. The participants felt that this form of innovation process is essential as they do not have the R&D budget for full scale innovation activities.

A gradual process is what is required, one that will not place the company in receivership due to large scale market research attempts. (SME A)

Outsourcing and hiring abroad were noted as important tenets for co-innovation as lack of human resources was cited as a barrier to innovation by the SMEs. The participants cited many difficulties in hiring employees in Ireland, including the cost. According to one participant the recruitment of an Irish engineer would significantly enhance his business however, the cost would average €100,000 per years which is outside the scope of his budget. To partially overcome this obstacle he has recently engaged the assistance of two engineers based in Taiwan which costs the company €12,000 per annum for each and two part-time engineers who work on a project basis from the US. Although this scenario is working profitably for the company, he is aware that the Taiwanese engineers are not as creative as their Irish counterparts and frequently look for solutions that already exist when dealing with and building systems for customers. In addition, they lack the communication skills when managing clients most of whom are US or European based. It was noted that besides cost, employment regulations in Ireland act as a deterrent from hiring Irish employees. Appointing workers from Taiwan can assist with co-innovation and the SME owner/manager operates in the centre of the network, ensuring that all communication with customers, suppliers and distributors flows either through himself or his business partner.

The SMEs stated that outsourcing can facilitate co-innovation as the resulting time saved can be best used in discussing innovation with network actors. The actors acknowledged that mundane tasks can be outsourced online for a cost of €0.18 an hour, saving considerable time and finance. The participant SMEs observed that they utilise the same service provider continually and strive to use the same people within that organisation. As a result of repeat custom, relationship closeness and trust accelerates. SME B explained that he has a new online 'pet product' which he is going to develop completely through such means.

I have built significant relationships with the individuals to whom I outsource work. I check their work on a daily basis to make sure that everything is running according to plan. My aim is to expand this network, build more close ties and develop a new product wholly through this means. I will get sections of the work completed by different individuals and put it all together myself. That way I am assured that my innovative processes will always remain my own.

SME H described how previous employment has facilitated outsourcing and co-innovation. This is depicted graphically below in Figure 8.23.

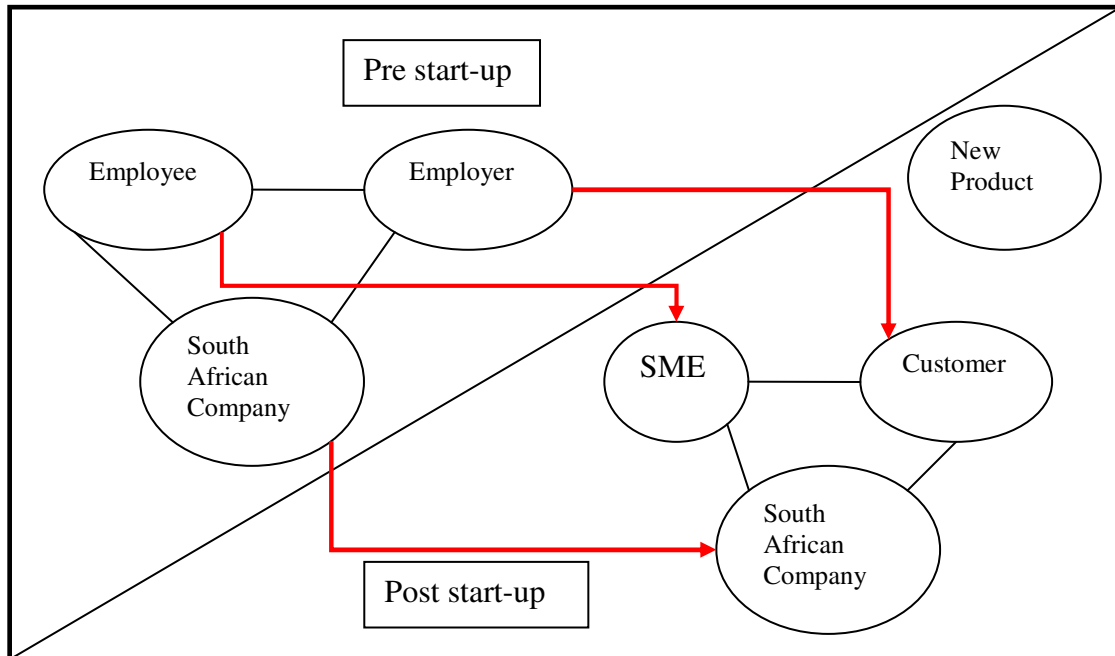


Figure 8.23 Previous employment as a co-innovation facilitator
Source Author

Prior to embarking on his own business venture the participant's role in his previous employment was to manage the team to which the employer outsourced work in South Africa (Figure 8.23). The participant remarked that in his own business endeavour he had focused on a small part of his ex-employer's value chain and hence his former employer has now become one of his biggest customers. Recently, they decided to collaborate together to devise a new product for a new user group. Although the product is ultimately the property of the SME, it took considerable effort from both parties to bring it to market. The SME outsourced some of the production to the South African firm which was greatly facilitated by the fact that had worked closely with them before. Although each participant's role has changed in the network, as depicted in Figure 8.23, the same ties exist. Furthermore, through continued cooperation and communication these ties have been reinforced and strengthened and facilitate co-innovation.

8.7.3

Comparison with Finland

Compared to the Irish perspective, the innovation process in Finland is more networks focused and operationally less dyadic (see Table 8.6). While the customer, on a dyadic level, remains the inspiration for innovation, arriving with complex problems, expecting a solution to be found, the ensuing stages draw on networks to realise the project. From the outset the participants referred to the structure of their innovation process in terms of a series of interconnected embedded relationships: their rationale based on the understanding that joint innovation accelerates the innovation process and brings the product in a more time efficient manner to the market.

	Ireland	Finland
Co-innovation	High	High
Type of Cooperation	Information leading to co-innovation Mostly dyadic based	Joint development Mostly network based
Focus	Moving towards long-term	Long-term
Barriers to co-innovation	Resource limitations	Resource limitations
Macro level support	Financial	Collaboration in development and testing

Table 8.6 A comparison of key co-adaptation findings between Finland and Ireland

Source Author

Innovation is deeply ingrained in the nucleus of the SME, a statement substantiated by the fact the innovation forms an integral part of their mission statement. From the beginning, innovation is a core component of the business strategy. This was echoed by SME 2 who claimed:

We are committed to continuous research and development, aiming to improve the quality and usability of our products.

And within that mission the key element of the innovation process is collaboration.

We focus on good collaboration with partners and invest in the development of new technologies that will keep improving our performance. We combine our expertise, advanced technology and innovation to deliver products and services that facilitate our customers

On a macro level, there is evidence of significant support throughout the process. Testing of products is outsourced to the universities where the tests are devised for industry. The SMEs work in close and constant cooperation with the academic sector. In addition, the participants explained an important financial aspect which highlights the emphasis placed on engaging with networks throughout the innovation process. When developing a new product, financial and human resources are limited and hence co-innovation through networks represented the only option to bring product to market. SME 8 reiterated this while describing his current projects.

I have one product and three more in development. Another is at the prototype stage. However, this project will only be completed if we get funding from Tekes or partner with a larger organisation, otherwise it will have to wait until we have the finances in the company to do so.

In some cases suppliers have invested in the company to facilitate the co-innovation process. The suppliers can jointly develop systems with the company, accelerating the process and making it more efficient.

SME 6 attempted to establish a network with other companies that provided the same service with their potential competitors. The SME owner and his business partner aspired to create an innovative network with five other small firms who were working in isolation. The initiative interested the SME owner greatly and following discussions the concept of a new product emerged. However, the participant has been the only member of the network to complete his element of the project and has since decided to conclude development of the product in

conjunction with the university. He believes that time constraints or possibly lack of interest precluded the other actors from becoming fully engaged in the project.

Collaboration and outsourcing is very prominent throughout the production process. For example, one participant explained how his company cooperates with a similar German company for production. The product is co-developed yet altered slightly to create goods that will be suitable in their own country context. The companies collaborate as much as possible to lower their costs and increase efficiency.

Government assistance in the innovation process was visible through an analysis of the Finnish SMEs innovation processes. Many of the SMEs stated that they had received 30% of the cost of their machinery from the Employment and Economic Development Centre. One noted that this was a huge improvement as when he started out in 1994 there was very little in terms of supports. He got from them 5-7% of the cost of his machinery. More than half of the participants noted that without the support Tekes gave them, their enterprises would not have been born. All of the participants noted macro level assistance in the development of their products, highlighting their pleasure with Finnish policy towards the small firm sector.

8.8 Conclusion

This chapter provides a description of the findings and analyses them around the six dimensions of the relational capability construct. Through the analysis process, it is clear that the Irish participants are starting to appreciate the value of operating through networks, and as such, their attitudes towards the network process have improved. From a Finnish perspective findings suggest that the SMEs operate through their relationships and are aware of their activities within their networks. Clearly this facilitates the marketing benefits that they can accrue as they continually operate in close collaboration with other stakeholders, both at a micro and macro level, within their business.

According to Eisenhardt (1989: 544):

... an essential feature of theory building is comparison of the emergent concepts, theory, or hypothesis with the extant literature.

She further notes that this is especially important and valuable if the results of the emergent theory conflict with the literature findings. To this end, this researcher will review the conceptualisation and case findings in light of current and past literature as described in Chapters 2-5. This discussion is presented in Chapter 9.

DISCUSSION

Chapter 9 Discussion

9.1 Relational Capability Construct

Relational capability, as an overarching construct, provides a novel conceptual framework for observing and understanding SME marketing through networks. Findings from both an Irish and Finnish context support the contention that SMEs utilise relational capabilities to varying degrees. Whilst the term ‘relational capability’ has not been cited widely in the literature, strong theoretical support exists for five of the six dimensions of the relational capability construct from a marketing, strategic management and network literature perspective. Although not empirically supported by the literature, realisation proved an important construct as the basis for all other capabilities and a major source of differentiation between an Irish and Finnish SME context.

From an Irish perspective, relational realisation stemmed from personal contact networks, whereas the Finnish participants viewed networks in a business-to-business context. This could reflect a cultural orientation whereby the Finnish have a collaborative orientation placing emphasis on working in cross organisational teams whereas the Irish have a more easygoing orientation towards networks. This relates to two of the seven factors of organisational culture identified by Chatman and Jehn (1994:531), although their study focuses on individual organisational culture. In addition, an insignificant disparity exists between Ireland and Finland in terms of Hofstede’s cultural dimensions (Usunier & Lee, 2005: 60) suggesting that the key differentiation lies in how business systems are organised. This has implications for policy, as ensuring a full understanding of industrial networks and its dimensions should be at the core of any Irish network/entrepreneurship programme to ensure the maximum derivation of benefits. Although the Irish participants, through the use of interventions, gradually viewed networks through an industrial lens, the complexity and difficulty in operationalising the other dimensions without the attainment of the realisation dimension, highlighted its role as the foundation for the attainment of

the assessment, access to knowledge, access to opportunity, co-adaptation, and co-innovation dimensions, hence the conceptualisation as a whole.

Findings are supported by the key theoretical perspective underpinning this research study. The SME participants maintained relationships with key customers, suppliers, distributors, academic institutes and, from a Finnish perspective, with competitors. Findings suggest that these network relationships were gradually developed over time through repeated interactions similar to the finding of Homans (1950: 133) where he stated from a social perspective that:

The more frequently persons interact with one another, the stronger their sentiments of friendship for one another are apt to be.

