2 Strategic Networks, Trust and the Competitive Advantage of SMEs

2.1 SME Attitude Towards Cooperation

Since their origins, the studies on entrepreneurship and small business management have often focused on either the personality traits of entrepreneurs or the neoclassical view of micro-economics, assuming the individual firm as an exclusive unit of analysis. More specifically, following the mainstream of the discipline, most strategic management scholars have long analyzed the entrepreneur's behaviour as that of a rational and resourceful individualist, conducting his or her own business according to a stand-alone strategy within a hostile, competitive environment.

Starting from the mid-1980s research has highlighted the relevance of social networks and collaborative strategies as tools for contributing to the development and success of firms, particularly SMEs. Joining a strategic network or alliance has been acknowledged as a valuable path for SMEs striving to gain a sustainable competitive advantage within their business environments: lower transaction costs, social capital creation, entering foreign markets and achieving economies of scale have all been reported as positive outcomes of establishing ties with other firms in the markets (Cruickshank and Rolland 2006; Doz and Hamel 1998; Inkpen and Tsang 2005; Jarillo 1988; Nahapiet and Ghoshal 1998; Rosenfeld 1996). Building on this new social network perspective, the entrepreneurship literature has emphasized the importance of networks to small firms, particularly as a means of obtaining resources which would otherwise be unavailable to them (Aldrich and Zimmer 1986; Starr and MacMillan 1990). In particular, research into entrepreneurship in transition economies shows that social capital is an important determinant of resource acquisition and that many of the competitive advantages of transition economies are based on network relationships (Hoskisson et al. 2000; Manev et al. 2005; Manolova et al. 2002).

The concept of 'network' and 'networking' applied to the strategic management of SMEs helps us focus on entrepreneurship as a collective, rather than an individualistic phenomenon (Johannisson 1987, 2000) and permits the addition of some

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interesting new options regarding the ways small businesses may build their competitive advantage, in both domestic and international markets. By developing networks, small firms can obtain support for their activities in the domestic market. Moreover, cooperation among SMEs has also proved to be beneficial for promoting exports by favouring both the start-up of export activities and improving export performance. Network-based research has shown that the internationalization process of firms is largely driven by network relationships, the establishment of which is even more important for SMEs, as they face a variety of internal constraints due mainly to the lack of financial and managerial resources.

As discussed in Chap. 1, the international activities of small firms are hindered by their limited resources and capabilities, and the fact that they cannot access comprehensive market research. Furthermore, in most cases, it is not feasible for them to hire experts who can assist them in their internationalization efforts. This is particularly true of SMEs in developing countries, where relatively few entrepreneurs have international experience or a high level of management education. In order to go international, they must not only overcome their own lack of managerial expertise and knowledge of international markets, but also the limited support they can expect from local governments.

A number of studies (Chetty and Agndal 2007; Coviello and Munro 1995, 1997) have shown that SMEs rely extensively on networks in pursuing international opportunities. Network resources also help SMEs to overcome the risks and challenges associated with foreign market entry decisions.

According to Mesquita and Lazzarini (2008), in developing countries – or at least in countries without a supportive environment, due to the weakness of infrastructures and institutions – SMEs can achieve greater efficiencies and obtain access to global markets by building vertical and horizontal ties with other small firms. They support this statement with the results of an empirical analysis of 232 Argentine furniture SMEs in the Province of Buenos Aires, concluding that horizontal relations promote collective sourcing of resources and joint product innovations, while vertical relations can increase manufacturing productivity.

In this book we concentrate specifically on the role of one particular form of domestic interfirm networking among SMEs, that is *export consortia*. This kind of network is presented and discussed in detail in Chapter 3. First, however, in this chapter we introduce the main concepts related to interfirm networks in order to better understand the organizational features and the particular strategic issues related to building a network of SMEs.

2.2 Defining Strategic Networks of SMEs

Since the 1960s, the network metaphor has been employed extensively to analyze any kind of interaction among individuals, groups and organizations. It has, therefore, been applied in many different fields, such as sociology, political science, organization theory and – more recently – business strategy.

Nowadays, in a broad sense, we use the term *network* to indicate a social structure that includes a set of relationships between a group of individuals, while the term *networking* is used for the activity by which this kind of structure is built, developed and run.

The concept of network includes four key components: *actors*, *links*, *flows* and *mechanisms* (Conway et al. 2001; Conway and Jones 2006). The *actors* are the individuals that make up the network and are usually represented graphically as the nodes of a web. They may be different kinds of entities, according to the nature of the phenomenon to be analyzed: human beings, places, computers, organizations or – in the case of our area of interest – firms. The *links* (or ties) are the arches that connect individuals/nodes and represent the relationships between the actors. They may have different forms, directions, lengths and intensities. The *flows* indicate the exchanges that occur between the actors within the network and may have different natures and transaction contents: flows of information, advice, money, goods (raw materials, components, and equipment), power, friendship, etc. Finally, the *mechanisms* of the network are the modes and rules of interaction employed by the actors within the networks. Depending on the different aims of the networks, they include face-to-face interactions, meetings, planning, joint participation (for instance) in trade fairs or business seminars and can be more or less structured, formalized, planned and active.

The application of the concept of network (and the subsequent social network approach) to the relationships between business organizations originates in the mid-1980s.

