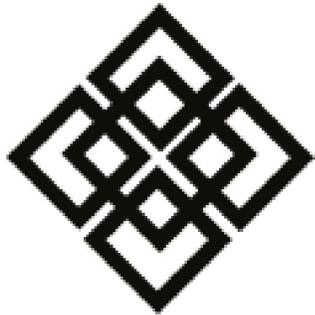


# CDP PRACTICE

• PROMOTING PRINCIPLES OF GOOD PRACTICE •

Issue No. 14 ~ 2006



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## Creating Business Networks<sup>1</sup>

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Towns and cities with a large number of successful small businesses in diverse industries have more resilient economies and a better quality of life than towns dominated by a few large businesses and farms. Research supporting this claim was first published in the late 1940s and has been replicated several times (Mills and Ulmer 1946; Goldschmidt 1946; Lobao 1990; Tolbert, Lyson, and Irwin 1998). However, establishing a diverse group of successful small businesses is difficult. Small businesses are risky undertakings. Many owners lack management and marketing skills or have inadequate capital, and face competition from large, and increasingly, foreign competitors. Indeed, only 44 percent of new small businesses survive for more than four years (Headd 2003). Businesses in rural communities face additional hurdles, making their survival even more problematic. The challenge, then, for community developers is to discover mechanisms to assist small businesses and new entrepreneurs to survive and thrive. Business networks have become a popular strategy to achieve this goal because of the substantial body of research confirming the benefits of network membership for business success (Baird, Lyles, & Orris 1993; Brown & Butler 1995; Bull, Pitt, & Szarka 1991; Bureau of Industry Economics 1995; Human & Provan 1996; Malecki & Tootle 1996).

Even though the value of business networks is recognized by academics and developers, a sizeable proportion of business owners still do not belong to a formal business network. According to a recent poll of small businesses (defined as businesses with fewer than 500 employees) conducted by the National Federation of Independent Businesses, 42 percent of small business owners and managers do not belong to any

<sup>1</sup>Funded by the Fund for Rural America, USDA, 2001.

formal business network (NFIB 2003). Our own research corroborates this finding. Possible explanations for not joining a business network are a lack of knowledge about the benefits of networking, a lack of an appropriate network, lack of resources (employees, revenue, and/or time) to invest in network membership, the belief that the costs and risks outweigh the benefits, and the tendency of small business owners to “go it alone.”

Results from a study intended to expand understanding of how enduring, successful networks are able to overcome the problems identified above provide the basis of this report. We studied 29 formal business networks in four Midwestern states to learn about the characteristics of successful business networks. In addition, we applied what we learned about the features of successful business networks to create five new business networks. The new networks we created are: a women’s specialty store

network in Nebraska; an entrepreneurs’ network in a small Iowa town; a network of Hispanic business owners in a medium sized town in Iowa; a network of Iowa agricultural producers selling to alternative markets, and in Ohio, a network linking chefs in up-scale restaurants with local agricultural producers.

In this report, we provide a summary of what we learned about how to start business networks. We begin by defining business network, followed by a short description of a business network in Iowa including its accomplishments and challenges. Then we briefly summarize findings from our research about the characteristics of successful networks. Lastly, we bring together the conclusions from our research and experience, and findings from other studies to describe the key elements involved in creating and maintaining a new business network.

## What is a Business Network?

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

We are interested in business networks and define them as **formal organizations (i.e., they have bylaws, mission statements, officers, membership requirements) composed primarily of business owners and managers and established to facilitate business success.** Business networks may have other goals as well, such as working for community betterment. Two kinds of formal networks are the subject of this examination; community business networks which include downtown merchants’ associations and chambers of commerce, and state or local industry associations like a state bankers’ association.

## An Example: The Iowa Prairie Grass Association<sup>2</sup>

The following is a short narrative about one business network. It demonstrates the benefits and challenges faced by business networks and illustrates the role of recruitment, trust building, communication, leadership, and formalization for network continuance.

The Iowa Prairie Grass Association (IPGA) was organized in 1912. Founded in the Des Moines area, farmers interested in prairie preservation statewide came together while displaying prairie grass seed at the Iowa State Fair. The goals of IPGA include producer and public education, prairie restoration, lobbying policy makers, prairie flora seed marketing/promotion, and the production and promotion of value added prairie flora items. Almost since its inception, the IPGA implemented formal procedures for operations by developing a set of by laws and a

formal structure. The IPGA became a strong and cohesive organization when the Iowa Horticulturalist (a paid state position) assumed responsibility for the organization and promotion of the network.