Additionally, the satisfaction of the interacting parties, in line with Social Exchange Theory (Thibaut and Kelley, 1959), governed the progression of the network relationships whereby the participants over time either strengthened or weakened their network ties as appropriate. A key differentiation amongst the participants was the basis of the value they attributed to their interactions. Initially the Irish actors valued network benefits such as social status and referrals, whereas the Finnish valued joint production and marketing activities. Clearly, in the case of this research, ties between the Finnish actors were embedded, whereby they relied on close relationships with network actors for the attainment of knowledge and resources to reap network opportunities co-innovate and/or co-adapt.

Both network theory and social exchange theory view commitment and trust as central in distinguishing social and intimate exchanges from economic exchanges (Cook and Emerson 1978). Findings partially support this assumption with regard to the relational capability construct. From an Irish context, trust and commitment, both features of embedded relationships, were secondary to the fear that important company information could potentially leak to competitors through close network interaction. It followed that even though the Irish actors cooperated to a certain degree with suppliers, distributors and customers, mainly due to necessary frequent exchange episodes, trust and commitment remained at a relatively low level. This was evident from the fact that, from an Irish perspective, information

was exchanged only where necessary and where hugely beneficial to the participants.

The Irish SME participants seemed to have very strong firm boundaries in place, an individualistic culture, whereby relationships with the outside world were limited by necessity in terms of sales and supplies. As the study progressed, the researcher noted that the participants were starting to place more trust in network members. The literature would suggest that networks are not sustainable when actors are purely self motivated. This suggests challenges for Irish policy makers in instilling trust and commitment into the SMEs to attain marketing benefits through networks, as such dimensions are at the core of relationship building. Conversely, the Finnish SME that engaged in this study, continually strived to enhance trust, commitment, cooperation and communication in their relationships attain greater network advantages. This could reflect differences in the academic support received by the Finnish and Irish SMEs. The Irish owner/managers had, from the academic institutes, received professional business training and mentors to assist them in the start-up phase of their business. In comparison, the Finnish Universities played a dynamic role in the manufacturing, testing and marketing of the SMEs' products and services and assisted significantly in locating potential partners for collaboration. Therefore, the Finnish Universities actively fostered a culture of cooperation and partnership during the early stages of the SME lifecycle.

The necessity for the relational capability framework can be justified through a comparison of the key assumptions from the SME marketing literature with the current findings. Consistent with Carson (1985), each of the SMEs in this study suffered from limited resources, both financial and human, which had an impact on their ability to conduct their marketing activities through the traditional 4P route. They were leading specialists in their core area of expertise with a general business education attained, for the most part, from the academic institutes in which they were affiliated. Additionally, they had a limited impact on the market place (Carson, 1985), as for the most part, they were dependent on business from a small economy, that is Ireland or Finland. Furthermore marketing was not a priority for the SME participants and hence little time was dedicated to it. Instead,

marketing was a reactive activity, conducted on a necessity basis when business was slow and aimed at insulating the SMEs from competitors. Through the implementation of the relational capability framework and the six interventions, findings showed that the participants started to use their networks as a means to enhance their marketing through networks. As a conceptual framework, findings provided partial support for the value of the conceptualisation as a marketing framework specifically suitable for smaller firms. The small number of customers, suppliers and distributors which characterise the study participants, facilitate the building of close relationships and networks with industrial stakeholders. From a resource level, as owner/managers, the participant actors are responsible for the overall running of their enterprises and are hence knowledgeable in all areas of their business functioning. This in-depth, company-specific knowledge facilitates access to opportunity through the actors' ability to convert general and abstract opportunities into those relevant and potentially beneficial to their own company. Specialised internal knowledge also facilitates the successful application and integration of network knowledge. Regarding activities, the SME participants' flexibility and autonomy in changing procedures and operations enables timely co-adaptation and co-innovation.

In making the conceptual framework operational, the importance of its structure became apparent. The Actor-Activity-Resource Model (AAR), as depicted by the IMP group of researchers, was utilised to classify the six relational capability constructs. As a descriptive tool designed to detail the three substance layers of an industrial relationship, it proved valuable in the structuring of the six dimensions of relational capability. However, a processual element emerged through the duration of the study, whereby findings suggested that the attainment of one layer of the capability framework had a significantly positive effect on the next layer. That is, the research findings highlighted the importance of the realisation capability at the actor level as the foundation for all other SME network capabilities. In the same vein, the co-adaptation and co-innovation capabilities (activities level) are greatly facilitated through the generation and integration of knowledge and opportunities (resource level) emanating through networks. This highlighted the value of viewing the conceptualisation as a process, as opposed to each dimension existing as stand-alone entities. The findings further demonstrate

the overlap and interconnectedness between the six dimensions of relational capability. Akin to networks, the boundaries which surround the six propositions are blurred, which posed a challenge for the researcher in the analysis phase of the thesis.

In an overall sense, the findings suggest that as a working model, the six dimensions of relational capability have great potential to facilitate SMEs in their networks. Whilst the 'relational capability' construct encompasses all six dimensions, findings indicate that each network of embedded relationships will vary in the strength of attainment of each of the six dimensions. That is, high levels of the realisation and assessment dimensions are fundamental for SME network functioning, and hence important for each relationship. The SME participants, particularly from an Irish context, benefited greatly from viewing networks through a business-to-business lens and through an enhanced ability to manage relationships. In practice, the researcher found that the type of knowledge accessed and opportunities which stemmed from networks depended dually on the aspirations and needs of the SME owners and the strength of the relationship ties. Knowledge and opportunities were acquired through all networks, with valuable tacit knowledge and immediate opportunities attained through close networks of relationships. Regarding co-adaptation and co-innovation through SME networks, this study showed their emergence in a few, select networks of relationships.

As an inductive study, the conceptual propositions are supported to a degree. This chapter will revisit and explore the six propositions individually in light of current finding and previous literature. The discussion of the constructs are organised around the AAR model as conceptually depicted in Chapter 5.

9.2 Actor Bonds

Findings support that the realisation and assessment dimensions of relational capability are theoretically placed within the actor-bonds layer of the Actor-Activity-Resource Model. Within the realisation dimension, the type of bonds that the SME actors in this research affiliated with networks were particularly

important as they played a role in the structuring, nature and expected outcomes of their relationships. Actor bonds, in line with Håkansson and Snehota (1995), were described by both the Finnish and Irish SME owner/managers as bonds emerging over time as a result of repeated interactions based on the network actors' ability to create mutually beneficial situations. However, the focus of their bonds differed whereby the Irish actors viewed their relationships from a social as opposed to an industrial view held by the Finnish. This affected the value of their networks as the Finnish SMEs had the ability to interpret business-to-business situations in relation to other network actors and to third parties. This can be compared to the work of Wilson (1995) and Crofts and Turner (1999) who differentiated between social and structural bonds. Whilst social bonds develop over time and relate to the degree of mutual personal friendship (Irish view), structural bonds are typically based on technical, knowledge, legal or economic elements which create a barrier to relationship termination (Finnish view). The assessment dimension of relational capability refers to the strength of the actor bonds and the ability of the Irish and Finnish SMEs' owners to manage the appropriate level of bonds with various actors. At the actor level, over the duration of the study, it emerged that the Irish SMEs had positive interpersonal relationships with suppliers, distributors and customers. However, the Finnish SMEs established stronger structural bonds through the commitment of resources to their relationships.

The realisation and assessment dimension of relational capabilities have been argued to exist at the actor bonds level of the AAR model and can be viewed through the theoretical lens of social exchange theory. Social exchange theory (Blau 1964, Homans, 1961) elucidates the emergence and continuance of relationships, and can be utilised to explain the operation of the network phenomena. Social exchange theory can be used as a starting point to understand the network connections that the Irish and Finnish SME owners have. The assessment dimension includes the ability of the Finnish and Irish SME owner/managers to manage their networks. Findings suggest that network management involves subjective evaluations of the degree of value, embeddedness and reciprocity in relationships, features which sit comfortably within the domain of social exchange theory as outlined by Cook and Emerson (1978). In terms of congruence with this research, the first two dimensions of

relational capability provide the foundations for the other dimensions. Social exchange theory prescribes some conditions for successful inter-organisational relationships, increasing trust and commitment while reducing uncertainty and opportunism between actors. It can be argued that in addition to the usefulness of social exchange theory in explaining the development of relationships, its features provide building blocks for the further strengthening of relationships to realise benefits.

9.2.1 Realisation Capability

The Irish SMEs had a significantly lower level of realisation than their Finnish counterparts in this study. Although confident in discussing their networks, they were viewed as a social construct comprising predominantly of friendship or kinship ties and for some actors, including everyone the owner/managers have ever known. Network activity centred on favours, as a vehicle for referrals, and self promotion through social ties. The ability to network in their view was dependent on the ability to use and the use of online networks, age (the older you are the more connections you have), and communication skills, meaning “the more sociable you are the better you operate within networks”. Confusion exists regarding the differentiation of the terms networks and networking which were viewed synonymously by the Irish actors. Conversely, the Finnish participants viewed networks through the IMP lens and discussed their key relationships with suppliers, distributors, manufacturers, customers, competitors, academic institutes, and other SMEs. They were very professional in terms of their networks, dually aware of the existence of networks and the types of connections that they have. Their motivation for engaging in networks included joint product development and adaptations in addition to facilitating the flow of their everyday activities.

What is interesting from the researcher perspective is that during the interviews, all of the participants stated that they use, to a certain degree, networks in their marketing activities, although for both countries the statement held a very different meaning. The findings from Ireland are consistent with the SME marketing literature whereas the findings from Finland are in tune with the Nordic approach. The Irish participants realised the power of “networking” which refers

to the use of personal contact networks. The Finnish participants on the other hand viewed networks in an industrial sense as separate to networking. This is consistent with the findings by Möller & Anttila (1987) where they concluded that Finnish SMEs were clearly ahead of Swedish firms in the intensity of their cooperation with the customers and variety of their customer contacts. A number of Finnish firms also actively engaged in cooperation with their competitors which is also consistent with the finding of Möller & Anttila, (1987). The researcher emphasises the importance of understanding the perceptions that the actors have in terms of their network activity. Similar confusion exists in the SME marketing literature where frequently the term 'networking' is used in lieu of 'networks' encompassing both social networks and industrial networks. This ambiguity warrants closer attention as although many studies have concluded that SME marketing practice is largely conducted through networking (Bryson et al., 1993; Gilmore et al., 2001; Johannisson, 1986; Lee & Mulford, 1990; Szarka, 1990), it is unclear whether the authors are referring to interconnected business or social ties or both. Additionally, whilst the findings from this study suggest agreement with the contention that a need exists to develop marketing frameworks suitable for smaller firms (Carson & Cromie, 1989; Gilmore et al., 2001; Stokes, 1995; Watkins & Blackburn, 1986) and that SMEs are often perceived as a fertile area for the formation of effective networks (Terziovski, 2003), the researcher feels that a clear distinction must be made between the process of marketing through networks and networking.

These findings, especially from an Irish perspective, are important as they challenge the basic assumption from the marketing, strategic management and network literature that a) SME owner/managers realise what networks are; and b) they realise the potential of networks as marketing facilitators. Most previous studies regarding networks and alliances commence with an assumption that the study participants are aware of the components and use of networks and focus on the value derived through usage including their value in knowledge transfer, adaptations and firms' ability to achieve competitive excellence through their use. The researcher also noted that although the Finnish participants had a clear understanding of the term 'network', both the Irish and the Finnish actors discussed their networks and their network activity as dyadic structures. In

discussing relationships, although beneficial, only two parties were mentioned in their interactions. In addition to challenging the actors' perceptions of networks as social or business oriented, the researcher found that they had difficulties describing the interconnections between dyadic ties. Many studies focus on the dyadic relation between two firms (Anderson & Narus 1990; Anderson & Weitz 1989; Dwyer et al., 1987; Frazier 1983) and clearly the ability to manage one business relationship well is a necessary learning step towards being able to work in a net of complex relationships (Ford et al. 1996; 1998). However, the realisation of connected dyads is a prerequisite for the management and use of networks.