In his seminal work, Thorelli (1986) defines networks as an intermediate form between 'hierarchy' and 'market', the two alternative modes of organizing economic activities described by Williamson (1975). Thorelli sustains that, through building lasting relations with other actors, firms within networks can compete efficiently, reducing the costs of transactions (typical of markets) without incurring large investments (typical of the hierarchical mode of organizing economic activities).

Jarillo (1988) defines *strategic networks* as long-term agreements between different but linked organizations, which allow firms to gain competitive advantage over competitors outside the network. Network members are not completely dependent on each other – as in the case of vertical integration – but the relationships established among the firms are still essential for their own final competitive position.

After these initial contributions, there has been increasing interest in strategic networks of firms from both academics and policy-makers. Initially, the majority focused mainly upon the causes and consequences of alliances at a dyadic level (Larson 1992) that is a firm-to-firm alliance, while a few began developing a branch of research aimed at looking at the social network in which firms are embedded.

Gulati (1998) introduces a 'social' perspective to business network studies. He goes beyond the dyadic level and analyzes strategic alliances among firms within a wider network context, highlighting how relationships can affect both the behaviours and performance of companies. He defines strategic networks as networks composed of inter-organizational ties that endure and have strategic significance for the firms entering them.

In a broad sense, the concept of strategic network includes a variety of different coalitions among distinct firms (or business units), such as strategic alliances, joint ventures, long-term supplier–buyer agreements, trade associations, industrial districts, franchising and other similar agreements or contracts. In general, being part of a strategic network gives the firm access to information, resources, markets and technologies and facilitates the acquisition of advantages from economies of scale, learning and scope. Moreover it allows firms to share risk and to outsource some activities of their value chain or organizational functions. These are all advantages to which the firm, standing alone, would not have access.

As shown in Fig. 2.1, Inkpen and Tsang (2005) classified different kinds of strategic networks according to two criteria: the nature of the agreement among the partners and the position of the latter along the entire value chain.

The first dimension refers to the system of governance of the network: *structured* networks imply some form of formal agreement which links the members and reduces their freedom – such as ownership rights, contracts, rules, institutionalization of the network – while *unstructured* networks are founded on informal, spontaneous interactions and simple reciprocity.

Looking at the second dimension, on one side Inkpen and Tsang (2005) define as *vertical* those networks which gather together firms with very different profiles, covering a large range of business activities, and thus having more differentiated demands and expectations about cooperation. This is the case, for instance, of *intracorporate networks* which include distinct autonomous organizations that

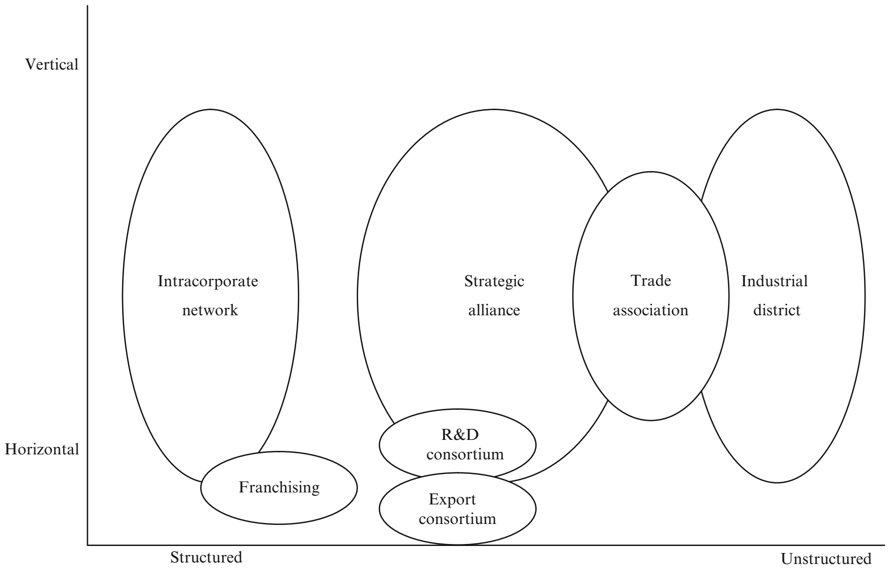

Fig. 2.1 Different forms of strategic networks (*Source*: Adapted from Inkpen and Tsang 2005)

operate under the control of a holding, or a group of subsidiaries accountable to their headquarters. Even *industrial districts*, which are composed of actors with different activities and belonging to different but related industries, are vertical local networks. This is true also of *strategic alliances* where distinct firms partially cooperate with others for specific activities, functions or common actions on the markets. On the other side, they define as *horizontal* a network which groups together firms that have a similar core business and therefore join forces to achieve a very specific goal. Horizontal networks involve firms located in the same industry segment or producing complementary products. They face similar challenges in their competitive arenas and thus may be more prone to agreeing common strategies. Examples of firms forming horizontal networks are: retailers linked in a *franchising network* who are interested in selling products by adopting a common framework; firms belonging to a *research and development consortium,* who are interested in combining their resources and competences in order to develop innovation together; members of an *export consortium*, who are interested in promoting their products abroad or entering new markets through collective actions.