### Organization

The IPGA is a state level organization with loosely affiliated regional organizations. The regional organizations are formally autonomous from the state organization, but overlap in objectives, programs, and membership. Elected representatives from each region sit on the Board of Directors for the state organization, linking the two levels of the organization. The smaller regional groups are able to maintain more group cohesion than is possible for the larger and geographically more dispersed state wide

<sup>2</sup>Although this example is based on an actual network that was studied, the name and identifying characteristics have been changed to protect confidentiality. All the business networks in the study were assured of complete confidentiality.

organization. Also, since the boundaries of the regional groups are coterminous with the state legislative districts, they have more clout with local state representatives. Although there is no official link between regional and state levels other than regional representatives serving on the state board, the two levels cooperate on all aspects of the association's mission.

A volunteer board of directors manages IPGA. The Board of Directors consists of president, vice-president, secretary, treasurer, and the regional representatives. The Treasurer is partially reimbursed for his/her services to the network. Offices are usually held for two years. The President, after the two-year term has ended, stays on the Board as an advisor for an additional year. Committees carry out the actions and projects of IPGA. Officers often serve as committee chairs, but it is not required. Membership requirements are payment of dues (\$10 in 2005). Currently IPGA has about 250 members.

### **Network Activities**

Participation in the Iowa State Fair is an important activity for IPGA and is the chief means of raising money for the organization. IPGA sells a variety of products including prairie flora seeds, educational material, and value-added items made from prairie flora (e.g. wreaths, baskets, mats, and hats). The large display of prairie flora and fauna is always a major attraction for fair attendees. In addition to involvement in the state fair, regional groups sell products and provide displays at county fairs in their area.

The primary mechanism for communication and information exchange among the members is the monthly newsletter, *Iowa Prairie*. It contains articles written by the president about the network's future goals, challenges, and accomplishments; educational articles related to prairie maintenance and restoration; marketing and management tips; informative pieces on policy matters; updates on association business; a short biography of a featured farmer or crafter; notices; and advertisements. More recently, the network set up a Web site that contains the newsletter and other network related information.

The association sponsors the Iowa Prairie Queen contest each year. The Prairie Queen promotes the interests of prairie restoration and prairie flora seed and product marketing and is involved in educational programs throughout the state and at the Iowa State Fair. She also participates as a contestant in the national Prairie Queen contest. The winner of the Iowa Prairie Queen contest is announced at the IPGA annual meeting. The annual meeting is another important network activity. On average about half of the members attend the event. The two-day

meeting covers a wide variety of business and educational topics and provides plenty of opportunities for participants to share information on the challenges and rewards associated with prairie flora restoration and the marketing of prairie flora seeds and products.

Several times during the year the IPGA and the regional chapters hold field days and workshops throughout the state. These events provide hands-on experience in prairie restoration, seed keeping, and the production of items made from prairie flora. They are frequently attended by those interested in starting a business relating to prairie flora or restoring land to prairie. Experienced farmers and crafters invite members to their farm for in-depth consideration of a particular aspect of restoring the prairie or making a living from prairie restoration. In addition, members provide demonstrations about the prairie for elementary school classes, local fairs, and special events.

### **Challenges and Strategies**

A major challenge for the network is the difference in members' involvement in and commitment to prairie restoration and the production and sales of prairie items. This influences what members want and need from the network. We identified three categories of farmers and crafters in the network. The vast majority are "hobbyists" who are involved in prairie restoration for ideological reasons (the contribution prairies make to the environment) and do not need to earn a profit on their prairie operations. A small minority (five to seven percent) are "commercial" prairie flora seed farmers and/or prairie product manufacturers. They make a living from their prairie operations and are market and efficiency oriented. The third group, "sideliners", desire and need to make a profit from their prairie operations, but have other means of support as well. Sideliners are not as financially dependent on their prairie operations as the commercial operators. The knowledge and experience of commercial producers is, on average, greater than that of the other categories of members. Thus, they have less to gain from network information exchanges and workshops than hobbyists or sideliners, but have more to gain from the combined lobbying clout of the network. Balancing the needs of these three groups has posed problems for the network.

