

ENHANCING THE MARKETING /ENTREPRENEURSHIP INTERFACE IN SMES - THE CONTRIBUTION OF NETWORK ACTIVATION

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Introduction

Background It has long been suggested that the approach to marketing within many Small and Medium sized Enterprises is haphazard, or in some cases, non-existent (Carson, 1985, Cohn and Lindbore, 1972). When it exists, it has been proposed that it has the characteristics of an ‘intuitive marketing’ approach, based on traditional industry practices and experiences (Carson, 1990, p. 5). This article explores the manner in which high performing Small and Medium sized Enterprises (SMEs) can interact with the marketplace to increase their market awareness, and thus strengthen their potential for innovation. The exploratory research reported here focuses on the characteristics of the functioning of inter-organizational networks, from the SME perspective, when the objective is to bring about organizational change, leading eventually to innovation in response to market need. Much has been written about the characteristics of such networks (Dodgson, 1993, Harland, 1996). This article builds on the growing literature in the field by considering the actions of influential managers within successfully innovating SMEs, usually the Chief Executive Officer (CEO). These influential managers have been termed in this paper ‘network activators’.

The concept has been operationally defined as follows: these individuals are differentiated by transformational leadership skills internal to their organization and by the capacity to sustain mutuality in relationships with significant others in external networks, including customers, suppliers, trade agencies and local educational and government bodies. They appear to obtain information in effective ways to implement new policies quickly and in a cost effective way.

We speculate that network activation may be tacit knowledge to a considerable degree (Sternberg and Wagner, 1992). Many writers agree that these characteristics assist in the implementation of innovation (Lamming, 1995, Tidd et al. 1998)

The work seeks to add to two concepts addressing the nature of organizational innovation, namely that of absorptive capacity, and the theory of social capital, (Cohen and Levinthal, 1990, Fountain, 1998). By investigating the behaviour of the research sample of CEOs it is hoped to explore ways in which these theories can be related to the empirical evidence.

Within the past decade, extensive work has highlighted the role of SMEs within the innovation process (Fletcher and Hardhill, 1996, Oakey, 1993). This paper examines one un-

remarked aspect appearing to enhance innovative performance within SMEs. The phenomenon was first described in recent work (Rickards & Moger, 1999). The construct is further developed here, and fresh empirical evidence presented. It will be argued that the presence of such individuals enhances a firm's capacity to develop absorptive capacity, seen by Cohen and Levinthal (1990) as a key factor in the building of innovative potential. This operates internal to the organization. It will also be suggested that they contribute to the stock of social capital, as described by Fountain (1998), a process which spans the boundaries of the organization and its networked contacts.

Innovation within the SME sector : The role of the entrepreneur Increasingly short product development times, cheaper products from overseas and an ever more discerning consumer population are increasing the pressures on industries in all sectors to produce more innovative products and services (Tidd et al, 1998). In certain sectors such as design, smaller companies have a key part to play in supplying skills and services to bigger businesses without such a facility (Bruce and Jenvaker, 1998). Innovation is defined as ‘an introduction of a change leading to an increase in the firm's competitiveness’, (following Carrier, 1994). The definition is offered to frame the discussion, and is no attempt is made to operationalize it closely.

It is often argued that small firms, lacking the complexity of structure and sometimes the rigidity of formal decision making mechanisms, are in a good position to be more receptive to new ideas. In the absence of large corporate budgets, smaller firms have to make sure they can supply customers' needs quickly and to the right specification, otherwise they would probably go out of business. However, Oakey (1993) warns against seeing all small firms as having the potential to be innovative, pointing out that the maturity of the industry in which the firm operates will be a key determining factor in an organization's potential for innovative activity. As industries mature, the standardization of manufacture and production processes makes it difficult for small firms to grow to a dominant position.