As this book focuses specifically on export consortia, we restrict our analysis to the application of the concept of network to '*interfirm*' networks. An interfirm network is a group of independent organizations that interact, directly or indirectly, and is based on one or more alliances that join them. The final goal of such a network is to provide the member firms with the opportunity to increase their individual competitive advantage within the markets, ultimately building an additional competitive advantage for the entire network. Indeed, being part of a network may produce significant effects for individual member firms, many more than those produced via simple dyadic alliances, as multi-firm partnerships considerably increase the opportunities and fruits of cooperation.

We are primarily interested in '*horizontal*' interfirm networks. Ghauri et al. (2003) makes a major distinction between *vertical* and *horizontal* interfirm networks, defining the first as '*cooperative relationships between suppliers, producers and buyers, aiming at a solution for marketing problems, improved production efficiency, or the exploitation of market opportunities*', while horizontal networks are '*cooperative network relationships among manufacturers who want to solve a common marketing problem, improve production efficiency, or exploit a market opportunity through resource mobilization and sharing*'. Export consortia belong to this second type of network. In particular, we focus upon horizontal interfirm networks *among SMEs*, which present peculiarities compared to networks involving large firms, due to the specific characteristics of small business management and entrepreneurship.

Nowadays there is considerable literature dealing specifically with networks among SMEs. In the mid to late 1980s, in fact, scholars also began to apply the network perspective to the study of entrepreneurship and small business (Conway and Jones 2006).

Some scholars focused on industrial districts and clusters of SMEs, exploring the phenomenon of collaborative arrangements between local firms and their impact on the competitiveness of the cluster (Piore and Sabel 1984; Pyke 1992). In doing so, they also underlined the special role often played by third parties – such as local chambers of commerce, development agencies or business associations – to serve as a catalyst for small business networking. Other scholars, however, focused on the social networks of single entrepreneurs and the impact of their interpersonal and social ties with external actors upon the ability to create and develop their own business (Aldrich et al. 1986; Aldrich and Zimmer 1986; Birley 1985).

Human and Provan (1997) define SME networks as '*intentionally formed group of small and medium sized profit-oriented companies, in which the firms are geographically proximate, operate within the same industry, potentially sharing inputs and outputs and undertake direct interactions with each other for specific business outcomes*'. Proximity is a condition that enables firms to efficiently exchange or combine resources and competences, while being part of the same industry – in a broad sense – allows them to develop synergies along their value chain.

Stable interfirm networks allow members to gain reciprocal access to resources controlled by their partners. By relying on resource sharing and the coordination of production processes, firms can achieve economies of scale and scope, and simultaneously avoid the disadvantages of full organizational integration, such as high coordination costs and less strategic flexibility. In addition, by working more closely with other firms, an SME can access and share expertise, resources and knowledge in ways that would be impossible independently. In particular, tacit knowledge is transferred in relationships and, as this requires direct and personal interactions, it is more likely to take place in highly cooperative relationships (Welch et al. 1996). It is worth noting that in such networks cooperation is not necessarily always direct and wide. Members remain independent companies (they may also be competitors in the same markets) and in many cases they prefer to cooperate with other participating firms only when they judge it necessary.

Export consortia are typical examples of horizontal networks of SMEs and make it possible to loosen the constraints related to the investments needed to penetrate foreign markets. They are also domestic networks, in the sense that they involve SMEs of only one country, characterized by complementary and mutually-enhancing offers, which cooperate to develop higher-value products and services for their customers.

2.3 SMEs and Competitiveness: The Relational Perspective

The main contribution of the social network approach to the study of small firms lies in the current belief that comprehensive explanations of SME competitiveness (at both domestic and international level) must include the context of relationships through which small entrepreneurs obtain information, resources and social support. Indeed, the structural fragility of many small firms can be offset by the supportive environment provided by the network. This contributes to the generation of an organizing context around the member firms which helps entrepreneurs cope with ambiguity, uncertainty and lack of resources and information. It acts in a positive way not just during the start-up stage of a firm's lifecycle, but also over the subsequent stages of growth.

Until the 1990s, however, the network construct faced many difficulties in entering the field of strategy, as it did not fit into the prominent paradigm of competition based on microeconomic theory.

Scholars of business strategy had always focused on the analysis of the differential firm performance, seeking to understand the sources of competitive advantage and the causes of the supernormal returns of successful firms.

Traditionally, two principal explanations have emerged. The first, known as the *industry-based view,* sustains that the supernormal returns achieved by successful firms depend on their ability to understand the structural conditions of their industry, to deal with the dynamics of competition within it – such as bargaining power and entry barriers – and to place themselves in the most advantageous position within the given environment (Porter 1980, 1985). As a consequence of its underlying assumptions, this view sees industry as the fundamental unit of analysis for designing the competitive strategy of the firm. Conversely, the second view, known as the *resource-based view*, assumes that the profit differentials between firms are more probably due to the heterogeneity of the firms than to the structure of the industry. This is because only firms which succeed in accumulating rare, valuable, difficult-to-replicate and difficult-to-imitate resources and competences will be able to achieve a competitive advantage (Amit and Schoemaker 1993; Barney 1991; Grant 1991, 1996). This approach considers the firm as the primary unit of analysis for strategy-making.

Over the last three decades, the diffusion of alliances among firms has highlighted the strategic relevance of dyadic relations and networks for firm performance. The key question is whether or not such a cooperative strategy may produce additional competitive advantage for the individual firms involved. In fact, although they make a substantial contribution to the understanding of the supernormal profits of a firm, neither of the traditional analysis perspectives (*industry-based* or *resource-based*), consider the benefits obtained from exchanges with partners.