The individualistic mentality of the Irish actors challenged the common assumption in the network literature that firms strive to continually enhance trust (Anderson et al., 1987; Dooney & Cannon, 1997; Dwyer et al., 1987; Morgan & Hunt, 1994; Sivasdas & Dwyer, 2000), commitment (Anderson & Weitz, 1992; Day, 1995; Geyskens et al., 1999; Moorman et al., 1992), cooperation (Anderson & Narus, 1990; Morgan & Hunt, 1994) and communication (Mohr & Nevin, 1990; Mohr et al., 1996) in their relationships to facilitate the greater transfer of knowledge, greater innovation capability and a simplification or elimination of activities. While this was the case for the Finnish participants, in terms of the realisation capability it was clear at the outset that the Irish participants favoured arm's length relationships for fear that important information would leak to their competitors. Although they cooperated to a certain extent with suppliers and distributors, due to frequent exchange episodes, trust was lacking, which is commonly regarded as the most important feature of embedded ties (see Uzzi, 1997). The Irish SME participants seemed to have very strong firm boundaries in place, whereby relationships with the outside world were limited by necessity in terms of sales and supplies.

To conclude, although the realisation capability has not been recognised in the literature, many aspects have been discussed. Birely (1986), for example, indirectly highlights the importance of the realisation capability by noting that two of the most important 'entrepreneurial skills' which can be taught and honed are, understanding the skills involved in making networks succeed and realising the

importance of networks. Building on the work of Birely (1986), findings from this study regarding SME marketing suggests to the researcher that an opportunity exists for policy makers to teach Irish SMEs the value and mechanisms involved in marketing through networks as depicted by the IMP group of researchers and hence enhance their realisation capability. The researcher believes that networks, as an interaction approach, provides a suitable framework for SME marketing. However, care must be taken to separate 'networks' and 'networking' and treat them as very different constructs. Enhancing SME owners' realisation capability would prove beneficial as the participant SME owner/managers in this study are responsible for the marketing of their products and services (Gilmore et al., 2001; 2006). Additionally each of the participants received a general business education from the academic institutes to which they were affiliated. This could explain the difference between the Irish and Finnish SMEs in terms of their realisation capability, where the focus of marketing education in the Nordic countries tends to emphasise business-to-business relationships as opposed to the more traditional approaches adopted by Irish institutes.

9.2.1 Assessment Capability

Although the assessment capability does not feature in the literature, the importance of the dimension can be clearly argued for following an analysis of both the Irish and Finnish findings. Some aspects of the assessment dimension have been cited in the literature. However, the researcher argues the need for the dimension to be depicted in light of and following the realisation construct. For example, Ritter et al. (2004) suggests the appropriateness of labelling a firm's network ability as 'network competence' referring to the firm's ability to initiate and maintain connections within networks of embedded inter-organisational relationships inclusive of customers, suppliers, research institutes, trade associations, and competitors (Ritter, 1999; Ritter et al, 2002; Ritter & Gemünden, 2004). Whilst Ritter's work is closely linked to the assessment dimension of relational capability, this study highlights the importance of taking a further step backwards to discover how firms, in particular SMEs, actually view their networks. Discussing the assessment capability in isolation would be without

context and from an Irish perspective would involve the management of relationships and networks with colleagues, friends and family.

The researcher argues that, in order to assess networks and relationships, SMEs must view them through a strategic lens, a lens which was blurred by the Irish participants through the association of relationships with networking. Networks were considered evolutionary, a natural social practice, thereby the relationships unmanageable. Conversely, for the Finnish SMEs, networks featured heavily in their strategy, including new sectors and networks that they aimed to branch into in the future. This allowed the Finnish owner/managers to position themselves in a network, to benefit from it in a practical way in line with findings by Gilmore et al. (2006). Findings asserted that although they focused on their networks as a series of dyadic structures, similar to findings by Easton (1992), the structures provided a 'conduit' to other relationships. This ability to look into the relationships of others as a route to new relationship formation is an important aspect of the assessment capability. The strategic focus of Finnish SMEs in their networks facilitated beneficial network expansion. Findings highlighted that they analysed profiles from the Innovation Relay Centres and from the Magnet Programme in order to purposefully expand their networks. They also stressed the value of academic institutes in extending their network connections through the organisation of EU programmes whereby groups of similar small firms were brought together to collaborate. Their willingness to engage with all sectors, including competitors, demonstrates their positive attitude towards collaboration in a bid to strengthen their enterprises. From an Irish perspective, the fact that the majority of their network expansion occurred virtually, further strengthens the point that a) networks are predominately social in their view; and b) they have a preference to detached relationships built in virtual space rather than nurtured through face-to-face interactions. Although to a lesser degree, the value of network expansion through customers and distributors was noted by the Irish participants indicating an enhanced realisation of networks as opposed to networking.

Findings revealed that both the Irish and Finnish participants were capable of assessing the worth of networks that were either time or resource heavy

(conferences/trade events), or containing a degree of formality (BNI network/ Innovation Relay Centres). However, the subjectivity of their evaluations presented both challenges to the researcher in terms of analysis and interesting insights from a social exchange perspective. Prior to any intervention by the researcher, the Irish participants based their relationship value on 'being known' and respected in established networks in addition to the possibility of sales through referrals. The Finnish participants' primary motivation in relationships was the mutual exchange, rich knowledge and the potential to collaborate with larger corporations. The Finnish participants assessed their networks in terms of reciprocal exchange of value in both long and short term relationships characterised by frequent communication with various stakeholders, including competitors (see Möller & Anttila, 1987). In terms of reciprocity the Irish participants expected the rewards experienced by them to be high as opposed to proportionately distributed. The Irish actors had a short term view of relationships whereby they expected virtually immediate returns for their network efforts and assessed their connections as such. Although the Irish did engage in relationships, they were assessed on a necessity basis and ceased on attainment of the particular need. This shows a slight paradox in that their relationships were transactional. This reflects the individualistic mentality of the SME participants where they were unwilling to share information or coordinate activities with nodes that either represented a competitor or could potentially have close ties with competitors, limiting their network scope.

According to the researcher, the different value systems and level of assessment capability between the Irish and Finnish participants can be attributed to experience with network involvement. Networks, for the Finnish participants, although somewhat deliberate, are built around their normal interactions (in line with Rocks et al., 2005) and they have learned through each interaction. They were proactive in their relationships and did not wait, for the most part, for customers, suppliers or distributors to approach them. This concurs with the strategic management literature which argues that firms can develop managerial capabilities associated with managing alliances, forming new alliances (Gulati, 1999) and with experience enhancing the value derived from such partnerships (Anand and Khanna, 2000; Gulati, 1995a; Mitchell & Singh, 1996; Dyer & Singh,

1998). This was particularly evident, as through discussions with all participants regarding network structure and varying network perspectives both their assessment capability and realisation capability were enhanced. For example both the Irish and Finnish participants discussed intentional networks that they were engaged in (Kogut, 1989; Gulati et al., 2000; Jarillo, 1993; Möller and Svahn, 2003; Möller et al., 2005; Parolini, 1999) for product production and distribution. Additionally the participants discussed the density of relationships that they had with customers, suppliers, distributors and academic institutes and the ensuing benefits. Close, strong ties (Granovetter, 1985), according to the participants, emerged over time through frequent interactions, similar to Homans' (1950: 133) idea, that "the more frequently persons interact with one another, the stronger their sentiments of friendship for one another are apt to be". Strong ties were favoured by the actors for the transfer of important information (Hansen, 1999; McEvily & Zaheer, 1999) and for ease of managing everyday processes. The Irish participants also noted how, through individuals that they did not know very well, they had made important network connections. They were also aware that beneficial strong relationships must be initiated with a single interaction and built from there. Such findings provide support for both Granovetter's strength of strong ties perspective and strength of weak ties perspectives where he emphasised that networks, "penetrate irregularly and in different degrees" (Granovetter, 1985: 491).

9.3 Resource Ties

Findings support that the access to knowledge and access to opportunity dimensions of relational capability are theoretically placed within the resource-ties layer of the Actor-Activity-Resource Model, and are greatly facilitated by the attainment of the previous two dimensions. Findings suggest that resource ties connect members of a network through the exchange and integration of knowledge and the synchronisation of operations and opportunities to create mutual value. The network literature proposes that close relationships allow for the combination of existing knowledge with knowledge from the wider network to create new knowledge (Håkansson and Snehota, 1995). This would imply joint learning at this stage of the model between network members similar to the

definition of resource ties by Axelsson & Johanson (1992: 208) as a “set of connected learning processes”.

Resource ties, defined from an IMP perspective as the mobilisation of resources to one or more activities that link actors, suggests that this level of the conceptualisation requires embedded ties with reciprocal relationships to facilitate more complex access to knowledge and opportunities. Opportunities and knowledge flow through resource ties. The researcher argues, in keeping with social exchange theory, that embeddedness, trust and commitment between network actors will determine the value of knowledge and usefulness of opportunities. This is based on the premise that firms closely related are more aware of each other's core capabilities and competencies, have a shared understanding of each other's needs, and are more willing to work together to achieve them. This is in line with Cohen and Levinthal (1990) who argues that as an organisation builds a dynamic network of relationships both from within and without, individuals will recognise the capabilities and knowledge of others, allowing opportunities to emerge.

9.3.1 Access to Knowledge Capability

Findings highlighted that both the Finnish and Irish SMEs have accessed valuable knowledge through their networks of relationships. According to the participants, this value could be partially attributed to the fact that, stemming from relationships', the knowledge was trustworthy and relevant due to its emergence from value chain members. This is in line with literature from a strategic management perspective that networks can act as a source of reliable information (McEvily and Zaheer 1999) and that through close social interaction, firms are able to enhance the depth, breadth, and efficiency of mutual knowledge exchange in relationships (Dyer and Singh, 1998; Lane and Lubatkin, 1998).

The type of knowledge emanating through networks was an important dimension in terms of the overall relational capability construct. Explicit knowledge did flow through the Finnish and Irish SME networks. Although this information was valuable, it did not necessitate embedded network ties. Conversely, as a dimension

of the relational capability construct, access to tacit knowledge emerged as a dimension greatly facilitated by relationships and embedded ties. From both an Irish and Finnish context, tacit knowledge such as the transfer of core expertise across actors was transferred between actors leading to the co-creation of new knowledge. This complex process involved the integration of the SMEs' internal expertise with the network actors' external knowledge and required repeated interactions over significant time periods. Repeated interactions where trust, commitment and communication were strong, facilitated the internalisation process of knowledge with joint learning creating new knowledge. This is in line with Sobrero (2000) who concluded that to transfer knowledge within a network is a capability, but to transfer tacit or valuable knowledge is a relational capability. Embedded ties were also essential as the findings showed that often the new knowledge was sensitive in terms of the potential division of new products and relied on strong mutual bonds of trust and commitment. In terms of marketing, the motives behind the building of strong relationships with customers, suppliers and distributors were often to determine customers' satisfaction levels and gain in-depth information regarding customers' needs which they could utilise to improve their core offerings. Clearly the findings are supported by the strategic management literature which states that strong ties offer superior informational advantages (McEvily and Zaheer, 1999), that collaborative practices are a viable method of knowledge creation and transfer (Hamel, 1991; Nonaka, 1994; Powell et al., 1996), and that information transferred between firms in a network is beneficial as the actors can learn from each other and interpret tacit information in a relatively holistic way (Uzzi, 1997; Larson, 1992).

