



Business associations as social business network facilitators

Mehmet Turker, PhD

International Zaman University, Cambodia

Abstract

Collaboration in social business networks is instrumental for small businesses in establishing initial business contacts and developing abilities to compete with large companies in domestic and overseas markets. This paper is composed of a short discussion on the influence of social business networks established by non-profit business associations. Organizational networking alludes to the dynamic collaboration among the engaging entrepreneurs with an aim to improve their performance. Business associations, in this regard, may facilitate networking among the small business owners. However, as Barry & Wilkinson (2011) argue, business associations have not captured the attention of the researchers as a form of coordination among the employ. Moreover, there is little known about the functions of the business organizations since literature often treats them as marginal players. This study, analyzing business associations as network facilitators, attempts to highlight their significant role in social business networking.

Keywords: social business networking; small and medium-sized enterprises; social psychology and interaction; business associations

1 Introduction

Current research appears to validate the view that engaging in social business networks is an alternative to penetrate and develop competitiveness in domestic and international markets; especially in the case of SMEs which often face a number of internal and external barriers due to their organizational and managerial constraints. Engaging in a social business network of business associations may enable them to establish business contacts and acquire the valuable market information circulated in networks. However, there is insufficient research on business associations to draw any firm conclusions about their networking functions since current literature often treats them as marginal players. The purpose of this study is to highlight the impact of social business networks and the network facilitating role of business associations. To this end, the influence of business network environment is explored in a theoretical and contextual framework built on social network theory and the knowledge-based approach.

In the literature, several theories have been proposed to explain the benefits of network embeddedness for companies. The consensus view seems to be that networking activities enable entrepreneurs to interact with other entrepreneurs and acquire valuable market information.

2 Literature Review

2.1 Knowledge in Social business networks

Social network theory deals with the relations between individuals in a society constituted of networks (Williams & Durrance, 2008). Being a member of community, every member individual has an access to a social network albeit minimal. Well-functioning social networks providing social capital can motivate



individuals to be investors and entrepreneurs. (Martinez and Aldrich, 2011) Entrepreneur candidates benefit from these social relations depending on the nature of this social network. Entrepreneurs usually obtain financial and motivational support from their social networks. Social networks not only enable them to reduce transaction costs and the risks but facilitate the learning process and reaching information about markets (Çitçi & Coşkun, 2012).

The main theoretical premise behind Knowledge and Networking theories is that the internationalization performance highly depends on the entrepreneurs' ability to take a position in a social business network and use the knowledge acquired within this network ties. This knowledge provides competitive advantage, and consequently affects the internationalization of the company. The degree of this competitive advantage is related to how accurately the company manages its activities in the network. Johansson & Mattson (1988) claim that the companies can follow three ways in their internationalization attempts: participating in a country-based network, establishing the relationships with foreign networks and connecting the networks in different countries.

The basic premises of the approach are that in a globalized world, companies are involved in a wide range of relationships, not just with suppliers and customers, but also with competitors and institutions, such as governments, universities and financial institutions. These commercial and informational ties and social relations directly or indirectly provide knowledge synergy through connecting the member companies.

The development of network tie in the international arena is an important factor in SME internationalization. The developments in communication and transportation facilitate the trade relations and leads to the formation of networks that ties customers, suppliers, and public and non-governmental organizations.

As Kontinen and Ojala (2011) argue, network ties, which involve social relationship, facilitate the internationalization of SMES, especially of the ones that have limited resources. Similarly, Ojala (2009) posits that the support of government-based non-profit consulting organizations in networking is important for the companies that do not have any business contact and relations in overseas markets.

Englis et al. (2007) analyze the use of networks and their role as a link between knowledge and the venture across the startup to examine how knowledge-needs change during the global startup process in terms of classification, function and how the network interaction compositions change to accommodate these different needs. Korsakienė (2013) analyzes the development of networks as another success factor of the firms' internationalization and argues that firms first establish long-lasting relationships with suppliers and customers. Similarly, Tok (2015) argues that network embeddedness describes networks of both formal and informal actors, and this embeddedness benefits from the informal links in the networks, as well as the mutual trust and solidarity among the engaging members.

The information synergy created in these networks provides an opportunity for business people to obtain information concerning external markets, exchange their experiential knowledge and enable them to participate in export promotion activities. Successful companies encourage or inspire other companies in the networks to undertake similar initiatives since a success sample in the same environment is an encouraging factor itself. New innovative techniques and strategies developed by networking companies generate benefits for the other companies and reduce the cost of the introduction of a new technology by sharing ideas and techniques. Companies can follow the example of innovative ideas and strategies tested in a given location or markets. Besides, the joint action of a group of companies generates positive social effects through consolidating the initiatives undertaken within the network.