In order to highlight the relevance of alliances and networks in building sustainable competitive advantages for the firms, scholars have adopted terms such as '*collaborative advantage*' (Kanter 1994), '*organizational advantage*' (Nahapiet and Ghoshal 1998) or '*interorganizational competitive advantage*' (Dyer and Singh 1998).

Furthermore, in the specific field of entrepreneurship and small business management studies, some scholars have argued that both industry-based and resource-based approaches alone are inadequate in explaining the conduct of small firms. This is because SMEs are usually strongly embedded in networks of social relations (Aldrich and Zimmer 1986). Entrepreneurs live the apparent paradox of being economic actors characterized by a strong sense of autonomy and independence, while at the same time, the outcomes of their activity are often substantially affected by ties with the environment and cooperation with external actors (Johannisson and Peterson 1984).

For all these reasons, in addition to the two traditional perspectives on competitive advantage, it seems appropriate to consider a third research perspective: *the relational view*. The relational view assumes the network to be a significant unit of analysis in order to understand the supernormal profitability of firms. In other words, the network can be seen as a potential source of additional advantage for SMEs because of the value produced by the links among firms.

2.4 The Relevance of Social Capital Within the Network

The focus of the relational perspective of analysis lies in the concept of 'social capital', created by and within the network, which is used by researchers to indicate the source of various benefits that networks bring to their member firms.

Social capital in business is defined as '*the sum of the actual and potential resources embedded within, available through and derived from the network of relationships possessed by an individual or a social unit*' (Nahapiet and Ghoshal 1998). This particular set of resources, embedded in the network, promotes the creation and exchange of 'intellectual capital' (knowledge and knowing capabilities) among the partners. In its turn, 'intellectual capital' provides the firms with an additional *organizational advantage* that makes them better able to compete on the markets. In other words, an interfirm network can place social capital at the firms' disposal, supporting the production of intellectual capital (capabilities for creating and transferring knowledge), which ultimately fosters the competitive advantage of firms.

Social capital is a complex construct. Nahapiet and Ghoshal (1998) – reassessing the findings of several authors, including Coleman (1988, 1990), Putnam (1995) and Granovetter (1992) define its nature in a comprehensive model which identifies three inter-related dimensions of social capital: *structural, relational* and *cognitive*.

The *structural dimension of social capital* refers to the patterns of connections between actors: the number and kinds of actors involved; the presence or absence of direct ties between specific individual actors; the configuration and morphology of the network in terms of density, connectivity and hierarchy, and the stability of ties between nodes. By analyzing the structure of existing relationships, it is possible to understand the channels of communication and exchanges between nodes. The *relational dimension of social capital* focuses on the behavioural assets of the network (created and leveraged by members through relationships) such as trust and trustworthiness, norms and sanctions, obligations and expectations, identity and identification. From this we discern to what extent the partners are ready and prone to exchange knowledge. Finally, the *cognitive dimension of social capital* refers to those resources providing shared representations, interpretations, language and codes, narratives and, in general, a common system of meanings among partners. These aspects allow not only communication, but also, more generally, the transfer of knowledge between the nodes of the network.

The presence of a strong social capital within the network increases the efficiency of the actions of the network, diminishes the probability of opportunism and reduces the need for costly monitoring processes. It constitutes a necessary requirement for producing significant benefits for firms when they are united on the market, both domestic and international.

Small entrepreneurs accumulate social capital in networks that support their pursuit of growth opportunities, including internationalization. The information, knowledge and resources that may be useful in exploring foreign markets are generally drawn from the formal and informal contacts that entrepreneurs establish outside their organization.

In interfirm networks, the competitive advantage of each firm is linked to the advantages of the network of relationships in which the firm is embedded, as these relationships may provide valuable 'rents' for both the network and the member firms. However, the creation, maintenance and development of social capital within a network is a costly task. The process of forming and exploiting the social capital requires investment and time. Furthermore, the process is subject to constant (but not necessarily rational and well-informed) assessment of its relative costs and benefits by the network members.

2.5 Networks as Sources of Competitive Advantage

Once we acknowledge that social capital can generate 'relational rents' for network members, the next question is to understand *how* this happens, that is, what the actual sources of the additional advantage produced by network connections are.

Dyer and Singh (1998) focus on network routines and processes as sources of the emergence of an inter-organizational advantage, examining how relational rents are earned and preserved in alliances and networks. They define relational rent as '*a supernormal profit jointly generated in an exchange relationship that cannot be generated by either the firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners*' (Dyer and Singh 1998).

According to these authors, the production of relational rents within a network may have four main determinants: *investments in relation-specific assets*; *knowledge sharing routines* within the network; the combination of *complementary resources and capabilities* among the partners, and the adoption of an *effective system of governance of the network*.

Firstly, relational rents depend on the investments policy adopted by the network: *The greater the investment by partners is, in relation-specific assets (both in physical or human assets), the greater the potential will be for relational rents*. By the term 'relation specific', Dyer and Singh (1998) mean specific investments in, for example, machinery, tools or dies, or in dedicated personnel, development of know-how or routines that are employed specifically for the activities of the network. Common investments by the network members in such areas produce two main benefits. On the one hand, the necessity to guarantee returns on the investment during a payback period lengthens the safeguard of the alliance and protects against opportunistic behaviour. On the other, common investments allow greater exchanges among partners and facilitate interfirm cooperation, thereby enhancing performance.