Within an Irish context, the integration of knowledge was largely confined to value chain members inclusive of suppliers, distributors and customers. Close ties were in place and the knowledge integrated was mutually beneficial for all parties involved in the process. This mirrors the strategic management literature which argues in the case of alliances that the ability of alliance partners to generate rents through knowledge sharing is dependent on an alignment of incentives that encourages the partners to be transparent, to transfer knowledge, and not to free ride on the knowledge acquired from the partner (Dyer and Singh, 2004:356). The reference to rents is particularly appropriate as although relationships were

reciprocal in terms of knowledge transfer, the process was transactional in that desired benefits from both parties were, for the most part, specified in advance. From a Finnish viewpoint, access to knowledge through technology transfer from academic institutions was hugely beneficial and diverse. The participants received knowledge, advice and training in their specific field and some of the SMEs had PhD students working on their products. Knowledge through technology transfer was not confined to the University of Kuopio where they were geographically well situated. The participants were adept at using the university networks to attain knowledge from academic institutes that specialised in their core area of expertise. Whereas the Irish SMEs acquired general business skills from the Institutes of Technology, the Finnish academic institutes were considerably more 'hands-on', whereby they jointly produced product prototypes and were heavily involved in the testing of most of the SMEs products and services.

The researcher argues that a comparison of the access to knowledge findings with the literature shows the value and applicability of the dimension to the SME sector. This statement is based on three factors: their communication skills, their specialised expertise and the inherent flexibility in their operations. As owner/managers the findings highlighted that the participants were adept at scanning their networks in search of relevant knowledge. Their entrepreneurial drive, coupled with their communication skills, hence their ability to interact which they are characterised by in the marketing literature (see Carson, 1985), facilitated their ability to acquire and integrate knowledge. Within the strategic management literature, this has been termed 'cooperative competency' by Sivadas & Dwyer (2000) and refers to the midrange variable composed of three interrelated facets: trust, communication, and coordination. These mediating variables have been widely cited in the SME marketing, network and strategic management literature and have emerged, to varying degrees, through the findings in this study.

Several authors have discussed the difficulties of transferring tacit knowledge (Winter, 1988; Levinthal, 1990; Jensen and Meckling, 1992; Levinthal and March, 1993; Szulanski, 1996; 2003). However, findings revealed that the recombination of knowledge stemming through networks was facilitated by the SME

owner/managers' specialised expertise in their core area. The findings showed that the participants from both an Irish and a Finnish context were capable of converting general or abstract knowledge into knowledge specifically useful for them. They were also competent in coordinating very specialised and technical knowledge emanating from relationships. Additionally, the participants recognised the value of network information, and, as managing directors of their own enterprises, constantly strived to use it to its maximum potential. This is in keeping with the strategic management literature where Cohen and Levinthal highlight the importance of the relational partners' absorptive capacity which they describe as the ability of a firm to recognise the value of new, external information, assimilate it, and apply it to commercial ends (1990: 128). The benefits stemming from the access to knowledge dimension was due to the Finnish and Irish SMEs' ability to recognise knowledge (see McEvily and Zaheer, 1999), to receive it and the ability to use it (see Burt, 1992:13). The core contextual difference between the Irish and Finnish participants was the fact that the Irish approached network actors on an information-need basis whereas, for the Finnish, access to knowledge was viewed as an asset with emphasis on constant learning.

The researcher also believes that knowledge stemming through networks is particularly important and useful for SMEs as their structure, by nature, allows the flexibility necessary for immediate integration. Findings showed a short lead time between the access to, and beneficial use of, network knowledge from both the Irish and Finnish participants. As owner/managers, the actors did not have to follow protocol and could enact immediate changes ahead of other actors in their environment. Network information was particularly valuable in this regard, as the participants noted that the degree of closeness of the relationships facilitated the judgement of value regarding external knowledge (tacit or explicit) emanating through networks, whereby they immediately acted on important information from a close contact. Such cohesion has been widely cited as the capacity for social ties to carry information that diminishes uncertainty and promotes trust between actors (Granovetter, 1973; Podolny, 1994; Gulati, 1995a; Burt and Knez, 1995).

Findings from this study have shown that from an Irish perspective, the co-creation of new knowledge through joint integration of each actor's knowledge was inhibited to a small degree by the fear that important knowledge would reach the actor's competitors. Whilst networks were used as a vehicle by the Irish participants to learn about competitors including their movements, prices and offerings in a bid to adapt activities, gain information and combine resources within a changing market place (similar to Gilmore et al., 2006), they were aware that their competitors could potentially engage the same strategy. This is in keeping with Johnsen and Ford (2000) who highlighted that inter-connectedness in networks means that sensitive knowledge may be lost to third parties, including competitors, through common suppliers for instance.

In agreeing with Helfat and Raubitschek (2000) that knowledge transfer is a capability, this study has shown that the dimension of relational capability, that is, access to knowledge, stems from the SME owners' ability to realise information gaps pertaining to their business and actively search for network members that possess the relevant knowledge. Support exists mainly from a strategic management perspective, for the contention that networks facilitate access to knowledge between SMEs.

9.3.2 Access to Opportunity

Findings highlight, from both a Finnish and Irish context, the importance of the access to opportunity dimensions of relational capability. While the participants from both countries utilised their networks of relationships in the process of acquiring opportunities, the Irish participants were more transactional in their approach. The Irish participants scanned their environment for external resources and skills on a need basis rather than on an ongoing basis. Findings also illustrated the fact that the Irish participants built purpose-specific relationships which frequently ceased following the acquisition of their desired result. Conversely, discussions with the Finnish SMEs showed a more evolutionary element to the access to opportunity dimension where opportunities flowed through existing embedded networks that were not established specifically for that particular purpose.

According to the researcher, this difference has an important effect on the overall relational capability construct as it leads to two divergent access to opportunity processes. The first process, through viewing the dimension from a transactional approach, the Irish owner/managers used networks to bring their opportunities to fruition. This suggests that they had an idea which they could not execute alone or were looking for means through which to attain finance and/or other resources. Similarly, the Finnish SMEs noted how their relationships had facilitated them through the process of building on their opportunities. In this respect, in line with the SME marketing literature, the findings assert that the SME owner/managers did not lack opportunities. Similar to findings by Stevenson (1983), although they were motivated primarily by the pursuit of opportunity, they often had insufficient financial and human resources to fully exploit them. The value of networks as an opportunity to access the internal resources held by connected actors was evident from both contexts. Two different streams of literature support this premise. From a transaction specific purpose, networks facilitated access to opportunity through enabling the SMEs to access external resources necessary in the pursuit of their opportunities (see Jarillo, 1986; 1988b), whereas observations from structural sociologists (Granovetter, 1985; Burt, 1992; Uzzi, 1997) suggest networks facilitated access to valuable resources as a function of the social network in which the firm operates.

Findings indicate that the second process, (which is viewing the access to opportunity dimension from a relational approach), is more in keeping with the overall relational capability construct. The Finnish participants, through long term embedded relationships with network actors accessed opportunities on a day-to-day basis in addition to the aforementioned opportunities. The SMEs jointly searched for opportunities that they could enact, ensuring both individual SME and network benefits. Altering internal processes and procedures through network integration and making operations more transparent to close ties within the value chain for example positively affected both the SME and the network as a whole. Therefore, the researcher argues that although the relational element is important for both processes, embedded relational ties between actors in a network can improve the access to opportunity dimension through the emergence of

unexpected, evolutionary opportunities that are dependent on close mutual bonds developed over time.

The academic literature relating to opportunities through networks highlights relationships as a means to attain knowledge, facilitate adaptation and innovation. While the literature highlights the notion that networks can be used to search for opportunities (McEvily and Zaheer, 1999) it is less forthcoming in what constitutes an opportunity. As a dimension of relational capability, the focus is the combination of network factors leading to opportunities, which are - the process of opportunity emergence and the description of what constitutes an opportunity through the eyes of the participant SMEs. The transactional view of the Irish participants is evident through analysing the type of opportunity that they placed value on and sought through networks, mainly access to finance, sales and training. Although these three motivators are important and required a relational element, they require occasional interactions and do not necessitate embedded ties. The Finnish were also continually looking for finance but more through partnership and collaboration and were continually striving to build new ties to facilitate this. Interestingly, through participation in the research programme the SMEs did access opportunities from each other in terms of advice, finance and connections, whereas up to this point their view of networks had focused primarily on value chain members and academic and government bodies. Additionally, they recognised the value of creating their own opportunities through an analysis of their network members' capabilities.

The process of accessing opportunities through networks provided a means to overcome some of the barriers to marketing traditionally associated with SMEs, namely, time pressures and having a limited impact on the market place. Regarding time, through engaging with other SMEs in this research process, the Irish participants outsourced to companies being utilised by group members. This further highlighted their lack of trust as work was outsourced to various online companies on a 'piece by piece' basis to ensure that the SME's overall process was never visible. The Finnish also outsourced activities but to similar companies in a bid to achieve economies of scale, and over extended periods of up to thirty years. Strong relationships characterised their activity links with embedded

relationships and a transparency in their enterprises as opposed to the weak ties approach in the Irish context. The Irish participants did build strong ties, characterised by frequent interaction and communication with their distributors, to increase their impact on the market place. Close embedded ties with distributors facilitated the opportunity of both the Irish and Finnish SMEs in their exporting activities. The participants recognised that close collaboration facilitated the smooth operation of the value chain activities and when opportunities arose to bypass distributors, they were rejected. The above points show that the degree of relational embeddedness not only affects the opportunities found, but also influences how they are exploited. The Irish and Finnish opportunities that stemmed from embedded ties were characterised by informal contracts, mutual trust and wide and intensive cooperation and interaction, whereas tight contracts and controls were in place to harvest opportunities from weak connections.

9.4 Activity Links

The co-adaptation and co-innovation dimensions of relational capability are classified under the activity links level of the AAR model. Activity Links are defined from an IMP perspective as a sequence of acts directed towards a purpose (Håkansson and Snehota, 1995). The commitment of the SMEs' scarce resources would suggest the presence of strong embedded ties characterised by high levels of trust, communication and integration between the SME actors. Resource commitment is indicative of the most advanced stage of the relational capability framework, as it implies the willingness to develop new products (Håkansson, 1987; 1989), or make adaptations to existing ones. The investment involved in network relationships at this level of the conceptualisation would indicate the development of structural bonds (Möller & Wilson, 1995:617) and suggest that relationships characterised by activity links represent a small percentage of the SMEs' overall network configuration. Such relationships are termed "significant relationships" by Ford & Håkansson (2006) who concur with the aforementioned statement.

Co-adaptation and co-innovation are in keeping with Homans' (1958) propositions about interpersonal behaviour which suggests that interaction is a process in which participants carry out activities directed towards one another in the exchange of valuable resources. The value and applicability of social exchange theory in viewing this level of the research is apparent as relational continuance is dependent on mutual satisfaction stemming from the co-adaptation and co-innovation processes. Findings from both an Irish and Finnish context support their view as trust was shown to exist as an enabler from a Finnish perspective through the commitment of resources to other actors in the innovation and adaptation processes. Similarly, the lack of transparency of innovation activities and the unwillingness to collaborate fully with network actors showed mistrust and hindered co-adaptation and co-innovation in an Irish context.

9.4.1 Co-Adaptation

Findings suggest mixed support for the co-adaptation dimension to the overarching relational capability construct. Although co-adaptation was identified and described by all of the SME owner/managers, on reflecting on the findings in relation to the overall conceptualisation, issues emerged. The literature suggests that strong embedded relationships have to be in place for co-adaptation to occur. However, findings from this study support the contention that co-adaptations are facilitated by close ties but are not a prerequisite. This can be partially attributed to the variety of adaptation behaviour, both within and between Ireland and Finland revealed through the case research. Additionally, within an Irish context, adaptations regularly ensued following a detailed specification from a customer that the SME was in contact with through a distributor and rarely, if ever, met. The degree of integration in the co-adaptation process also differed amongst the participants. Similar to findings by Brennan and Turnbull (1997), in some cases, co-adaptations took place without any conscious decision having been taken, while in other cases adaptations occurred only after extensive and formal data gathering. This is important as it leads the researcher to ask important questions in terms of the overall construct. That is, what level of integration of adaptation processes is necessary to use the term co-adaptation in lieu of adaptation?