Within the small firm, the role of the entrepreneur is seen to be key. Hall (1995) points out that for all its widespread use within the SME literature, there is little consensus as to its definition. Characteristics of the entrepreneur appear to include an ability to tolerate ambiguous situations, a willingness to take risks, and the capacity to suggest innovative solutions to new situations arising in the marketplace. Within the context of this paper, it has to be noted that not all small firms are entrepreneurial in character. In the description of the network activator principle which follows it should be noted that whilst nearly all our sample were entrepreneurs, not all entrepreneurs should be regarded as network activators.

Network Forms of Organisation Since the early 1980s, following Williamson's work (Williamson, 1975) there has been great interest in business forms or structures which do not fit into the previously accepted categories of organisation, namely market and hierarchy. One such hybrid form of organisation has come to be labeled networks (eg Birley 1985, Thorelli, 1988). Underlying the literature concerning the subject is the suggestion that ‘networks are organised systems of relationships’ (Szarka,1990, p10). Knoke and Kuklinski suggest that

“ a network is generally defined as a specific type of relation linking a defined set of persons, objects or events” (Knoke and Kuklinski, 1982, p 12).

The dynamics of such relationships have been explored extensively. However, whilst Harland (1996) has drawn attention to the importance of considering the intentions and motives of all actors in such networks, in their comprehensive review, Osborn and Hagedoorn (1997) indicate that comparatively little work has been carried out to investigate the personal characteristics of the individuals who participate in networks. The network form of organisation has been credited with engendering much economic success, for example in the Northern Italian knitwear industry (Lorenzoni & Ornatì, 1988). Oakey, however, cautions against an over-optimistic view of the innovative achievements of networks, particularly from the SME point of view (Oakey, 1993).

Porrás draws the distinction between ‘hard’ and ‘soft’ networks. In a ‘hard’ network, relationships are managed in a formal way, Examples include those formulated by a third party, perhaps a government agency or business broker, with the specific aim of aiding SMEs to bid for government funds for projects or to provide training and expertise. ‘Soft’ networks are those which are informal in nature, initiated by the firms themselves, and are based on ad hoc information sharing, without definite commitments to projects or grant money. Hard networks skillfully managed, can produce real benefits for the participants. The Technological Institute in Denmark is cited as one hard network with real success in its projects (Porrás, 1998, Trolle, 1994).

Absorptive Capacity - a Key to Innovative Success In a seminal paper, Cohen and Levinthal make the following statement;

“we argue that the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends is critical to its innovative capabilities. We label this capability a firm’s absorptive capacity and suggest that it is largely a function of the firm’s level of prior related knowledge....” (Cohen and Levinthal, 1990, p. 128).

Positive influences on the building of absorptive capacity include internal R&D capability, prolonged presence in the market place which builds up a high level of knowledge. Cohen and Levinthal argue that to understand the sources of the firm’s absorptive capacity,

“we focus on the structure of communication between the external environment and the organization as well as among the subunits of the organization, and also on the character and distribution of expertise within the organization.....The firm’s absorptive capacity depends on the individuals who stand at the interface of either firm and the external environment or at the interface between subunits of the firm”(Cohen and Levinthal, p 132).

One of the consequences of the failure to develop absorptive capacity can be ‘lockout’; where a company fails to recognise and assimilate new information vital to its field. This is important because new product development frequently depends on rapid adoption of new techniques (Tidd, et. al.1998).

Social Capital: Enhancing Innovation Potential The growing importance of Just-in-Time methods of manufacturing and a growing emphasis of delivering quality products at a keenly competitive price has led some writers to favour a form of network production between major manufacturers and their suppliers (the so-called ‘lean manufacturing’ approach, (Lamming, 1993). Within this type of production system, closely aligned processes

and information integration are seen as vital to competitive success (Womack et al, 1990). Sharing of information and ideas are also regarded as important for the development of innovative products. Fountain (1998) argues that inter-organisational linkages, within the US economy gave contributed to that economy's recent growth. She draws attention to the contribution to institutional effectiveness, in terms of economic performance and innovative capacity, which can occur in such collaboration, and terms this contribution 'social capital', which she defines as *"..the stock that is created when a group of organizations develops the ability to work together for mutual productive gain"* (Fountain, 1998, p 85).