Secondly, networks can generate rents by developing superior interfirm knowledge-sharing routines – regular patterns of interaction that permit the transfer, combination or creation of specialized knowledge among firms: *the greater the investment in interfirm knowledge-sharing routines, the greater the potential will be for relational rents*. Such interfirm routines promote know-how and information exchange among network members, but they also require the individual firms to have 'absorptive capacity' (Cohen and Levinthal 1990). This is the capacity to recognize the value of external information, assimilate it and apply it to business operations. In order to effectively obtain knowledge transfer, firms must be encouraged to be transparent, while not freeloading with know-how acquired from their partners.

Thirdly, relational rents derive from the combination of the partners' resources and competences which – due to emerging synergies – collectively generate greater rents than the sum of those that could be obtained from each firm: *the greater the extent of valuable, synergy-sensitive, rare, difficult-to-imitate resources owned by network members, the greater the potential will be to generate relational rents*. By combining such complementary resources or capabilities of its members, the network will develop a stronger competitive advantage than that achievable by the individual firms operating independently. Of course, this 'complementing' of the resources and competences of member firms depends on the profiles of partners as well as on the alignment of their organizational cultures and strategies. Therefore the selection of partners is crucial for the success of the network.

Finally, governance of the network plays a key role in the creation of relational rents: *the greater the ability of member firms to minimize transaction costs and maximize the value of their exchanges, the greater the potential will be for relational rents*. The first consequence of effective governance mechanisms is to enhance the efficiency of the network in terms of lowering transaction costs. In a well-governed network, lower transaction costs derive from favourable conditions in the interaction among partners. They trust that payoffs will be divided fairly; apply a low-cost mechanism of self-monitoring; are more flexible in adjusting their agreement to respond to external changes, and are not subject to the time limitations typical of formal contracts. Moreover, effective mechanisms of governance may generate relational rents not only by simply lowering transaction costs, but also by affecting each of the other three sources of rents. In fact, the governance mechanisms affect the relation-specific investments made by the network, the knowledge which will be shared, and the choice of capability matching among different partners.

Networks enable their member firms to access valuable know-how in two main ways. Firstly, they can facilitate the transfer of knowledge from one firm to another, acting as a conduit for processing and moving resources and information between the nodes. Secondly, networks themselves can become the locus of new knowledge development.

With particular reference to the knowledge transfer process within the partners of a network, Inkpen and Tsang (2005) sustain that social capital plays a critical role in such a process, and that conditions facilitating this transfer are strongly associated with the facets of the three dimensions of social capital (*structural, cognitive, relational*).

Concerning the *structural dimension*, for instance, knowledge transfer is facilitated by strong ties and repeated exchanges among the nodes, as well as by the physical proximity of member firms, stable personal relationships, the existence of multiple connections among partners (i.e. working simultaneously on a variety of projects or occasions in experimental cooperation) and by a non-competitive approach to knowledge transfer.

As far as the *cognitive dimension* is concerned, knowledge transfer is facilitated by the adoption of norms and rules to govern informal knowledge exchange and by goal clarity among partners. A shared vision and defined strategic objectives reduce conflicts and aid negotiation.

Finally, regarding the *relational dimension*, there is fairly clear evidence that when knowledge sharing is embedded in social ties, the risk of opportunistic behaviour is limited. Therefore, when relationships between firms are embedded with trust, the transfer of distinctive knowledge and valuable resources is more likely to be smooth and effective.

This argument definitively introduces into our discussion the topic of 'trust' in interfirm networks, and underlines the extent to which trust-building between entrepreneurs is crucial, since SME networks usually '*do not emerge without considerable endeavour*' (Birley et al. 1991: 58).

2.6 Trust as a Requirement for Building Successful SME Networks[1]

Alliance and network building among SMEs is far from being a simple task. Due to the high probability of conflict among entrepreneurs – who often have individualistic and "masculine" profiles – achieving the goal of collaboration can be a complex and risky venture (Medcof 1997). In such a context, the *development of trust* among alliance members has been widely recognized as a fundamental issue for establishing effective relational ties (Parkhe 1998; Zaheer et al. 1998).

The topic of trust has been analyzed from several perspectives, within such disciplines as psychology, sociology and economics. With regard to the latter, over the last two decades a growing amount of attention has been paid to the subject of trust among actors within the same and different organizations (Dirks and Ferrin 2001; Gulati 1995; Krishnan et al. 2006; Saparito et al. 2004; Zaheer and Harris 2006; Zaheer et al. 1998).

[1] This section and Sect. 2.7 largely benefit from the work by Cannatelli and Antoldi (2010).

Zaheer et al. (1998) define trust as '*the expectation that an actor can be relied on to fulfil obligations, will behave in a predictable manner, and will act and negotiate fairly when the possibility for opportunism is present*'. Their research highlights the need to distinguish between interpersonal and inter-organizational trust. The individual 'boundary spanner' at a single firm establishes relationships with both individuals and groups of individuals belonging to the partner organization. Hence, if the origin of the relationship is always an individual, the counterpart may vary. This insight is very useful in avoiding the cross-level fallacy (Russeau 1985), for one can then distinguish between these two levels of analysis. This insight has been of great value, especially in examining the relationships among SMEs which are prone to an overlap of interpersonal and inter-organizational ties.