Findings suggest that both the Irish and Finnish SMEs from this research adapted their products, services and business models. The adaptations were not conducted alone but for some, were based on recommendations and feedback from network members. Within this category of adaptation there is also variation. For example, the Irish SMEs were approached regarding beneficial changes that they could make whereas the Finnish actors proactively approached network members with product alterations and sought advice and feedback. Many co-adaptations were based merely on knowledge transferred through networks with little commitment of other resources. This is similar to definitions of adaptation, as the actions of the owner/manager in integrating information from the environment and making rapid adjustments to this feedback (McKee et al., 1989; Stoica & Schindehutte, 1999; Woo et al., 1990). Furthermore, from an Irish context, findings revealed no evidence to suggest that the participants were willing to make short term sacrifices for long term results, a precondition of adaptation highlighted in the network and strategic management literature (See Dwyer, Schurr and OH, 1987; Anderson and Weitz, 1992; Moorman et al, 1992; Uzzi, 1997; Kratzer, 2007) or a willingness to invest in the adaptation process of network members (See Gundlach et al, 1995).

Adaptation in both contexts was crucially important for the SMEs in conducting their business activities. The SMEs were in general characterised by having fewer large customers and suppliers and, as such, adaptations, in line with the IMP literature (Brennan & Turnbull, 1999; Ford & McDowell, 1999; Ritter, 1999), were viewed as necessary and expected in order to cope with environmental changes and in a bid to serve each other better. However, the strategies employed by the SMEs in the process of adapting had a significant impact in the context of the overall relational capability construct. The Irish participant engaged in predominately dyadic adaptations with their customers, altering their products and services on a customer need basis. In line with Ford (1980), these types of adaptations played an important role in demonstrating commitment and were made in order to ensure continuance of supply. The dyadic adaptations were often transactional in that they did not always stem from long term embedded relationships and there was never a commitment of financial or human resources in the process. Frequently the customers assisted with the re-design and/or re-development of the product or service but, once it was completed, the relationship

was put on hold or ended entirely. Relationships with the customers were managed predominantly on a transactional basis whereby, for the majority of SMEs, no relational marketing strategy existed. The Irish participants were adept at making lucrative internal adaptations based on network knowledge and opportunities for new customer groups.

Conversely, the Finnish SMEs engaged in mutually beneficial co-adaptation with many stakeholders in their value chain including suppliers, customers, competitors and academic institutes. The SMEs jointly adapted their products and services with competitors to dually enhance their offerings, worked in close cooperation with academic institutes to test their adaptations, relied on customers to suggest alterations and at times partially provided the financial resources. In terms of the relational capability construct, the adaptation strategy pursued by the Finnish participants were greatly dependent on and facilitated by the close embedded ties that existed between network members (in line with Kraatz, 1998). Some relationships spanned over 30 years, and the strength of the relationships was viewed through the joint financial investment in adaptation processes. Additionally, similar to findings by Uzzi (1997), the degree of embeddedness assisted adaptation because the actors could better identify and execute coordinated solutions to organisational problems. Closer relationships also allowed for more complex adaptations for the Finnish participants involving multiple network actors. This was often represented in adaptation of business processes which subsequently required co-adaptations of business processes for the value chain as a whole.

The researcher argues through analysing the findings, that co-adaptation through networks is an important relational capability dimension for SMEs. In further supporting Uzzi (1997), findings showed that the Finnish participants were able to lower adaptation costs through the ability to pool resources across firms. This allowed more frequent adaptation with less uncertainty. The small number of customers, suppliers and other stakeholders that characterises SMEs, facilitates the management of co-adaptations. Coupled with their flexibility and communication skills, as discussed earlier, a small number of stakeholders enables and eases the necessary coordination of activities across multiple network actors involved in the

co-adaptation process. Their specialist expertise in their core area assists co-adaptation as the SME owners can rapidly gauge the value and ease or difficulty of product alterations and the necessary actors to enact it.

9.4.2 Co-Innovation

Support exists for the contention that SME networks are a proactive means through which the individual SMEs can tap into the pools of technologies and human resources in order to jointly innovate. In terms of the relational capability construct the differentiation between the SMEs' willingness and ability to collaborate is important in addition to the type of collaboration sought. Innovation was viewed through a network lens by the Finnish SMEs whereby they openly acknowledged how relationships with network actors both inside and outside the value chain had assisted them in their innovative activity. They were willing to share both the risks and benefits associated with innovation and, as such, made their operations transparent to potential partners. In keeping with social exchange theory, emphasis was placed on building deeply embedded ties with other actors, characterised by mutual commitment with a focus on superior coordination of innovative activities. Mutual trust was in place where the SMEs sought not only financial resources in their co-innovation but also human resources through expertise and reputation. The actors sought collaboration and partnerships which could assist the network actors to grow together. This collaboration shortened the time it took to bring new ideas to market through rigorous partner testing, while access to a broad network of cooperative R&D provided companies with a rich portfolio of diverse information sources (see Powell and Smith Doerr, 2004). This is in line with the IMP literature which asserts that innovation is increasingly recognised as being the result of the combination of different knowledge and expertise that exist within different organisations (Johnsen and Ford, 2000). Conversely, findings suggest that the Irish SMEs had a preference for innovating alone. Although in search of financial resources to assist their innovation process, the owner/managers sought financial injections from venture capitalists and government agencies more than partnership with their value chain.

The core stakeholders involved in the co-innovation process varied across contexts. In keeping with findings from Von Hippel (1988), the Irish participants could trace the initial innovative idea to customers who expressed a desire or need for a particular product. This innovation process could be described as transactional as often the relationship ended on completion and exchange of the product. Resource ties were limited in the dyadic relationship as, in keeping with Lundburg & Tell (1998), the core competencies and expertise existed within the SME with the customer providing the impulse to commence the development processes. On occasion, the exchange of a co-innovated product represented the commencement of long term embedded relationships with customers where alterations and adjustments to the product were dependent on the SME owners' expertise. Additionally, in the context of the Irish participant, where co-innovation existed between members of the value chain, they ensued from a series of dyadic relationships as opposed to within a network context. This was due to the fact that the participants did not want to make their operational processes transparent to the network as a whole, due to a lack of trust and a recurrent fear regarding competitor knowledge. Academic institutes were important in the co-innovation dimension of the relational capability construct in a Finnish context. Although collaboration with the academic institutes greatly enabled their innovation processes, the core value for the SMEs was that the partnerships fostered a culture of cooperation which the SMEs brought to other relationships.

Co-innovation through networks of relationships is a useful tool for SMEs. Faced by the challenge of resource scarcity, networks allow for the improvement of the SMEs' network capacity. Without R&D budgets, SMEs must rely on external knowledge for support in the innovation process. Moreover, SMEs are less likely to conduct large scale surveys of customer needs, and as can be seen from both an Irish and Finnish context, interactions with value chain members can provide valuable innovation related information to the actors which can increase the chances of developing successful new products and technologies. For networks and relationships to reach this level of embeddedness, the researcher argues that they have to become a part of the SME owners' long term strategy, and become future orientated to create new value. According to the Forfás Community Innovation Survey (2004: 50) the main barriers to innovation for SMEs are: lack

of funds within enterprise, lack of finances from outside enterprise, innovation costs too high, lack of qualified personnel, lack of information on technology, lack of information on markets, difficulty in finding cooperation partners, market being dominated by established enterprises and uncertain demand. In recognising SME challenges in their innovative capacity, the next phase for policy makers is to assist SMEs in realising innovation through networks, improving their attitude towards collaboration, and honing their coordination management skills.

The relational element of this dimension refers to the ability for organisations to collaborate with other organisations specialising in complementary areas of business. In this way, the co-innovation dimension of the relational capability construct can be defined in borrowing from Owen-Smith et al. (2002), as the ability of SMEs to interact proactively and responsively with a wide range of actors. Innovation orientation is a key driver for the competitive advantage of firms and a common defining characteristic for SMEs. However, the researcher feels that the low level of realisation that the Irish participants had at the outset of this research mitigated against the participants in researching this level of embeddedness through the interventions.

9.5 Conclusion

This chapter provides a discussion regarding the Irish and Finnish analysis as presented in Chapter 8 in relation to the literature as set out in Chapters 2-5 in this thesis. Through a review of the conceptualisation and case findings in light of current and past literature, applicability was shown for the use of the AAR model in the structuring of the six dimensions of the relational capability process. Each dimension was discussed in relation to the layer of the AAR model that it related to in light of relevant, key research papers. In addition, viewing the relational capability construct and the data analysed through the lens of social exchange theory revealed interesting insights. Such insights relate to the relationship between the degree of embeddedness of the participants' relationships and the effect that this had on the marketing benefits received through interaction in networks. Trust and commitment, as mediating variables essential for the

successful functioning of networks, were discussed. Comparisons and disparities were drawn between the findings and current IMP literature in relation to the aforementioned variables.

In an overall sense, this chapter suggests that relational capability, as an overarching construct, provides a novel conceptual framework for observing and understanding SME marketing through networks. The next chapter will draw conclusions from this discussion chapter and revisit findings from both an Irish and a Finnish context in order to devise implications for management and policy. In addition, Chapter 10, as the concluding chapter, will provide the glue that binds this thesis together.

CONCLUSION

Chapter 10 Conclusion

10.1 Overview

To conclude this thesis, the final chapter draws conclusions from the data gathered and literature analysed in chapters two to five in both Irish and Finnish contexts. To this end, the research objectives, as set out in Section 1.3 of this thesis, are revisited and reviewed in light of the research outcomes. Managerial and policy implications stemming from the research study are outlined in addition to the limitations of the study. Future research directions are presented.

10.2 Research Objectives Revisited

The researchers' objectives as set out in Section 1.3 of this thesis were organised as theoretical objectives and empirical objectives. Each set of objectives is revisited in the subsequent sections and conclusions are drawn following an analysis of the literature and data collected and analysed during the research period.

10.2.1 Theoretical Objectives

The theoretical objectives for this research were to undertake a comprehensive literature review of networks, SMEs and marketing, in order to determine the suitability of networks as a means for SMEs to conduct their marketing. Issuing from this, the next research aim was to analyse theories to determine a suitable lens which would enable the research of SME network/relational marketing. Social exchange theory was selected based on a comparison of alternatives, namely transaction cost theory and resource dependency theory. Through further literature analysis, a research gap emerged where no previous research had analysed the process of SME network activity, namely relational capability. The main objective of the study, representing the contribution to knowledge, was to define 'relational capability' and its potential to detail the SME network relational building process. This necessitated the development of the relational capability

conceptual framework, inclusive of six dimensions, which the researcher structured utilising the Actor-Activity-Resource Model (AAR) as depicted by the International Marketing and Purchasing group of researchers.

The conceptualisation is revisited in this chapter to specify conclusions stemming from the data analysis. Additionally, the suitability of social exchange theory as a means to understand and operate within networks is reviewed.