Fountain goes on to argue that social capital is one of the necessary enablers of, in the US case, effective public-private partnerships and a more collaborative style of government policy, related to the stimulation of innovation. She suggests that

"social capital derives from relationships where cooperation can enhance competitiveness, information sharing leads to joint gains, and the importance of reputation and trust ensure reciprocity and fair play within a given network....When partnerships and consortia succeed, the glue that holds them together is not simply in the form of contracts that detail every aspect of these complex and dynamic relationships (although contracts are of course, important).....The glue in the new form of political economy is the trust, or enlightened self-interest, among decision makers that makes collaboration feasible...Business and industry are now conducted on the basis not only of strategic alliances and partnerships but also on the basis of networks of learning and innovation" (Fountain, 1998, p 86).

Social capital can be accumulated by the CEO's activities external to the company; particularly by the effort to achieve mutuality within external networks. Fountain argues that, *"The constituent elements of social capital are trust, norms and networks"* (1998, p.89).

Working to ensure that all those participating with the company externally are a means to develop social capital.

Developing a Research Model

The characteristics of network activators described in this paper suggest mechanisms by which absorptive capacity and social capital can, respectively, be acquired and accumulated. The mechanisms by which this may occur are illustrated in Figure 1. The CEO of the SME encourages the development of absorptive capacity internal to the company by facilitating communication between all sections of the organization, encouraging sharing of responsibilities in dealing with external bodies and providing opportunities for training and development. These activities can be seen as part of a transformational leadership style.

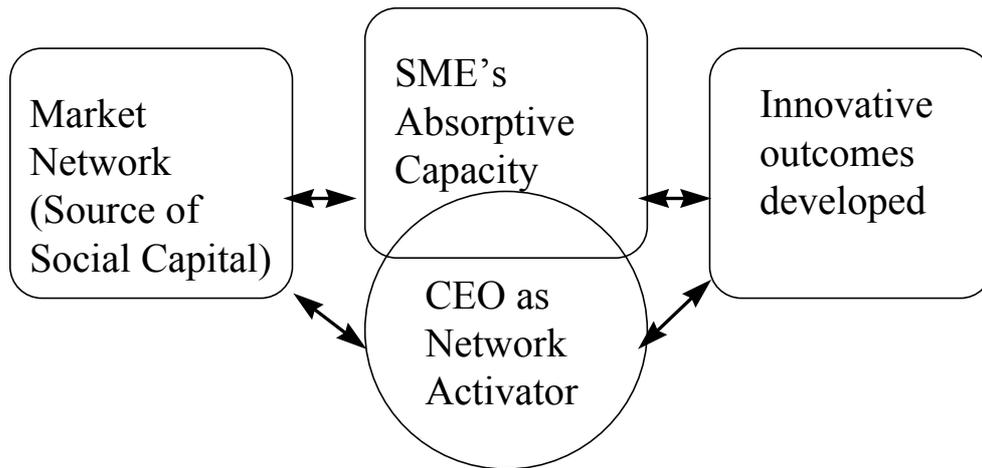


Figure 1: CEO Network activating role, facilitating innovation via accumulation of Social Capital in the market network, and Increased Absorptive Capacity in the SME

Origins of the Network Activator Concept

The network activator concept was identified during research investigating the characteristics of outstanding teams, reported by Rickards and Moger (1999). During this project interviews took place with senior managers from companies identified by the researcher and her co-worker as successful within their sectors. Knowledge of these organisations was gained when the companies took part in a series of innovation-spurring activities carried out at Manchester Business School. For the past ten years the author and her co-researcher have worked with SMEs in the North West to bring innovative solutions to their business problems. The major part of the work has taken two forms; innovation training for business owners directly and innovation project work undertaken by MBA teams under the supervision of the researchers. The innovation training has been reported elsewhere (Moger, 1994) and the MBA projects are reported in Rickards & Moger, (in press).