In accordance with this approach, trust among partners has a significant impact on the respective firm's performance by reducing transaction costs and conflicts. In fact, other benefits, such as increased sales and a greater return on investment, may also be identified as direct outcomes of trust (Luo 2002; Mohr and Spekman 1994; Zaheer and Harris 2006).

Trust should be enhanced by network members in response to three main constraints which discourage small firms from establishing long-term collaboration agreements: (a) the risk of opportunism among the entrepreneurs, (b) low commitment from counterparts and (c) the culture of the actors joining an alliance.

The risk of *opportunism* derives from the divergence of objectives and management styles of the firms involved, as well as from environmental volatility. Williamson (1975) defined it as 'self-interest seeking with guile'. Opportunism increases the complexity of the alliance-building process by increasing the transaction costs, reducing confidence levels among participants, and by focusing on short-term rather than long-term interest, thus discouraging reciprocity and repeated commitment (Luo 2002; Parkhe 1998).

A high level of *commitment* is necessary for a successful strategy in a firm as well as in a strategic alliance. According to Salancik (1977), commitment represents the binding of an individual to behavioural acts, and Ghemawat (1991) defines it as the tendency towards the persistence of a firm's strategy, underlining its relevance in producing superior performance. Conversely, alliances characterized by the low commitment of its members – due to important differences in self-interest, business characteristics and market strategies – may collapse, owing to substantial differences between the firms in the amount of time and resources invested (Medcof 1997).

Finally, the individual *culture* of the entrepreneurs joining the alliance plays an important role in determining their attitude to participation in the collective strategies (Xiaohua 2007). Hofstede defines culture as 'the collective programming of the mind which distinguishes the members of one human group from another' (Hofstede 2001). Accordingly, masculine, individualistic cultures tend to act as a barrier to considering a competitor as a potential partner, while 'feminine', collective cultures seem to correlate to cooperation.

As anticipated, trust challenges the above-mentioned constraints by laying the foundation for a common ground, where entrepreneurs can successfully meet their expectations (Ring and Van de Ven 1992; Zaheer and Harris 2006).

Before analyzing the emergence of trust within the network, it is necessary to introduce the topic of *rationality* and its role in leading entrepreneurs to the decision of whether or not to join an alliance. In order to broaden the topic, it is useful to refer to the debate about the relationship between *calculativeness,* which usually focuses on the economic returns of a decision, and *trust,* which focuses more on the psychological and social dimensions of behaviour.

Different statements have been made about the relationship that occurs between the two paradigms, especially when referring to issues associated with an alliance. Some authors consider calculativeness as a component of the trust-building process among the economic actors, and therefore include the economic expedience of an alliance as an ingredient of trust (Doney et al. 1998; Luo 2002; Zaheer and Venkatraman 1995). Conversely, according to Williamson (1993), calculativeness is the only paradigm that is in a position to explain economic behaviour, asserting that trust ‘*is reserved for very special relations between family, friends and lovers*’. Hence, he goes on to state that ‘*calculative trust is a contradiction in terms*’. Such a position has been strongly objected to by Craswell (1993). Like Williamson, Craswell considers calculativeness and trust to be two separate concepts. However, he diverges from Williamson’s view in conceiving the two paradigms to be complementary rather than mutually exclusive.

2.7 The Role of ‘Network Facilitators’: An Interpretative Framework

Despite the evident trust-related benefits for small firms that decide to join a network, trust among small entrepreneurs is rarely a naturally-occurring phenomenon. In networks composed of SMEs, trust often emerges over time as a result of both frequent interactions between entrepreneurs and the specific activities conducted by third parties acting as ‘trust or network facilitators’. More specifically, the topic of network facilitator is relevant for export consortia of SMEs, which are usually created via the initiative of third parties.

Such entities are usually individuals or organizations that leverage their reputation and abilities by facilitating interfirm relationships within a local cluster or group of firms. Their role is to promote and strengthen relationships among firms, give a clear strategy to the alliance, mediate negotiations among partners and help network members create opportunities for trust, shifting them out of their collaborative inertia (Mesquita 2007).

Examples of these facilitators in industrialized countries include local business associations, local banks, chambers of commerce, educational and training institutions, private consultants, local development agencies or public government bodies (at central or local level). Their role has often been often crucial both in the creation and development of industrial districts and clusters, and in the start-up of networks and consortia of SMEs. In developing countries – where local environments are usually not rich in resources or self-organized initiatives – this role may also be played by special government agencies, specialized development banks (such as the World Bank or Banco Interamericano de Desarollo), non-governmental organizations or multilateral international agencies (such as UNIDO – the United Nations Industrial Development Organization). International agencies usually have their own specific programmes and operate through joint co-financed projects in the field, aimed at starting and promoting clusters or networks of SMEs (see the nine case histories in Chaps. 4 and 5).

When acting as network facilitators, not all these actors can be strictly defined as third parties. Sometimes – particularly when they are local actors – they are deeply embedded in the social structure and the ties between them, and the SMEs are long-lasting. In some cases (for instance when the facilitator is a public actor) their presence is crucial in order to obtain financial resources. The network facilitator acts as a (formal or informal) leader of the network and can be considered a constitutive part of the alliance in all respects.