10.2.1.1 The relational capability concept revisited

Whilst substantial research has been undertaken in the area of SME marketing and networks, little emphasis has been placed on the process through which SMEs engage in networks. The researcher argues that relational capability, as a construct comprising six dimensions, can represent this process. The predominant aim of this thesis, representing the contribution to knowledge, is to define ‘relational capability’ and to depict its relevance to the small firm sector. This was achieved through the development and implementation of a conceptual framework structured by the Actor-Activity-Resource Model (AAR) as depicted by the International Marketing and Purchasing group of researchers. This model is graphically illustrated and described in Chapter 5 of this thesis and comprises six dimensions of the relational capability construct. Although the six dimensions of relational capability are structured utilising the three layers of the AAR model, they are not represented as a process. To this end, the analysis of the findings from the main study (Chapter 8) and the subsequent discussion chapter (Chapter 9) points to the need to refine and further develop the initial conceptualisation as set out in Chapter 5. As expected by the researcher, a processional element emerged during the study where findings suggested that the attainment of one layer of the capability framework had a significantly positive effect on the next layer. However, in the conceptualisation chapter, the dimensions were presented as independent elements, separately identifiable, with no links to each other or pathways between each dimension.

Findings from the study indicated strong support for proposition one; SMEs must realise that they are part of a web of interconnected relationships and networks in

order to be able to operate within them. Low realisation from an Irish perspective led to confusion regarding their network activity, given that the SMEs viewed relationships as a social construct comprising predominantly of friendship or kinship ties. This had implications for the other dimensions in addition to the overall construct, as it emerged that an industrial network focus was essential to effectively assess networks, beneficial industrial knowledge and advantageous opportunities. The research findings highlight the importance of the realisation capability at actor level as the foundation for all other SME network capabilities and it is depicted in Figure 10.1, as the first stage in the relational capability process.

The significance of the assessment dimension of the conceptualisation was clear given the variation in the subjective values that the SMEs, particularly in an Irish context, attributed to their relationships and the lack of strategic focus in their network activity. With regard to the conceptualisation process, without the realisation dimension, assessment is without context. That is, from an Irish perspective, assessment would involve the management of relationships and networks with colleagues, friends and family, as they realise networks as predominantly social systems. Subsequently, the assessment dimension follows the realisation dimension in the conceptual process (Figure 10.1). Although the assessment dimension of the relational capability construct is argued to exist at the actor bonds level of the AAR model its relevance and importance at each level of the construct is clear as it is fundamental for SME network functioning (Figure 10.1).

Findings highlight, from both a Finnish and Irish context, the importance of the access to knowledge and access to opportunity dimensions of relational capability. The dimensions are argued to exist at the activity links level and are dependent on the realisation and assessment dimensions of the construct. Explicit and tacit knowledge was transferred through both Finnish and Irish SME networks, enabled through the SMEs' realisation of who comprised their networks and the awareness of the knowledge that the network ties possessed. Knowledge accessed through networks was relevant as it flowed predominantly through the value chain and could be assessed through the degree to which ties were embedded and the trust

between the actors existed. Similarly, the access to opportunity dimension was facilitated through a thorough understanding of the SME networks, which affected both the types of opportunities found and the means through which they were exploited. These two dimensions represent the next stage in the process and are depicted in Figure 10.1.

In the same vein, the co-adaptation and co-innovation capabilities (activities level) are greatly facilitated through the generation and integration of knowledge and opportunities (resource level) emanating through networks (Figure 10.1). While these two dimensions were supported to a degree by the findings, the researcher was aware that not all relationships reach this level of analysis. In supporting Ford & Håkansson (2006) the researcher argued that the investment involved in network relationships at this level of the conceptualisation would suggest that relationships characterised by resource ties represent a small percentage of the SMEs' overall network configuration.

A degree of interconnectedness and overlap existed between the dimensions, particularly at the activity and resource levels of the conceptualisation. As a case in point, the findings suggest that the co-innovation and co-adaptation dimensions incorporate a huge knowledge element and, at times the innovation was knowledge based. Mirroring the boundaries of networks, the boundaries of the dimensions were found to be blurred and are thus depicted in Figure 10.1.

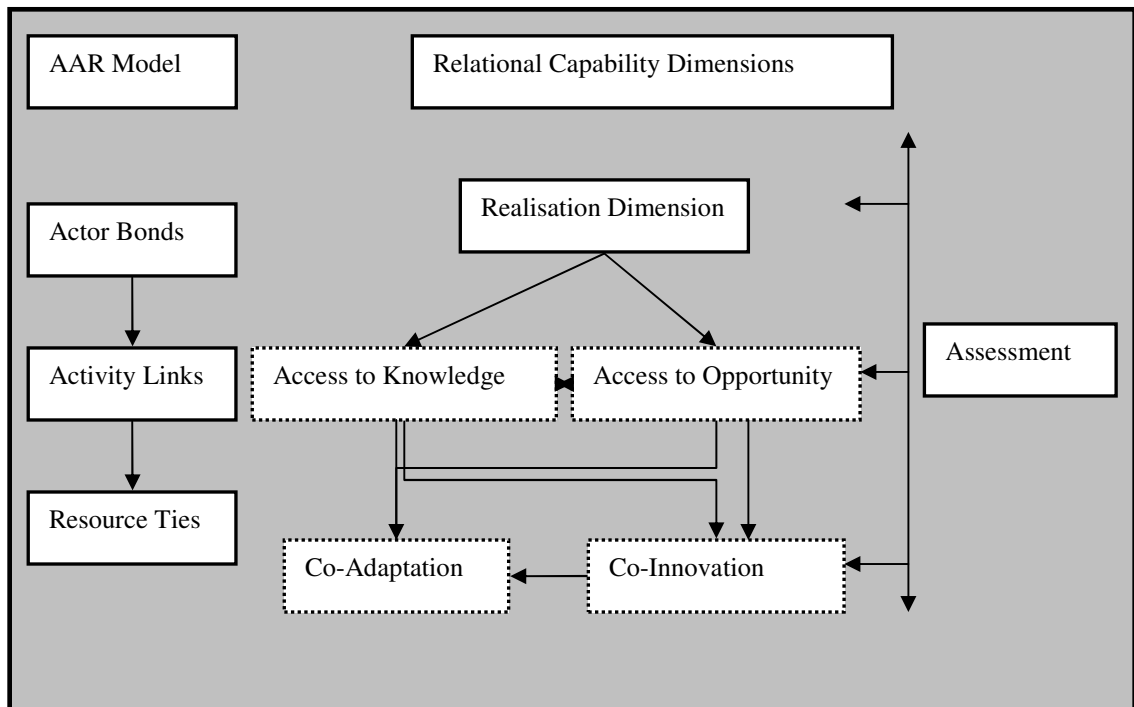


Figure 10.1 The dimensions of relational capability as a process
Source Author

10.2.1.2 Revisit Social Exchange Theory

Social exchange theory was argued by the researcher as a suitable lens to view the process of SME industrial network activity. Cook and Emerson (1978) conceive commitment between exchange partners to be an interpersonal attachment leading persons to exchange repeatedly with the same partners and “suspect commitment will prove to be an important concept separating social exchange theory from strictly economic exchange theory” (1978: 737). In agreement, the strategic management and network literature suggests that SME networks and relational marketing relies on mediating variables such as commitment, trust and cooperation with network partners in lieu of an adversarial approach to customers and competitors (see Dwyer et al., 1987; Gundlach et al., 1995; Mohr and Spekman, 1994; Moorman et al., 1992; Morgan and Hunt, 1994). However, findings suggest that the SMEs were more transactional in their approach to networks, particularly within an Irish context. Trust and commitment were low, secondary to the fear of important company information reaching competitors. Findings also highlighted that there was no evidence to show that the participants were willing to make short term sacrifices for long term results. The short-term

orientation of relationships was further evident where the Irish participant expected virtually immediate returns for their network efforts and, for the most part, ceased interactions on completion of a particular task. Within an Irish context, little evidence existed to support a willingness to invest financially in relationships or to cooperate beyond what was reasonably expected or immediately beneficial to them. The Finnish SMEs were keen to engage and collaborate with partners, with the aim of strengthening their business through strong, embedded relationships characterised by the dimensions of social exchange theory. Conversely, the Irish SMEs favoured capital injections from unrelated businesses or business angles. This further supports the researcher's view of the Irish SME networks as transactional, with a preference for autonomy and detached, weak ties.

Despite the transactional approach to networks adopted by the Irish participants, the literature, further confounded by the Finnish findings, highlights the value of social exchange theory as a theoretical lens to view the subject of small firm networks. Embedded ties promote greater frequency and relevance of information exchange between partners, which can affect the success of the network as well as the performance of firms entering them. They also encourage exchange partners to look beyond short-run inequities or risks and to concentrate on long-run mutual gains, thus increasing relational trust, satisfaction and commitment. For example, the ability of the Finnish participants to expand their enterprises, adapt their products, acquire valuable knowledge and innovate was clearly facilitated by the close reciprocal and embedded relationships that they had with key actors in their networks. However, the Irish findings support the contention that social exchange theory is difficult to implement at an organisational level. Although clearly the Irish participant's level of awareness of networks was enhanced throughout the research process, they maintained, to a large degree, a high level individualistic attitude, whereby they did not wish to work in close cooperation with network actors. Paradoxically, at times they alleged the existence of such connections, but no evidence supports this claim in the intervention session.

The researcher argues that the value of social exchange theory cannot be taught, rather is evolutionary in nature, honed through positive experiences in embedded

relationships. This concurs with Emerson's view of social exchange theory which suggests that networks are not 'given' but created by individuals and their social interactions with other individuals. Thus, networks are not distinct entities from the goals of the individuals contained within the networks a point which has implications for policy and academia as outlined in sections below.

10.2.2 Empirical Objectives

The empirical objective of this research, delineated in Section 1.3 of this thesis, was to understand the 'reality' of SME marketing and network activity with a view to testing the potential of relational capability to enhance it. To achieve this, the researcher implemented components of the relational capability framework to assess theory fit to practice; that is to assess the potential of the relational capability conceptualisation to create or enhance the marketing efforts of the owner/manager through networks. The researcher employed an intervention orientated participatory action research methodology (detailed in chapter 7) within an Irish context, to determine the 'reality' of potential gains through the use of the conceptualisation. Conclusions and implications stemming from the empirical objectives are detailed below.

10.2.2.1 To understand the 'reality' of SME marketing and network activity

Findings clearly indicated from both a Finnish and Irish perspective that marketing was not a priority for the SME participants and little time was dedicated to it. Alternatively, marketing was a reactive activity, conducted on a need basis when business was slow and aimed at insulating the SMEs from competitor activity. A narrow focus of the concept of marketing was held by the SMEs as they viewed it purely in terms of the 4P approach. Accordingly, negligible links were made by them between marketing and networks. This has implications for academia as SMEs must learn and be taught to accept marketing beyond the traditional ends. Such an understanding could have the potential to improve small firm owner/managers' attitudes towards marketing, leading to a more proactive approach in relation to it.

Network activity, through the eyes of the Irish participants, was socially constructed comprising of ties that may or may not have links with their business. Whilst recognising the value of Personal Contact Networks (PCNs) in marketing, the researcher argues that PCNs have little relevance to SMEs engaged in highly specialised and technical industries, as were the majority of the study participants, because few actors outside their value chain fully comprehend their activities. This view of 'networks' as 'networking' provided the foundation to an unwarranted negative attitude towards the concept with one participant describing it as a "pompous and arrogant thing to do". Similar confusion exists in the SME marketing literature where frequently the term 'networking' and 'networks' are used simultaneously. This has implications for SME marketing researchers and academics as studies which have concluded that SME marketing practice is largely conducted through networking (Bryson et al., 1993; Gilmore et al., 2001; Johannisson, 1986; Lee & Mulford, 1990; Szarka, 1990) remain highly ambiguous. Whether they are referring to personal contact networks or industrial networks remains unclear. The researcher feels that care must be taken to separate 'networks' and 'networking' and treat them as very different constructs.

In the same way, the researcher draws attention to the merit in clearly differentiating between dyads and networks. From an IMP perspective a business network has been defined as "a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualised as collective actors" (Anderson et al., 1994: 2). However, the participants in this study mainly discussed dyadic relationships in terms of two actors or a series of dyadic relationships as opposed to inter-connected relationships. This has implications for practice as the SME owner/managers need to improve their network coordination and management skills to successfully operate within networks.