Competition with prairie seed producers and product manufacturers from other countries poses a threat to the sideliners and commercial members of IPGA. It is difficult for small Midwestern operators to compete with the large, multinational companies that have ample funds to advertise and promote their products. One IPGA strategy to counter international and multinational competition has been to coordinate members' financial and informational resources

for the promotion of locally grown and produced prairie items. Another hurdle faced by sideliners and commercial members is the fact that prairie restoration is time consuming and requires an investment that takes years to show a monetary return. Many family and small operators do not have the capital or patience to allow a long time horizon for a return on their investment. IPGA recommends potential prairie farmers and crafters begin as hobbyists and gradually work their way up to commercial producers—if that is their desire. Also, the association encourages the development and dissemination of information about products from mature and immature prairie areas.

The network faced a severe threat to its survival when the state withdrew funding for the state horticulturalist and for state inspections and certification of prairie flora seeds in 2001. The state horticulturalist played a pivotal role in starting and sustaining the organization. IPGA launched a lobbying and letter writing campaign to save the position, but at least as of this writing, it has not been successful. IPGA was able to secure funding through a grant to support a seed inspector, but it provided only a short term solution.

### **Accomplishments**

IPGA's most notable accomplishment is the long history and tradition of the organization—over 90 years as a formal business network. About ten years ago, it faced a major crisis of leadership with implications for its effectiveness. IPGA reorganized its formal structure as a way to address the problems and revitalize the organization. Prior to the reorganization, most members were from the central part of the state and almost all leadership positions were filled by members from central Iowa. This limited the leadership base, made the organization less effective in lobbying the legislature, and for all intents and purposes, ignored the interests and needs of farmers and crafters outside the central part of the state. IPGA expanded the Board by adding representatives of the regional organizations. This change provided new leadership, made the state association more effective in lobbying state legislators, and facilitated

input from prairie interests from around the state.

Another important accomplishment is the monthly publication, *Iowa Prairie*. It connects the members of the organization to each other and offers invaluable information on a whole array of prairie topics. In 2005, IPGA created an association web page with links to the newsletter, talking points about the dire need for state support for prairie seed certification and regulation, and information on upcoming events and projects.

The association's successful annual display at the Iowa State Fair is definitely another accomplishment. This project has kept the costs of membership low, funded the State Prairie Queen project, provided a market for prairie products, and educated the public about prairie related subjects. Notable also is that the State Fair provides the mechanism to involve a large percentage of association membership who volunteer to staff the booth, sell products, and answer questions about the prairie display.

In spite of the association's recent inability to get the state to reinstate the state horticulturalist position and fund seed inspections, its success in securing legislation to control pesticide spraying around prairie areas is a significant accomplishment.

A final achievement of the organization has been the creation and delivery of educational programs. Through these programs members are able to learn about cost effective techniques for prairie restoration, management and marketing strategies, and mechanisms for adding value to prairie flora. As a result of IPGA programs and workshops, Iowa growers believe they are more successful in restoring land to prairie flora and fauna and are better able to reap a monetary reward for their conservation work. Likewise, the Prairie Queen program and IPGA prairie information programs delivered to schools and at fairs educate the public about the importance of the prairie to the local ecology.

## **Characteristics of Effective Business Networks**

Studying a successful business network like the Iowa Prairie Grass Association furnishes insight into how one organization handles problems and mobilizes to meet the needs of members. While instructive, it is not known how applicable IPGA's accomplishments and strategies are to other business networks. To address this limitation, we present findings from a study of 29 business networks operating in four Midwestern states. Researchers at Iowa State University, University of Nebraska, Ohio

State University, and The Center for Rural Policy and Development in St. Peter, MN conducted telephone interviews with the network directors and a random sample of members (1,122) in 2002-04 to learn about the characteristics of effective business networks. The networks in the study consisted of ten community business associations and nineteen industry associations and varied by type of industry, age, and number of members. All community business networks were from towns with

10,000 or less in population. The information that follows results from an examination of data provided from the interviews with network members and directors.