The networks of business organizations enable their members to participate in social events. The personal gain obtained from the social networking events refers to social capital in the literature. Yu and Zhou (2012) posit social capital as an integral organizational resource in the sustainable development of an industrial association. In this view, if a business association accumulates relational capitals catered among member enterprises, the organizational needs may be satisfied and may trigger initial collective action.



2.2 Networking capability and international entrepreneurship

Tolstoy (2010) argues that being an independent entrepreneurial hero is often not realistic for the managers of SMEs since in their internationalization attempts small businesses face barriers due to their lack of resources, experience and knowledge; consequently they require guidance and assistance. Social business networks are instrumental in overcoming the obstacles especially for inexperienced entrepreneurs since participating networks provide them with opportunities (Hills, Lumpkin, & Singh, 1997) and enhance the performance of their enterprises (Zaheer & Bell, 2005) through penetrating and developing competitiveness in overseas markets (Musteen et al., 2013).

Engaging the business networks is instrumental for foreign market acquisition since, as Uzzi & Lancaster (2003) note even this information publicly available, entrepreneurs tend to use social network ties to obtain this information (Uzzi & Lancaster, 2003), probably since, as Musteen et al., (2013) note “knowledge that is gathered from personal contacts is also generally given more weight due to the fact that individuals tend to be more influenced by vivid, case study type information”

Networks are noted as one of the key sources of foreign market information (Arenius & DeClercq, 2005) especially for small and medium-sized enterprises (Elango & Pattnaik, 2007) which face serious export barriers due to their organizational and managerial problems.

Melen (2009) analyzes how SMEs develop foreign market knowledge from their business network of relationships in their continued internationalization phase and proposes that a firm’s knowledge intensity relates to its development of foreign market knowledge within business network relationships. Similarly, Elo (2003) argues that the SME internationalization process is “influenced by the network structure and facilitated by the accumulated effect of pull-push forces, learning, tacit knowledge and social contacts”.

Networks are essential instruments to facilitate the barriers that SMEs confront (Davidsson & Honig, 2003). There is overwhelming evidence corroborating the notion that entrepreneurs which have an access of wide a network can identify more business opportunities (Kontinen and Ojala, 2011; Englis et al. 2007; Hills, Lumpkin & Singh, 1997) and may improve the firms’ performance (Zaheer & Bell, 2005).

Collaboration among the entrepreneurs of small businesses is vital. When they attempt to break into unfamiliar overseas markets, they usually come across barriers due to their lack of resources, experience, knowledge, and lack of foreign contacts. Consequently, they require guidance and assistance since being an independent entrepreneurial hero is often not realistic for small business entrepreneurs (Tolstoy, 2010). Social business networks can provide guidance, especially during the earlier stages of internationalization, for inexperienced small sized firms since networks providing opportunities (Hills, Lumpkin, & Singh, 1997) enhance the performance of companies (Zaheer & Bell, 2005). The process of internationalization of business networks, in this sense, is an alternative for small businesses to penetrate and develop competitiveness in overseas markets (Musteen et al., 2013). The companies engaging in a strong network can obtain a better position to place their products on international markets.

2.3 Organizational networking

Organizational networking alludes to the dynamic collaboration among organizations with an aim to improve their performance. Santos (2001) defines the spirit of enterprise collaboration as the quality that manifests itself in a favorable behavior of entrepreneurs both associated with certain institutions of business support to establish agreements can other entrepreneurs and develop projects that are common or related, so that all can benefit from the advantages of the union of efforts and initiatives.



As Chen, Y. (2013) notes "the forms of organizational networking arrange themselves in a continuum from informal to formal such as communication, cooperation, coordination and collaboration." Communication, in this view, alludes to information exchange; cooperation refers to the unstructured informal relationship; coordination necessitates some planning on shared goals; and collaboration requires intensive efforts to reach this goal.

Business networks can also be defined as inter-organizational ties which are strategically important for the businesses participating in these networks (Gulati, Nohria, & Zaheer, 2000). Business collaboration promotes economic development since it highlights and enables the accumulation of intangible capitals such as technological capital, human capital and organizational capital. The accumulation of these intangibles is the most effective way for the backward areas to respond to the globalization of markets as contributing to endogenous development based principally on the use of own productive resources (Santos, 2001).