An additional source of material was derived from a project investigating the sources of innovation within the UK textile industry, carried out at the Department of Textiles, UMIST, under the supervision of Professor Margaret Bruce.

In the course of the research it became apparent that some teams and business owners (perhaps 10%) seemed to have the capability for outstanding innovative success. The most likely shared attributes associated with this success were identified as; a strong platform of understanding, a shared vision, a creative climate, ownership of ideas, the presence of network activators and the capacity to learn from experience. Many of these clusters can be found in other work in the literature of organizational effectiveness. One of these characteristics, that of Network Activators, appeared to in previously unexplored ways, extend the concepts of boundary spanning and gatekeeper roles.

The term arose as a result of an interview with the Managing Director of an online recruitment company. He described how he had implemented an innovative advertising strategy by 'activating his network of contacts' within his client companies. This phrase

resonated with the researchers and sensitized them to the possible significance of this type of behaviour within the innovation process.

It also seemed relevant to the processes of absorptive capacity outlined above.

Research Setting

SMEs in the North West provided the context for the research. Twenty senior managers were interviewed, in the course of the two studies. In the majority of cases their status was equivalent to that of Chief Executive Officer. Most had founded or co-founded their businesses, or had developed a new division within an existing business. Turnover of the companies varied from £1.5 million to £25 million pounds, with ten to thirty employees.

The incident which sensitized the researchers to the ‘network activator’ concept occurred towards the end of the series of interviews. When analysing the interview data in the two projects, the remarks concerning network activation began to assume greater significance, because it seemed that the concept may help to throw light on successful innovation practices within SMEs. In re-examining the data, of those originally interviewed, twelve were selected as supporting our preliminary understanding of network activators.

The sectors covered by the sample are indicated in Table 1. The subject matter of the interviews included how the individual has started in the business, how they managed the innovation process within their company, how they developed and kept abreast of knowledge in their market place, their staff recruitment process, and the manner in which they were looking to grow their businesses.

Sector	Position	Gender	Company Tenure
Clothing Manufacture	Managing Director	M	15
Flooring Manufacture	Managing Director	F	9
Online recruitment	Marketing Director	M	3
Clothing -retail	Managing Director	M	13
Holiday/leisure	Managing Director	F	18
Computer support	Managing Director	M	10
Optical materials	Managing Director	M	12
Construction	Managing Director	M	25
Speciality food	Group MD	M	10
Insurance Services	Group MD	M	4
Textile manufacture	Managing Director	M	20
Clothing design and manufacture	Managing Director	F	3

Interviews were not the only source of material; some of the interviewees were involved in projects in the Business School and the Department of Textiles, and there was an opportunity to observe their actions informally as well. Since the study regular contact has been kept with many of the interviewees and the initial project has acted as a focus for some of the interviewees to meet each other.

Results of the Study

The preliminary analysis of the study indicate that there are four characteristics of a network activator which will be reported in turn. We also report the consequences of network activation as a management activity. The characteristics are;

Membership of ‘hard’ and ‘soft’ networks.

Continuing trade and other education.

Contact with external funding agencies and accreditation institutes.

Lines of communication set up within their businesses

Membership of ‘Hard and Soft’ Networks Most of the respondents interviewed were involved in more than one network. In network theory terms, they were ‘well connected in several networks, rather than extremely central in just one’ (Di Maggio, 1992, p. 130). All of those interviewed were members of their trade associations, and in one case the individual concerned had been a founding member of his association. They keep touch with developments in their fields through trade shows and nine were members of the local chamber of commerce. Five had served as an official of some association related to their business and all had been involved with the associations since early in their business career. Three had developed their own newsletters for regular circulation to customers and outside contacts, and three more were regular contributors to professional magazines.