10.2.2.2

Assess the potential of the relational capability conceptualisation

This research provides strong support for the applicability of the relational capability construct for SME marketing. The importance of the conceptualisation is evident as findings suggest that it allowed the participants to better understand the concepts, merits and usefulness of viewing networks through the IMP lens. The longitudinal nature of the action orientated research method and the ensuing results suggest that networks and the ability to maximise their potential can be honed over time through experience. Moreover, the concrete and measurable benefits derived from the Irish interventions provide further support for the relational capability conceptualisation. For example, the attainment of CORD funding and innovation vouchers transpired because of a discussion among group members regarding how they, in the past, had obtained them. The researcher noted that in order to benefit from the relational capability construct, SMEs must be willing to engage in a series of interconnected relationships. This willingness must stem from a desire by the owner/managers to break down their boundaries and learn to trust and collaborate with other actors.

The appropriateness of the conceptualisation as a vehicle to enhance SMEs' marketing was also evident from data analysis. The SMEs had core skills and characteristics that enabled them to benefit or potentially benefit from each dimension of the overall construct, for example, flexibility, communication skills, specialised expertise and a small number of customers and suppliers. Flexibility allowed the SMEs to make rapid decisions facilitating timely co-adaptation and co-innovation. Communication skills assisted with network expansions and attaining knowledge and opportunities from predominantly dyadic ties. The small number of customers, suppliers and other stakeholders that characterises SMEs facilitates the management of network activities. The findings showed that the participant's core expertise, from both an Irish and a Finnish context, enabled them to convert general or abstract knowledge into knowledge specifically useful to them.

10.3

Managerial Implications

Findings from the study support the researcher's view that the relational capability construct has the potential to provide some way out of the resource/time pressure on SME marketing practitioners by providing them with marketing route-ways through their existing and potential networks. Using networks, the findings have shown how close relationships with network actors, particularly distributors, can assist SME owners to increase the scale and scope of their businesses by means of exports and referrals and positive word-of-mouth. At the activities layer of the conceptualisation, SME owner/managers, via the relational capability construct, can access and integrate knowledge and reap opportunities outside of their direct control. Access to knowledge and opportunities in this manner can improve the owner/manager's ability to deal with complexity in their environment, as the attainment of immediate and relevant knowledge can make rapid business adjustments and facilitate change. Connected close embedded ties facilitate adaptation and innovation by sharing the costs and risks associated with it. This is particularly important in an SME context, whereby innovation and adaptation activities are often restrained due to a lack of the necessary funding. Additionally, a wide variety of dense ties can facilitate innovation and adaptation by providing SMEs access to external human resources and also complementary areas of expertise. This was especially important in the case of the present research as the SMEs were predominantly involved in the production of complex, technically orientated products. Operating through networks could also enhance the speed of action, which is often essential for taking advantage of emerging opportunities.

However, in order to benefit from the relational capability construct SME owner/managers must a) be aware of the benefits of collaboration; b) learn how to collaborate; and c) be willing to work with and share information and knowledge with other firms. The Irish SMEs were hindered in their ability to network effectively as they were characterised by low realisation. This posed difficulties for the researcher as due to the emergence of the construct as a sequential process, low realisation had a negative effect on the other five dimensions. Low realisation, as the foundation of the construct, was difficult to improve as the researcher had to

reorient their long held perspective and attitudes in relation to networks as a social phenomenon.

10.4 Policy Implications

Regarding government policy, each of the SMEs that participated in this study had previously attained government assistance to support the functioning of their enterprises. As shown throughout the data analysis section of this thesis (Chapter 8), the form of support differed both on an individual basis and between country contexts. However, the predominant types of public support and the distributing agencies remained similar. That is, whilst the EPP programme and the Magnet programme were set-up to facilitate SME growth, their delivery methods were very different (Table 10.1). These are depicted in Table 10.1 below and divided on a contextual basis.

Ireland	Finland
<u>Academic Institutes</u> Professional business training Business mentoring (EPP Programme)	<u>Academic Institutes</u> Testing products Manufacturing Finding potential partners for collaboration (Magnet Programme)
Exports – Information CORD funding Innovation Vouchers (Enterprise Ireland)	Exports – Information and agent selection (Finnpro)
IRC: Available but not used (Innovation Relay Centre)	IRC: Highly beneficial (Innovation Relay Centre)

Table 10.1 Contextual support disparities and similarities
Source Author

As past participants of an EPP Programme, the Irish members had, from the academic institutes, received professional business training and mentors to assist them in the start-up phase of their business. Additionally, due to their links with the Institutes of Technology and based on their potential to export, the majority of

the participants had also been in receipt of Commercialisation of Research and Development (CORD) funding. Support from the academic sector was similarly forthcoming within Finland, yet in comparison to Ireland, proved to be far more extensive, encompassing collaboration across most business functions. The Finnish Universities played an active role in the manufacturing, testing and marketing of the SMEs' products and assisted significantly in the provision of services and in locating potential partners for collaboration. Such support was apparent, for example, from participation in the Magnet Programme (Table 10.1). While the Irish greatly benefited from academic collaboration in terms of improving their business skills, within Finland, academic support was more structured around instilling the value of long term cooperation through encouraging business-to-business collaboration in addition to business-academia ties. The fact that the IRCs were not mentioned (Table 10.1) could potentially imply that the Irish participants favour working alone, once again highlighting that fact that they have an individualistic attitude. This lack of coordination between the Irish participants and the IRCs is ameliorated by the intense level of benefits in terms of sales and partnership possibilities that the Finnish participants reaped.

As can be seen in Table 10.1, EU funded programmes, aimed at enhancing SME management and business skills, exist in both Finland and Ireland. However, the researcher argues that stronger measurement mechanisms must be put in place to ensure that value, even at a training level, is being attained by the SMEs who participate in such programme and that content is sufficient. This has implications for teaching marketing to SMEs. This point is being raised as the researcher was surprised by the lack of marketing knowledge, outside the 4P lens, that the participants from both contexts possessed despite having received academic training.

Whilst EPP programmes are beneficial, the Irish participants felt that once the entrepreneurship programme has ceased, little existed in terms of support to bring them from a small (less than 10 employees) to a medium sized (less than 50 employees) enterprise, a level which they had to reach in order to be eligible for further funding. This points to the need for follow-up programmes for entrepreneurs moving towards the next phase of their ventures. As noted in

Section 2.4, while the Finnish government offers services appropriate to the various phases that small firms encounter, a gap emerges within an Irish context between entrepreneurs and High Potential Start-Ups (HPSUs). The Finnish government have a more flexible policy framework which allows funds to be allocated on a company by company basis whereas strict rules and regulations govern funding in Ireland. This deficiency was noted by the Irish participants who felt that the criterion for funding was too stringent and inflexible. It is the researcher's opinion that such resolute positions towards policy is unnecessary as SMEs, by their very nature, are unique and merit to be regarded separately.

On the subject of government policies and subsidies, the Finnish participants had a more positive attitude than the Irish. Additionally, the Finnish had a more open attitude towards collaboration in business activities. The findings highlight that nearly half are seeking partners to facilitate growth (Section 8.2.3). This could be attributed to the fact that good working partnerships with the universities have facilitated the desire to search for other collaborators. A recommendation would be that this collaborative style model be employed in Ireland to enable the academic institutes to play a more active role in the operations of the Irish SME and create a more positive attitude towards partnership/collaboration.

If collaboration is to become a reality, it must feature from early stages, beginning with the education system. As academic institutes strive to build a culture of entrepreneurship, it is important that the area of networks is not overlooked. As networks are evolutionary, students attending third level institutes must be made aware of the benefits of relationships and networks in both academic and industrial environments. A culture of collaboration must be fostered throughout the formative college years in order to reduce the traditional barriers surrounding partnership.

From an Irish perspective relational realisation stemmed from personal contact networks whereas the Finnish participants viewed networks in a business-to-business context. This has implications for policy as ensuring a full understanding of industrial networks and its dimensions should be at the core of any Irish network/entrepreneurship programme to guarantee the maximum derivation of

benefits. Irish SME owners must be made aware of networks during the initial stages of their operations or prior to commencement as misperceptions of networks are difficult to alter. Therefore, to enhance the realisation and assessment dimensions of the relational capability construct, the researcher would suggest teaching SME owners the value of networks and the industrial meaning of networks through the use of interventions similar to those designed for this study (see section 7.4.1). The researcher recommends that marketing is taught through a network lens to compliment the 4P approach utilised by most academic institutes. The researcher argues that it is experience in a network setting which is paramount in assisting SMEs to realise their networks. To this end, the researcher suggests the potential of 'network funding' as a means to encourage SMEs to collaborate. In other words, rather than allocate assistance on a company by company basis, priority should be give to multiple actors who have merged to innovate or collectively start a new venture. In so doing, Irish policy makers would be instilling the trust and commitment for SMEs to attain marketing benefits through networks, as such dimensions are at the core of relationship building.

At the next level, collaboration should be encouraged between industry and SMEs. The success of this collaboration is evident in Finland where Nokia plays an important role in the provision of support for the SME sector. Many of the Irish participants who formed part of this study were technically orientated and would benefit greatly from collaboration with some of Ireland's large corporations. Within Finland, this cohesion was facilitated by the academic sector in their role as networks brokers (for example the innovation Magnet programme) thereby developing routes for the SMEs to new industrial links. Although the Irish academic institutes have similar functions to the science parks in Finland, the SMEs would benefit greatly if part of the role of the academic institutes was to support collaboration between small/large firms. The Finnish participants operated in close cooperation with the academic sector. This collaboration allowed the Finnish participants to coordinate their networks outside the academic sector whereby they continually strived to enhance trust, commitment, cooperation and communication in their relationships to facilitate the greater transfer of knowledge, greater innovation capability and a simplification or elimination of activities. In this respect the researcher suggests that Irish policy makers and

academic institutions should provide incentives for academics to engage in the technology transfer process.

The Irish participants noted that they had difficulty accessing expertise from the academic sector. This was due to the fact that with so many diverse projects in operation in the academic sector, they lacked the time to investigate them. To this end using the university as broker systems as in place in Finland is recommended within an Irish context. This would enhance the visibility of the academic institutes' core capabilities. Collaboration with the academic sector is not possible if the SMEs are not aware of their capabilities. SME owner/managers, as time constrained individuals, do not have time to analyse University websites. Therefore, the researcher suggests that the academic institutes act as the relationship driver and approach SMEs with their offerings. Additionally as vast institutions, academic mentors should be offered to SMEs, especially those operating from within the Universities. Academic mentors could be allocated on a discipline basis, that is, one mentor would cater for biotech, another for software and so on. Similarly, the researcher suggests clarity in what support each state agencies gives. As can be seen in the findings (Section 8.2.2.1) the Irish participants expended much time visiting various support agencies prior to realising that the EPP programmes existed.

Regarding EU programmes, it is important to ensure that project design and focus are not too broad. The researcher suggests that EU projects in both a Finnish and Irish context should be specifically aimed at networks or marketing rather than striving to include all business skills and disciplines. This point was highlighted by a Finnish participant who noted that although many programmes exist, they generally focus on the same objectives and target the same participants each time. As a result take-up and participant satisfaction remain low. Additionally, should network programmes be implemented, it is important to ensure that sufficient time is dedicated to such programmes, given the challenges found in this study associated with implementing networks and ensuring network realisation.

Mentors employed by government institutions must be trained in the value of networks and fully comprehend what they entail, that is, mentors must have high

realisation. Without high realisation they cannot provide advice and support on network formation issues to collaborating organisations. Similarly, policy makers must have a high realisation of networks in an industrial sense.