Conversely, the nine export consortia that we analyzed in Morocco, Tunisia, Peru and Uruguay were all promoted and supported by an international agency, namely UNIDO, which is an external actor, not part of the network. In all these cases (see Chap. 4) the network facilitator really is a third party compared to the entrepreneurs involved. In other words, the facilitator is not embedded in the network, has no direct interest in the business and, therefore, acts within a temporary perspective. In fact, the final goal of the network facilitator is to enable the network members, in the medium term, to operate autonomously. Leveraging on public funds and on its international know-how, UNIDO accompanies and supports the start-up and development of the network, but all those involved in the projects are aware from the beginning that the network facilitator's support of the smaller firms will sooner or later cease. This condition has an important consequence: the strategic time horizon of the network is longer than the intervention timetable of network facilitator.

The concept of network facilitator was introduced by McEvily and Zaheer (2004) in order to analyze the role of institutions in fostering collaboration among actors involved in geographical industrial networks. More in particular, these authors define these facilitators as 'Architects of Trust', focusing on the dynamic through which trust is built among individuals belonging to geographically close organizations involved in the alliance. The main result of their study has been a better understanding of the importance of a third party that is trusted by each participant due to the existence of a pre-existing relationship.

Despite the fact that network facilitators clearly play a relevant role in building trust among participants (Obstfeld 2005), how this actually occurs is still unclear, especially from a longitudinal perspective.

Figure 2.2 presents a three-stage model that describes the evolutionary pattern of an alliance among SMEs in the form of a network (Cannatelli and Antoldi 2010). Four elements of analysis are included: (a) the time perspective adopted by partners in building their alliance; (b) the main cohesive factor that links partners in different

	STAGE 1	STAGE 2	STAGE 3
Time perspective	**Short** term perspective	**Short** term perspective	**Long** term perspective
Cohesive factor	First contact among entrepreneurs Identification of a **business opportunity**. *Calculativeness (not trust)*	Time for **bridging relationships** Emerging of social capital. *Mediated trust*	Identify with members and territory. Emerging of an **alliance identity**. *Relational trust*
Business objective	Share a business **opportunity**	Build **trust** and share **knowledge**	Share a **market strategy**
Mission of network facilitator	Rationalizing the business opportunity, weaving the alliance *(dyadic relationships with each member)*	Fostering communication and knowledge transfer among entrepreneurs Alliance warrantor	Handing over the control of the alliance to an internal leader, being an external source of support

CALCULATIVENESS → CALCULATIVENESS + TRUST

Fig. 2.2 Stages of evolution in strategic networks (*Source*: Adapted from Cannatelli and Antoldi 2010)

moments of their collaboration; (c) the strategic objective of the alliance; (d) the functions carried out by the network facilitator at different stages.

The starting point in the early stage of the model is the presence of a cohesive factor among partners which can consist of a business opportunity for firms. This opportunity may emerge in different forms, such as the presence of a potential collective deal, the availability of special public funds, a common state of crisis for the firms or a particular political context that motivates entrepreneurs to join forces.

The main feature of this cohesive factor is that it must be 'catalyzing', i.e. it is able to attract potential members to the alliance. According to the calculativeness paradigm cited above, the decision to start cooperation is considered a product of the calculative process that measures the convenience of an action by comparing goals and resources. Hence, in the early stage, the objective of the cooperation is to seize a business opportunity.

In the second stage, the activities required by the common project (such as meetings to assess the production capacity and quality standards within the network, or to select the target markets) bridge relationships among members, and knowledge begins to flow, albeit informally. According to Anderson and Narus (1990), at this stage the relationship among entrepreneurs changes, going beyond the original ground of cooperation (the cohesive factor) and moving towards an embryonic form of trust that is still mediated by the network facilitator.

The perspective assumed in this framework considers trust and calculativeness to be different but linked concepts, complementary categories of rationality, rather than simply alternatives. In so doing, this leaves the door open to an entrepreneurial decision-making process in which calculative, psychological and sociological elements coexist.

Finally, in the third stage, a personal assessment by each entrepreneur of the level of convenience (both economic and social) of the alliance will emerge. This assessment is helpful in strengthening relationships and facilitating the development of trust among members. The need to feel part of a group is proven by the signs of identification that begin to develop. At this point, the path from a fully calculative to a relational trust approach reaches maturity.

There is a correlation between (a) the stage of the alliance, (b) the dimension of rationality and (c) the time perspective adopted by members. It appears that the early stages of network creation are strictly connected to a calculative approach. The fear of opportunistic behaviour by potential partners has emerged in the literature as being an important obstacle to alliance formation, especially in the partner selection task (Holmberg and Cummings 2009). Accordingly, the first stage of the framework is characterized by a short-term collaboration perspective, while in the later stages – when the entrepreneurs' personal assessment becomes not merely economic, but also social – the time perspective evolves into the 'long-run'.

The passages from one stage to the next lead to significant changes in the tasks of the network facilitator. It is important to focus on two features related to the role of the network facilitator within a strategic alliance: the *position* assumed and the *activities* carried out by said institution in each of the three stages of network creation.

The most critical characteristic of the network facilitator to emerge during the first stage of the alliance is its *pivotal* position. This can be seen as a consequence of three facts: the network facilitator is the actor who maintains control over the cohesive factor (market opportunity); the network facilitator is the only actor within the network directly connected to each other member; the network facilitator is seen as trustworthy by each entrepreneur, due to its neutrality.