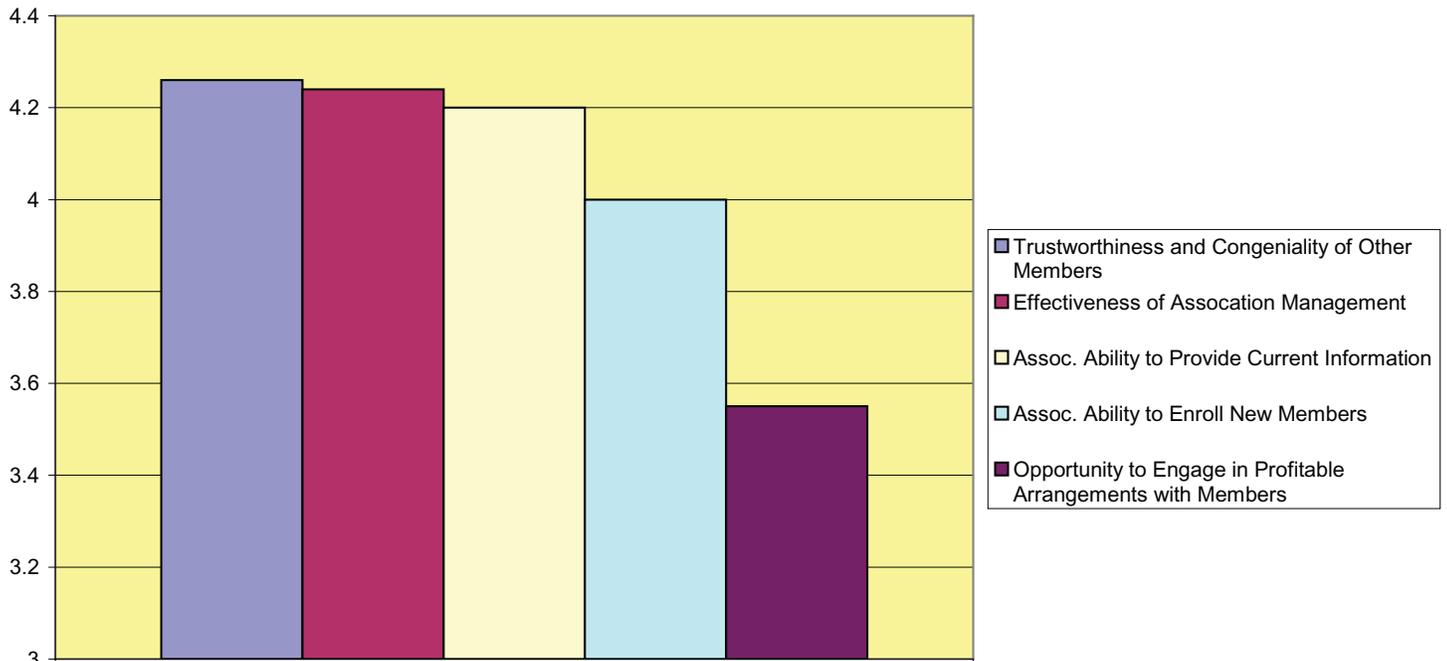
We defined effective networks as networks with the highest average scores on four questions relating to: member satisfaction, member intention to be more involved in the association in the future, how positive members were about the association’s future, and how upset members would be if the association were to fail. When compared to other networks, the effective networks had:

- higher status members;
- more trust and shared vision among members;
- greater frequency of communication among members;
- a newsletter; and

- more resource exchanges between members. Specifically, members were more likely to purchase materials together, share employees, develop products together, refer customers to each other, visit each others’ businesses, and work together on marketing.

According to the directors we interviewed, one of the biggest challenges facing networks is attracting new members and retaining current members. To determine what factors influence member retention, we asked the network members in our study how important each of ten different factors was to their decision to remain in the network. Figure 1 shows the five features that have the most impact on members’ decision to stay in the association.

**Figure 1. Factors Affecting the Decision to Stay in the Network<sup>3</sup>**



<sup>3</sup>1 = very unimportant, 5 = very important

As shown in Figure 1, trustworthiness and congeniality of other members is the most important factor affecting members continued involvement in the network, followed closely by effectiveness of association management, and the association’s ability to provide current information. Further analysis of the data showed that trust and shared vision among members are directly related to whether or not members exchange information and engage in

profitable cooperative ventures with each other. Thus, helping members become acquainted with each other so that trust can develop is extremely important to the success and survival of business networks. More critically, information exchanges and cooperative ventures promote the success of member businesses. As a result, creating trust is the objective of many of the keys to creating successful business networks elaborated below.

## Keys to Creating New Business Networks

The “keys” described below have been distilled from our research findings about effective networks, our work in starting new business networks, and the conclusions of prior studies.