2.4 Non-profit Business associations

Business associations are the interest groups that are established to promote and organize the interests of their member companies. The effectiveness of business associations has been a subject of some past studies in terms of their services to temper the forces of competition and serve as the liaison between their members and governments, lobbying, opinion formation and developing political influence (Mack, 1991; Barry & Wilkinson, 2011), their contributions to economic performance in domestic markets through market-supporting and market-complementing activities (Doner & Schnedier, 2000). Kondoh (2005) finds a positive direct correlation between effective business associations and economic growth. Similarly, Sen and Velde (2007) argue that effective business associations have a contribution in reducing the poverty.

A study (Duvanova, 2007) of a cross-national survey of firms in 25 countries lists main services of business associations as informational services (via publications, web-sites, request), legal support consulting, marketing services, assistance in attracting investments, education / training, and assistance in developing business plans. Along the similar line, Qureshi and Velde (2007) find that in Zambia, membership of business associations highly improved the performance of the enterprises, especially of the small and medium-sized enterprises. Similarly, in another study in seven sub-Saharan countries, Velde (2006) finds that membership of a business association improves the performance of the companies.

It is generally accepted that SMEs face different barriers to internationalization to those faced by large enterprises; therefore, they require different solutions. ILO (2004) notes that "the problem for the SMEs is that they often do not have the critical mass of human and other resources to locate markets". Therefore, according to ILO (2004) "This is where the business association can make its contribution to small and medium enterprises".

Aponte (2013) argues that the networks established with the collaboration of SMEs and business organizations are able to cope with market and social concerns of SMEs but the differences in their discourses do not favor cross cooperation to support SMEs. Business organizations, according to him, are reorganizing as market-driven NGOs to be able answer to the market needs of SMEs. Membership of a business association, as Battisti and Perry (2015) note, "gives access to network building opportunities and informal interaction at membership gatherings as well as access to the formal services provided by the secretariat such as access to management advice, market information and assistance in complying with business regulation".

Companies engaging in networking activities benefit from export support programs such as supply of market information, participation in trade fairs/exhibitions, participation in foreign-market observation tours, support for the issue of compliance with local regulations in foreign markets, support for marketing products, support to understand foreign customer habits and attitudes, support to make contact with customers and agents in new overseas markets.



Membership of a business association, as Battisti and Perry (2015) notes, "gives access to network building opportunities and informal interaction at membership gatherings as well as access to the formal services provided by the secretariat such as access to management advice, market information and assistance in complying with business regulation".

3 Recommendations, implications and directions for future research

The study has some implications for business associations and small business owners / managers. As (ILO, 2010) report proposes business associations should respond effectively the changing needs of their members and their services should be tailored around these conditions. Entrepreneurs probably understand the value of business networks, but they should be able to actively engage in them. Participating networking activities can enable them to save significant amounts of money and time spent on advertising and developing export marketing strategies. Entrepreneurs should communicate with other entrepreneurs who gather at events, since these events provide opportunities to identify additional contacts and business opportunities. Attending networking activities and developing new contacts can be motivating and instrumental in renewing and sustaining business enthusiasm and get innovative ideas about marketing in foreign markets.

The study contributes the literature on the role of business associations which has not captured the attention of the researchers as a form of coordination among the employers. Besides, there is still lack of theories and empirical research on social business networking patterns which may explain the managers' social networking relations, and therefore, further study of the issue would be of interest.

REFERENCES

- Aponte, W. V. C. (2013). Non-governmental organizations and the sustainability of small and medium-sized enterprises in Peru: an analysis of networks and discourses. PhD thesis, Wageningen University, Wageningen, NL
- Arenius, P. and De Clercq, D. (2005). A Network-based Approach to Opportunity Recognition. *Small Business Economics* 24(3), 249–65.
- Barry, M. & Wilkinson, A. (2011). Reconceptualising employer associations under evolving employment relations: countervailing power revisited *Work, Employment & Society March 2011* 25: 149-162,
- Battisti, M. and Perry, M. (2015). Small enterprise affiliations to business associations and the collective action problem revisited. *Small Business Economics*, 44(3), 559-576
- Chen, Y. (2013). Networking and performance of community based organizations in Taiwan: A social capital perspective. Ph.D dissertation, University at Albany, State University of New York.
- Çitçi, U.S. & Coşkun, R. (2012). Sosyal Ağ Kullanımında Süreç Yaklaşımı: Girişimcilerin Sosyal Ağları Kullanımında Farklılaşmanın Değerlendirilmesi. *Selçuk Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi*, 1223, 125
- Davidsson, P. and Honig, B. (2003). The role of social and human capital among nascent entrepreneurs. *Journal of Business Venturing*. 18(3), 301-331
- Doner, F.R & Schmedier, B.R. (2000). Business Associations and Economic Development: Why Some Associations Contribute More Than Others. *Business and Politics*, Vol. 2, No. 3, 2000.
- Duvanova, D.S. (2007) *Interest groups in post-communist countries: a comparative analysis of business and employer associations*, PHD dissertation. School of the Ohio State University, Ohio
- Elango, B and C. Pattnaik. (2007). Building capabilities for international operations through
- Elo, M. (2003). The Impact of Network Structure in Internationalization Process of Small and Medium Sized Enterprises. Work-in-progress paper submitted to IMP Annual Conference
- Englis, P. D., Wakkee, I., & Van Der Sijde, P. (2007). Knowledge and networks in the global startup process. *International Journal of Knowledge Management Studies*, 1(3-4), 497–514.