As illustrated in Fig. 2.3, by virtue of the dyadic relationships that the network facilitator holds with each entrepreneur and the absence of ties between the other members, the usual position of the network facilitator in the first stage is pivotal. In this early stage the contribution of the network facilitator, in terms of activities, is to identify the business opportunity, making it accessible for the firms; to design the framework for cooperation; to coordinate activities (as the pivot of the alliance) and keep the cohesive factor achievable.

In the second stage, because of the trust relationships that exist between the network facilitator and the members, its position remains central, even if these relationships cease to be exclusive; loose ties between firms begin to take shape. However, as the guarantor of the entrepreneurs' behaviour with other members, the presence of the network facilitator is still critical, and its role could be defined as *mediator*. The activities conducted in this stage are mainly oriented towards the facilitating of relationship development among members, making the dialogue between them as smooth as possible.

In the final stage the trust among members reaches maturity. Ties are strengthened from the knowledge transfer and common experiences gained in previous

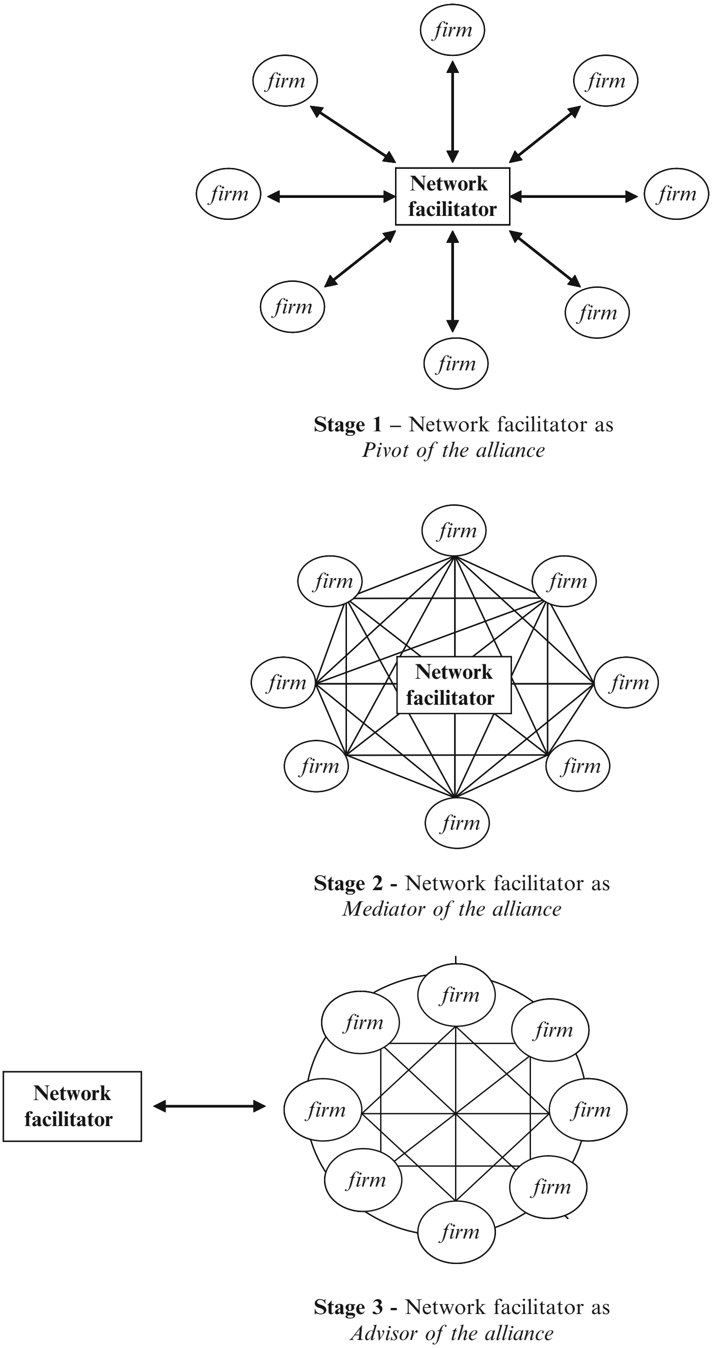

Fig. 2.3 The role played by the Network facilitator over time (*Source*: Adapted from Cannatelli and Antoldi 2010)

years. In this way, the need for a guarantor gradually decreases, as each entrepreneur freely decides to trust other members of the alliance. As such, the network will no longer need an internal facilitator. Rather, it will cast aside the mediator position in favour of an internal leadership that ensures that entrepreneurial guidance is in place for the alliance. Nevertheless, the activities carried out during this stage – where the facilitator assumes the position of *advisor* – are designed to encourage the alliance to build an internal leadership and to support the firms externally, by continuously seeking out opportunities and watching over relationships.

The chief role of the network facilitator appears to be one of fostering trust within the strategic alliance. When calculativeness is at the core of the interest, the facilitator offers a cohesive factor which makes it attractive for members to cooperate in order to receive economic benefits from the collaboration. However, when the cohesive factor ceases to be exclusively an economic opportunity, and as members become more willing to cooperate (as a result of trust), the facilitator needs to begin to move away from the alliance while still guaranteeing support when needed.

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