### 1. Recruiting Members

The well-being and growth of the network depends on recruiting interested and dedicated individuals. Recruiting members who share common goals and vision fosters network cohesiveness, resulting in more trust among members. Simultaneously, trust among members leads to greater network involvement and group cooperation.

The first step to recruiting members into a business network is to identify an individual who can serve as a network catalyst. The catalyst does not need to be a future member of the network, but does need to be someone who is committed to developing a strong network and who has an interest in the network’s outcome. Potential catalysts include highly respected business persons, local development directors, town or city officials, or a Small Business Development Center staff member. After recruiting a catalyst, that person must

- identify business operators with shared interests who might benefit and/or be interested in the network;
- become acquainted with potential members and learn about their concerns and challenges;
- gauge the interest among potential members in working together to solve problems; and
- plan a meeting at which potential members meet each other and share their perspectives and concerns.

Once potential members have been identified, the catalyst should discuss with them their interest in working together to solve problems with like-minded business people. The next step is for the catalyst to organize an event, workshop, or social gathering to bring all potential members together. This meeting should have a professional atmosphere with a focus on letting the members get to know each other. This can be accomplished with formal or informal mixing strategies that allow attendees to learn about each other’s businesses, interests, and problems. In this way, potential members will discover if they share common goals and challenges. Those who are especially

interested in working with other business people to solve common problems can become core members of the new network.

Core members should work with the catalyst to plan a follow-up meeting to build on the interest and enthusiasm generated in the first meeting. They may also do the following.

- draft statements about the goals and benefits of the network
- contact other likely candidates who might be interested in the network
- move towards making the group a formal network

As the network develops, core members and the catalyst should address possible road blocks to membership. Below is a list of objections to joining a network often articulated by potential members and possible ways to overcome the objections.

*Belonging to a network takes too much time:* Effective use of time at meetings and providing valuable information at the meetings and through other venues will convince business people that membership is not a waste of their time. The Hispanic business network we started faced the challenge that most business operators did not have employees who could run the business while the owner attended a network meeting. The catalyst addressed the problem by scheduling breakfast meetings at a Hispanic restaurant. The early time of the meeting made it possible for many owners to attend who previously could not leave their businesses.

*Reluctance about sharing information and resources with other business operators:* The primary concern here is that sharing information and resources will not be reciprocated, or worse, that it will provide the recipient a competitive advantage over the giver. The reputation and integrity of network members is the best remedy for anxiety about the intentions and trustworthiness of network members. A combination of get acquainted venues, participation in trust building group projects, and public declarations of network standards help allay suspicions and build trust between members.

*Unsure of the benefits of joining a network:* As a way to persuade business people of the benefits of networks, plan an event at which a leader of a business network from another town or another industry presents

an overview of his/her experience with network membership. Or, develop material summarizing the experience of network members that can be used in visits with potential members. Refer the potential members to current members for a candid portrayal of the advantages and disadvantages of network membership. In creating the Nebraska Apparel Stores Association, one of the founders of a Midwestern jewelers' association was invited to a meeting at which he made an informal presentation about the value of the association to jewelers in the region. Since he operated a retail store, had experience with business networks, and could vouch for the value and challenges of networking, he was especially effective in motivating the store owners to create a formal network.

## 2. Encouraging Resource and Risk Sharing

The benefits businesses realize from belonging to a business network are made possible by sharing information, resources, and risks; and collectively working together for common interests (as in public relations campaigns). In some networks, businesses visit each other's businesses, refer customers to each other, and share marketing campaigns. We call these activities "low risk" exchanges because there is minimal risk that a partner to these exchanges could be greatly harmed if taken advantage of by a free loading or opportunistic partner. But other kinds of exchanges involve considerable danger that an unscrupulous partner will take advantage of other participants to the exchange. Sharing information, employees, and equipment; or purchasing supplies and consultant services together, or training employees together are examples of "high risk" exchanges. Findings from our study and previous case studies of business networks show that high levels of high and low risk exchanges occur only in networks where members have a great deal of trust in each other.

In addition to the risk involved in exchanging resources, members must deal with another kind of risk inherent in networks. Networks require member involvement in order to survive and facilitate the exchanges that benefit members. However, members who volunteer their time and resources to arrange network events and provide network leadership create a benefit for all members of the network, even those who never contribute to the common good of the network. The risk here is from non-involved members who reap the rewards available to all members without working to create the benefits. Increasing member involvement will lessen the risk of free loading, lessen the costs to members of providing leadership (because

the responsibility is shared among more members), and therefore, help sustain the network. We concluded from our interviews that high member involvement was more common among networks in which members shared a common vision. A Minnesota network director described the relationship this way.