10.5 Research Limitations

As is the case with all research, this study was not without its limitations. Time, distance and financial constraints hindered the ability of the researcher to replicate the entire Irish study in Finland. The methodological mismatch complicated the cross-comparison element of the study. However, to minimise the negative effects of this limitation, the researcher ensured that she accumulated a comprehensive account of the Finnish participants' activities in utilising a wide range of documentation. The researcher also contacted the Finnish participants via e-mail or telephone to clarify or expand on issues as appropriate, in a bid to further minimise the restraint. The high level of realisation displayed by the Finnish participants further reduced the potential negative effects in presenting the findings.

A second limitation of this study relates to the selection of participants. As previously mentioned, many layers to network analysis exist. The selection of sixteen independent actors, eight from a Finnish perspective and eight from an Irish perspective, limited the transparency of networks beyond the group level. The fact that the participant's network actors (their suppliers, distributors, customers etc.) were not interviewed or analysed, leaves the study open for potential bias. As a result, some practical steps were taken by the researcher to lower the probability of prejudice affecting the study findings. For example, the researcher, when interviewing the participants in both countries, asked the participants the same questions in a variety of ways. Additionally, within the Irish setting, the researcher used the second and third interviews dually, firstly, to further probe issues emerging from the action learning session and secondly, to ask the participants questions which would verify their accounts. On a macro level, when discussing network ties with the government agencies, the effects of this limitation were minimised as the participant SMEs had similar explanations

regarding the attainment of finance, training and other support, thus enhancing reliability. Moreover, due to the overlap which existed between the dimensions, the participants, especially in the Irish context, regularly relayed the same events at different action-oriented learning sessions. Consistency in their recounting of events helped ease the effects of this limitation.

Some would argue that a sample size of eight Irish and eight Finnish participants is too small. However, due to the large number of dimensions identified in the research, an expansion of the sample size could potentially have a negative impact on the depth of the analysis of the findings.

10.6 Directions for Further Research

As a thesis with a theoretical contribution to knowledge, there exists much scope for future research. Therefore, this section of the thesis will highlight some potential directions for future exploration. For example, in recognising that large and small firms differ significantly in terms of their processes and procedures, it could be constructive to test the applicability of the relational capability construct to 'large firm models'. Additionally, it would be useful to conduct the same study in a Finnish context, utilising the interventions in an action learning environment to see what gains are to be achieved when realisation is already in place.

Although the relational capability construct comprises six interconnected dimensions, potential exists to revisit and further explore each dimension, both theoretically and empirically. Whilst certain aspects of each dimension identified by the researcher have been previously examined, little literature exists relating to the dimensions as defined by the researcher or the interrelatedness of the six dimensions of the construct. This is particularly the case regarding the realisation and assessment dimensions of the relational capability construct. The themes emerging from the analysis of the six propositions described in Chapter 8 could be beneficial in adding to the development of the conceptualisation in this way.

Extensive empirical testing of the conceptualisation could enhance the reliability of the findings depicted by the researcher. Such empirical studies could be conducted in an SME context where the participants have not previously had close connections with the academic sector. Similarly, to conduct this study selecting participant actors from the same core network would lend new perspectives on the conceptualisation and reveal how actors within the same value chain perceive and relate to each other. A follow-on study with the same actors could prove insightful to test the degree to which they have altered their processes post realisation of the value of the networks and the means by which they operate within them. This could enhance the general nature of this research and assess the potential of the methodology as an outreach programme for small firms through the academic sector. It could also further probe the policy implications stemming from this research.

APPENDICES

APPENDIX I

INTERVIEW PROTOCOL

About the Study

The aims of this study are to:

- Understand how networks can facilitate small firm practices.
- Determine ways in which small firms can better use their networks to further reap benefits from them.

Background

This study is being conducted at Waterford Institute of Technology as part of my PhD research.

My name is Helen McGrath. I qualified with a Bachelor of Commerce degree specialising in Marketing and Management from UCC and a Master of Business studies Degree from UCD specialising in Electronic Commerce

I am currently studying under the direction of Dr. Thomas O'Toole, Head of the School of Business, Waterford Institute of Technology.

Ethical Considerations

- Any information collected during this interview will be treated in the strictest confidence. Your organisation's name, your name, and all other identifying details will be disguised in the final report unless specific permission is given.
- All data collected during this interview will be accessible only to me.
- Only aggregate data will be used in the final dissertation.

General questions

- Company background: nature of business activities
- Respondents profile, job title, and responsibilities

- Size of total business (sales, number of employees, number of offices/facilities)
- What area do you specialise in

General Marketing Based Questions

1. How do you currently conduct your marketing?
2. What emphasis do you place on marketing? How important is it to you?
3. Who deals with the marketing of your products?
4. In your opinion what are the key marketing limitations faced by your business?

Network Based Questions – Realisation

1. To you what does the term network mean?
2. Do you think of them in terms of friendship or profitability?
3. Have you received any gains from your networks?
4. What types of people would you consider as part of your network?
Friends/family/suppliers/customers/ bank/ clubs
5. How have they assisted you thus far in your business?
6. Who would you consider the most beneficial? Why?

Network Based Questions – Assessment

1. Do you reflect on your networks or are they a ‘by the way’ activity?
2. Do you think of networks as part of your strategy?
3. Do they feature in your business plan?
4. Who are your most important contacts? Why?
5. What are the main benefits that you have derived from your networks?
6. Do you aim to expand your networks? How?

Network Based Questions – Knowledge

1. Where do you feel your main sources of information come from?
2. How do you keep up to date with changes in your field?
3. Have you ever created new business from your networks?
4. What type of knowledge flows through your networks?
5. How has that information been of benefit?
6. How have you, in the past, given information to others in your network?
7. Have you received any information from the public sector? If so, how has it been of use?

Network Based Questions – Opportunity

1. Have opportunities ever presented themselves through your networks?
2. If so, what kind?
3. Can you tell me of any instance where engaging with network members has led to an opportunity?
4. What type of opportunities would you like to attain in the future?
5. How can your networks facilitate this?

Network Based Questions – Co-adaptation

1. Have you changed/adapted any of your products since company inception?
2. What led to this adaptation?
3. Did you receive any support in the adaptation process? From who?
4. Can you describe a time when you co-adapted a product/service in the past?
5. What type of support would you like in the co-adaptation process?

Network Based Questions – Co-Innovation

1. Do you consider yourself to be an innovative company?
2. Have you brought out any new products?
3. Have network connections assisted with new product development? How?
4. What led to their inception?
5. What barriers does your company face with regards to innovation?
6. How have public sector connections facilitated your innovation process?

Policy Questions

- Have you received any government support in the operating of your business?
- What kind of supports have you received?
- Have they been beneficial?
- Are you content with government policy towards the small firm sector?
- What areas of policy would you like to change?

APPENDIX II

SAMPLE LESSON PLAN

Lesson Plan One

Proposition 1: SMEs must realise that they are part of a web of networks that can enhance their marketing efforts.

Aim

The aim of this proposition is to make the individual SMEs acutely aware of the fact that they do engage network activities, to reflect on them and, as an intervention exercise, for each participant to map their own networks.

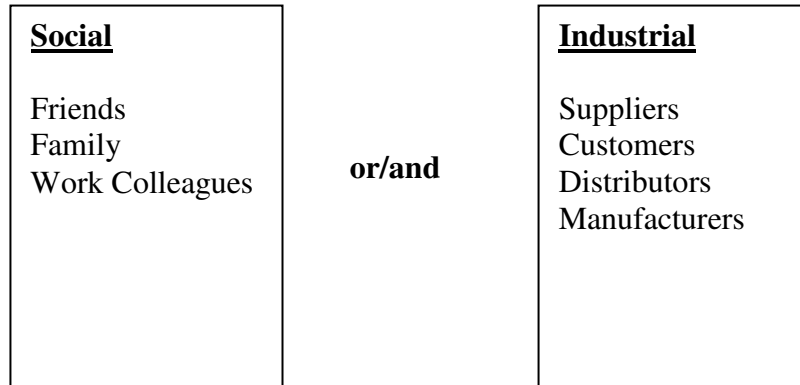
Potential Questions relating to what I want to measure:

1. Do the SME owners know what is meant by the term networks?

Listed below are some key terms that I'll be looking out for:

- Interconnected relationships (Three way ties)
- Innovate
- Adapt
- Learn
- Transform
- Share information
- Collaborate
- Communicate
- Trust
- Support
- Exchange
- Advise
- Influence

2. Who comprises the SME participants' networks? Do they have a predominantly social or industrial view?

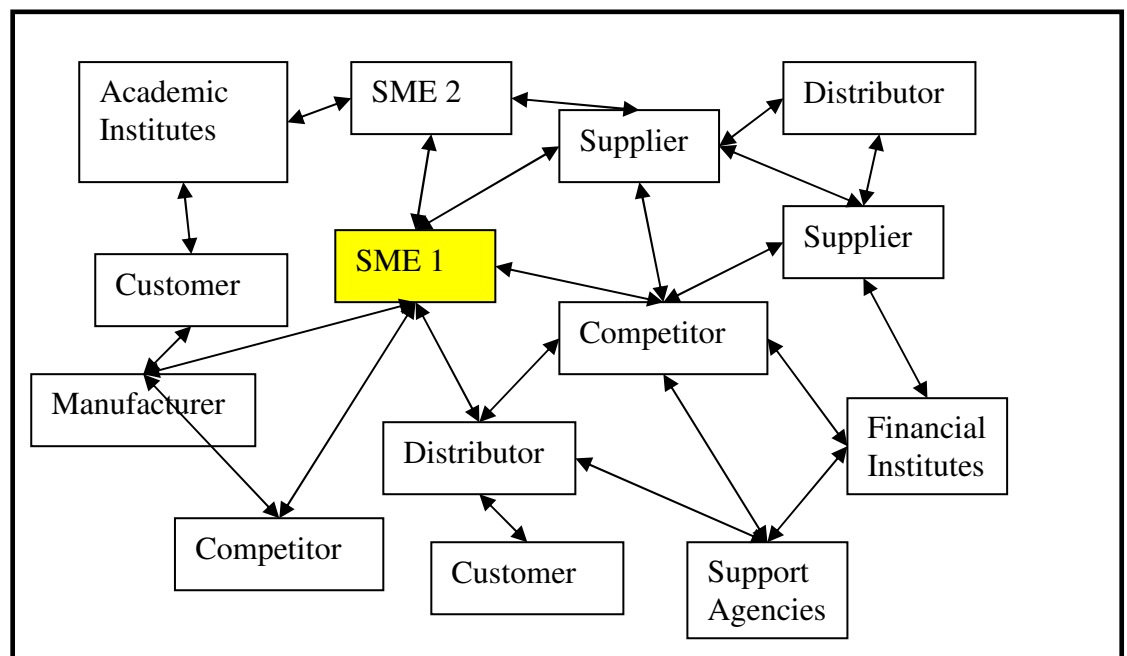


To gauge whether the SME owner are already in receipt of considerable marketing assistance through engaging in networks the following questions will be brought into the session

1. Who has assisted you in any way throughout your business venture, and if so through what means?
2. Have you ever received useful business advice from outside your usual work environment?
3. How do you keep up-to-date with new developments within your field?
4. Are you finding it easy or difficult to make contacts within your new business venture? – why?
5. Are you a member of any professional bodies? What benefits do they bring.
6. Who do you work with to increase your organisations business success?
7. How did your customers hear about you?

Intervention

As an intervention strategy, the researcher requested that the SME participants focus on, and graphically depict, their networks. She suggested that they write a list of their main ties prior to drawing the networks. She depicted a sample network detailing connections with suppliers, customers, competitors, manufacturers, distributors and other key stakeholders in a business which can be seen below. She also explained the rationale for viewing networks through an industrial lens.



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