- Gulati, R., Nohria, N. and Zaheer, A. (2000). Strategic Networks. *Strategic Management Journal*, 21, 203–215
- Hills, G.E., Lumpkin, G.T., & Singh, R. (1997). Opportunity Recognition: Perceptions and Behaviours of Entrepreneurs. *Frontiers of Entrepreneurship Research*, 17, 168-182
- ILO (2004). Working Paper: Business associations and the promotion of small and medium-sized enterprises. Geneva: ILO.
- ILO (2010). International Labour Office, & Bureau for Employers' Activities. The role of business associations in growth and sustainable enterprise promotion. Geneva: ILO.
- Johansson, J. and Mattsson, L.G. (1988), "Internationalization in industrial systems-a network approach", *International Studies of Management and Organization*, 17, 34-48
- Kondoh, H. (2005). Comparative analysis of governance: Relationship between bureaucracy and policy coordination capacity with particular reference to Bangladesh. Research Group, Institute for International Cooperation (IFIC), Japan International Cooperation Agency (JICA), Tokyo.
- Kontinen, T. & Ojala, A., (2011), Network ties in the international opportunity recognition of family SMEs, in *International Business Review*, 20(4), 440-453
- Korsakienė, R. (2013). Internationalization of construction firms: what strategy do they follow? *Entrepreneurship and Sustainability Issues* 1(2), 99–107
- Mack, C.S.(1991) *The Executive's Handbook of Trade and Business Associations*. Greenwood Publishing. USA. Pp 27.
- Melen, S. (2009). New insights on the internationalization process of SMEs: a study of foreign market knowledge development. Dissertation for the Degree of Doctor of Philosophy . Economic Research Institute, Stockholm School of Economics, Stockholm, Sweden.
- Musteen, M., Datta, D. K., & Butts, M. M. (2013). Do International Networks and Foreign Market Knowledge Facilitate SME Internationalization? Evidence From the Czech Republic. *Entrepreneurship Theory and Practice*, 38(4), 749-774.
- Ojala, A. (2009). Internationalization of knowledge-intensive SMEs: The role of network relationships in the entry to a psychically distant market. *International Business Review*, 18 (1), 50-59.
- Qureshi, M and Velde, D.W. (2007). State–business relations and firm performance in Zambia. University of Manchester Discussion paper series, N(5) Manchester
- Santos, V. (2001). No in organizational business documents: The negative form as evaluation. Paper delivered at the Discourse, communication , and enterprise conference , Lisbon
- Sen, K and Velde, D.W. (2007). State–business relations and economic growth in sub-Saharan Africa, University of Manchester Discussion paper series, N(8), Manchester.
- Tok, M. E. (2015). Does Embeddedness Create Miracles? The Case of the Anatolian Tigers in Turkey. *Canadian Social Science*, 11 (4), 28-39.
- Tolstoy, D. (2010). *International entrepreneurship in networks: the impact of network knowledge combination on SMEs' business creation in foreign markets*. PHD dissertation, Stockholm school of economics. Stockholm.
- Uzzi, B., & Lancaster, R. 2003. Relational embeddedness and learning: The case of bank loan managers and their clients. *Management Science*, 49: 383-399.
- Velde, D.W. (2006). Measuring state–business relations in sub-Saharan Africa. University of Manchester Discussion paper series, N(4), Manchester.
- Welch, B. (2010). The effect of social capital and identity factors on Latino/a business network success in new destination communities. Ph.D dissertation, Iowa State University.
- Williams, K., & Durrance, J. C. (2008). Social Networks and Social Capital: Rethinking Theory in Community Informatics. *The Journal of Community Informatics*, 4(3).
- Yu, J and Zhou , J. (2012) *A Path for Chinese Civil Society* Lexington Books . P 76
- Zaheer, A., & Bell, G. G. (2005). Benefiting from network position: Firm capabilities, structural holes, and performance. *Strategic Management Journal*, 26(9), 809-825