*Our organization has survived for one simple reason. And that is that the majority of members believe in the same thing. We all are working hard to maintain this network because we understand that our businesses thrive and depend on the same customer base. So, we have to make sure that we are all of one accord.*

Building trust in networks requires that members become acquainted with each other. Member attendance at network meetings and events is the first step. The Aspen Institute (Nelson 2004) and our experience in creating new business networks indicate that meeting efficiency and relevant workshop topics are critically important in encouraging attendance. Equally important, however, is the expectation communicated to new members that attendance is an essential part of membership.

In addition to meetings, high trust networks have multiple mechanisms that facilitate communication between members. Key among them is a newsletter. Newsletters serve the purposes of exchanging information, helping members get acquainted, and creating a sense of shared identity and vision among network members.

High risk resource exchanges require more trust between members than can be achieved with "meet and greet" events or newsletters. Members develop more in-depth knowledge of each other when they work together on small action projects such as arranging an event, designing a network brochure, or organizing a promotional campaign. Other effective methods to establish trusting relationships between members are through mentor programs and leadership development programs.

Shared vision among network members will not necessarily occur through acquaintanceships, communication, and action projects. Networks must purposefully attempt to articulate and disseminate the network's shared vision. Specifically, this involves discussing and reaching a consensus about the network's central mission, values, and objectives; and then making sure the vision is understood and

## Practices to Encourage Relationships between Members

### ◆ Establish and maintain democratic principles for decision making

#### ◆ Discourage cliques

The Iowa Prairie Grass Association experienced a major challenge to its effectiveness, and indeed its existence, due to the dominance of members from the central part of the state. After the expansion of the Board to include representatives from other parts of the state, growers and crafters from throughout Iowa became more involved in the network leadership. As a result, the association was better able to promote the interests of all Iowa prairie growers and crafters.

The director of a successful Ohio association of agricultural producers provided this advice about starting a new network:

*Most importantly I would say that you need to make sure that you maintain a democratic program. And avoid those pitfalls of letting little cliques gain total control of the organization.*

#### ◆ Present workshops on topics that attract member attendance

1. Discussions among a core group of diverse members and potential members is a good source of ideas for workshop topics.
2. Visits to the businesses of potential members are another way to get input about what information is most desired and needed by members. Workshop topics can then directly address member needs.

#### ◆ Encourage attendance at network meetings (Nelson 2004)

1. Create a welcoming atmosphere. Name tags, refreshments, get acquainted opportunities, and child care services will communicate to new and potential members that they are valued and welcome.
2. Set the tone right away that business owners who want to belong to the network must make a commitment to attend meetings.
3. Schedule meetings at the same time and place every month. Find the time, day, and place that is most convenient for everyone. Experiment with different arrangements to determine which members favor, but then keep the same meeting schedule as long as possible.
4. Send meeting reminders and agendas in advance.
5. Make sure you have well planned agendas and efficient meeting facilitation. Start meetings on time and stick to the agenda. Everyone is busy and people will stop coming to meetings if they think their time is wasted.
6. Provide incentives for attendance, e.g., raffles, discounts.
7. Require meeting attendance as a prerequisite for other member benefits such as the newsletter, insurance, or discounts on supplies.
8. utilize round robins where one or two members have the opportunity to present a business problem and get advice from others.
9. Develop a “business showcase” at meetings where a member presents in-depth information about his/her business.
10. Members should leave each meeting with a sense of accomplishment.

#### ◆ Establish mentor programs

Coordinate mentoring arrangements between owners of new and owners of established businesses. This is an excellent way to facilitate relationships between members, and it provides a valuable service for new business people.

## Practices to Encourage Relationships between Members (continued)

### ◆ Restrict new members

Restrict membership to those nominated by another member. This will encourage trust among members since a current member has to “vouch” for the trustworthiness of new members.

### ◆ Develop a web page that facilitates posting of questions and answers

### ◆ Recruit members and potential members to work together on small action projects

According to the president of a successful Iowa community business network: *“I’d also encourage (a new network) to find a couple of simple things for them to do that will provide them with some relatively simple successes. Some successes early on are very important.”*

Ideas for action projects include:

1. Organize a member workshop.
2. Design a component of the regular meeting such as a program that highlights a member business.
3. Create a mutual marketing campaign.
4. Organize a product or business fair.
5. Conduct an assessment of member interests and challenges.
6. Set up and maintain the network web page.
7. Develop and coordinate a mentoring program.
8. Design packages of member benefits such as insurance discounts, discounts on member products and services, free newsletter, free or discounted advertising in the newsletter, vendor discounts, rotating loan programs, and joint advertising programs.
9. Design an exhibit of the member products or services at a public venue like a community festival or an industry show.
10. Design a newsletter.

shared by all members. We strongly recommend that this process result in a formal set of statements which includes by-laws and membership details. The formal statements help to build trust between members since they represent standards of behavior to which all members have publicly agreed.

### 3. Developing and Retaining Effective Leadership

Leadership is critically important to network success, as it is to the success of all formal organizations. Leaders are members who are willing to expend their time and effort to help the network realize its objectives. In our study, effective network leadership was an important element in members’ decision to retain their membership in the network. Also, when directors of networks were asked for their advice for creating successful networks, all mentioned the essential role of effective leadership. The directors identified five characteristics necessary for effective leadership. They are 1) organization,

2) communication, 3) delegation, 4) commitment, and 5) vision. We describe each of these characteristics below.

*Organization:* Part of being a leader involves the ability to maintain an orderly system of record keeping management. This helps facilitate better decision making and effective network operations, and presents a professional image of the network to the public.

*Communication:* A leader must spend a large proportion of his or her time interacting with people which requires good interpersonal skills. These skills include the ability to listen effectively to member needs and wants and the ability to communicate the networks goals and mission to others.

*Delegation:* An effective leader possesses the ability to delegate and coordinate so as to run both the daily functions and the overall direction of the organization. Delegation also aids in the development of future

leaders and lessens the burden of leadership on any particular individual or individuals.

*Commitment:* In order to inspire other members to participate in achieving the network's objectives, leaders must be committed to and passionate about the network's goals and mission. Passion is contagious.

*Vision:* A leader with a vision for the future of the network can draw members into further involvement and recruit new members into the network.

### **Recruiting Leaders**

Members become leaders through two avenues: self-identification and development. The self-identification method occurs when an individual chooses to get involved and takes on leadership roles. One of the best strategies for encouraging the self-identification of leaders is to involve the membership in small achievable projects and activities, especially in those that provide tangible results. The broad involvement of Iowa Prairie Grass Association members in the Iowa State Fair has provided an effective mechanism for motivating potential leaders to become more involved in IPGA.

Developing leadership is a proactive approach that involves identifying potential leaders, encouraging them to step into leadership positions, and providing training in organizing, communication, and group facilitation. There are three methods of helping interested members develop the skills necessary to be effective leaders: mentor programs (using existing members' skills and experiences to develop and strengthen other members), hands-on experience (allowing new leaders to come up with ideas and try them out), and participation in local and national leadership development programs. Leadership development programs are offered by university extension services, Small Business Development Centers, community colleges, and many other agencies.

### **Leadership Challenges**

Dealing with problems associated with incompetent or entrenched leadership can be very difficult. To prevent or identify incompetent leaders, networks must conduct periodic assessments of network effectiveness which necessarily includes an evaluation of leadership. Also, it is important for organizations to invest in regular leadership development programs. When these strategies do not improve the leaders' skills and commitment, organizations need to have built-in mechanisms to allow removal of an incompetent leader. This involves statements of formal procedures

for leader succession included in the network bylaws. Regardless of leader competence, it is healthy for an organizations to have periodic turnover of leadership to bring in new ideas and energy, to prevent clique formation, and to ensure that new members perceive that the network is welcoming to new members and open to broad member involvement in leadership. The formation of powerful cliques in the network may lead to the interest of the few overriding the interests of the network as a whole. Cliques discourage new member involvement. Leaders of the IPGA consistently mentioned the critical role of limiting the power of the central Iowa clique in generating greater member commitment and new ideas and programs.

## **4. Transforming an Informal Group into a Formal Network**

A potential problem for business networks is the disconnect between what the membership wants and what the network provides. The key then to network success is how effectively the network meets member expectations. In creating a new network, the catalyst and core members bring together a group of business operators who have similar interests and similar concerns. At first, they benefit from informal sharing of information and discussions of problems. However, if the network is to achieve other tangible, practical goals and agree to standards of exchange between members, then the members must decide on rules, goals, and operating procedures. One of the directors in our study reported:

*At first we operated, you know, pretty much on an ad hoc basis, but we're now beginning to need regular newsletters, and regular meetings, and regular everything.*

Formalizing a group involves agreeing to a written set of rules and procedures for the operation of the organization. It helps to create regularity and permanency in the organization (Robbins 1989) and consists of the following items.

- a constitution and/or bylaws that includes a mission statement
- the members' and officers' rights and responsibilities
- operating procedures
- a group of officers who have the authority to make decisions within and for the organization
- criteria for membership
- regularly scheduled meetings
- mechanisms for communication and interaction among members

- a schedule of dues or other membership fees to support the activities of the organization

Some networks may choose to incorporate as non-profit organizations. Incorporating raises the status of the network, may make the dues tax deductible, and limits the financial liability of members for network operations.

### **Benefits of Formalizing the Network**

There are several benefits to formalizing the group. (These benefits are identified in Johnson & Johnson 2003 and Robbins 1989.) The first is that long lasting formal organizations have more political clout, greater leverage in negotiating lucrative contracts for purchasing and marketing, and greater legitimacy and credibility with the public than ad hoc groups of business owners.

Second, formal organizations, due to their enhanced social, economic, and political status, can improve the image of individual members and increase their commitment. Research shows that the image people hold of themselves is partly derived from the organizations in which they have membership (Tyler 1999). The more long lasting, well-known, and powerful the organization, the more important membership is to an individual's identity. Think about the pride shown by an alumnus of a university with a Nobel Prize winning faculty member or a winning

sports team. Members whose identity is partially derived from an organization are more likely to work for the success of that organization.

Third, formalizing the group reinforces mutual assistance and reciprocity. By members joining and paying dues, they are also making a public commitment to share their expertise and have an expectation that their investment will be returned.

Fourth, formalizing aids in goal achievement. A group with clearly stated goals, procedures, and officers will be more effective in utilizing resources for goal achievement than a similar group that is not formally organized.

Finally, all groups eventually face the problem of leadership continuity. Having a formalized process of succession (outlined in a constitution or bylaws) can help facilitate continuity between old and new leadership.

Although there are many benefits to formalizing a group, there are a few disadvantages. Some people may feel uncomfortable with the rules of formal organizations so they may drop out, and others may chose not to join. Network members need to carefully consider how to best reach the proper balance of formality and informality to achieve order without restraining participation.

## **Summary: Why Networks?**

Business networks can play an important role in providing and supporting economic vitality for communities. They act as support groups and advocates for small businesses and the self-employed in the community. They enable small business owners to narrow the knowledge and experience gap between themselves and large businesses. They facilitate risk and resource sharing between members, the development of innovations, and ultimately the business success of members. Improved business success results in improved community economic vitality. The value of formal networking is especially critical for businesses in towns in rural locations and businesses in towns experiencing economic shocks such as the loss of a major employer.

The problem is that, for a variety of reasons, a significant proportion of small business owners and managers do not belong to any formal business network. In order to encourage small business operators to join formal networks, one must be available to them that corresponds

to their interests and needs, and business owners must be convinced that the benefits of networking outweigh the costs and risks. The community development professional can be the catalyst to create self sustaining business networks that meet local business operators' needs. In our research, we attempted to identify the qualities of networks that make business networks successful in the eyes of their members, and then use that information to create new business networks. The purpose of this report is to communicate what we learned from the research to community developers starting new business networks.

Successful business networks are able to recruit and retain members because they are perceived to be effectively managed and have congenial, trustworthy members. Congenial, trustworthy members are necessary, in turn, for the resource and risk sharing which adds to the business members' bottom line. Therefore, many of the essential factors in creating new business networks involve mechanisms to facilitate trusting relationships between

members and building effective structural and leadership qualities that promote effective management. Community development professionals are familiar with many of the “Keys to Creating Effective Business Networks” as similar principles apply to other kinds of organizations. The difference however, is that in most voluntary organizations, success does not depend upon encouraging members to risk their very business survival on trust in other members. In business networks, the greater the exchange

of information among members, the more members work together to influence legislation, and the more resources they share, the greater the benefits businesses will realize from membership, and the more successful the network will be. The challenges are to create business networks that minimize risks and costs while offering the benefits of collaborating, and then to convince independent minded, pragmatic small business owners that the benefits of joining are greater than the costs.

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