Continuing Education All the respondents were active in encouraging training related to their businesses and also stimulated their staff to take e further qualifications. All of those interviewed had undertaken further management and technical training, and encouraged their staff to do so. The extent of the training varied according to the resources available and the technical needs of the industry. One interviewee, the Managing Director of a garment manufacture firm, made extensive use of university links and did his best to support his staff to achieve extra qualifications. The Managing Director of a floor-covering manufacturing company told us

“It’s vital that we try to keep up to date with everything that’s happening. I like the staff to do a range of activities, so that we can report them in the newsletter and keep people interested in us. If you’re always doing new things you have more chance of coping when something new comes along. We want a lively team and if you’re lively outside work you’ve got a better chance of being lively in it.”

Contact with External Agencies Many of the companies involved had successfully applied for external agency funding, were active members of their trade associations and were externally accredited for their work. All sought to conform to British and International standards on quality and reliability. The extent of their involvement with external agencies varied; in one case it was limited to involvement with contractors' supervisors and the factory regulatory authorities; however other CEOs took a much more proactive role, and looked to be on the advisory panels themselves. One interviewee had gained a very high reputation for the quality of his manufacturing, and was frequently asked to lecture on the subject to other industries.

Two of the companies had won SMART awards and seven had been directly involved with graduate projects within Manchester Business School. All of the individuals concerned had brought other contacts and networks to the businesses they currently worked with, and occasionally used these to good effect in an informal way. The CEO of a holiday company whose daughter was at university used her network of friends to recruit temporary labour over the busy periods.

Lines of Communication Set Up Within the Business All of the respondents agreed readily to take part in the research; although one said that she was not sure what she could contribute! In all cases we met the key personnel within the company.

All the managers interviewed appeared to have what could be deemed a 'hands on' approach. They were all actively involved in their daily running of their businesses and were seen frequently by their staff. All the businesses had grown to the point where the CEO needed some secretarial and administrative help, and they emphasised the importance of the individual in that position.

The Managing Director of a flooring company told us that she had worked very hard to set up an open communication system within the company, and she saw her Personal Assistant as vital to that process. Although uncomfortable with highly structured working systems, she took care to make sure that she scheduled regular meetings with her to check that she was not missing any key events.

"I always try to make sure that I deal with any non-routine request, and unusual inquiries, myself. It's easy to say that you're too busy and get bogged down in the routine. Whenever I agree to do something different (give a talk, write a short piece for a magazine), I'm always amazed at how much I can learn. I also noticed how you can get so much from talking to people in different industries from mine. When I worked with the Business School team I was in the same session as the Sales Director of a food company and although we are in completely different sector there were many things I learned from listening to that case."

All the CEOs emphasised the importance of trying to keep the lines of communication open between themselves and external contacts. One Managing Director said that when his secretary of twenty years had retired, he had great difficulty in the recruiting someone who understood that he actually *wanted* to hear from people not directly linked to the business.

"I initially selected someone who had previously been the secretary to a senior manager in a big chemical company. She did not seem to realize that it wasn't

her job to protect me from everybody who wanted to see me. Of course, there are times when I need to work uninterrupted but I always want to know what's going on outside the business. You don't do that if you don't keep contact with different people. Eventually I suggested she took a different role and I recruited someone who had worked in a smaller business and who understood the way I wanted to work”.

Managing the communication process can be difficult when the company is growing. Three respondents made the point that during rapid growth attention still has to be paid to this aspect of the company. The director of a software company had recently experienced this.

“During the past year we have set up license agreements in the Far East and Australia. This of course involved me in a great deal of travelling. When I was away we had recruited two key personnel and I was really struck by how much the place seemed to have changed during the eight weeks I had been away. After that trip I realized that I had to start making more of an effort to keep up with all the new staff and their ideas. Even if we just meet at the coffee machine, we need to keep contact. I also found that following the local football teams helped to make conversation. Before I worked here I didn't have much interest in sport but I've found it helps to maintain contact on a personal level, as the company grows.”

Managing Network Activity Being so open to external contacts can have drawbacks. A number of the interviewees mentioned the danger of losing focus on their businesses if they have too much outside involvement. The respondents stressed the importance of a clear understanding of what they are committing themselves to when they join a trade association or other business network. Another striking element was the long term view that they took of any such involvement. They assumed that it would be some years before they could necessarily see any return from their involvement. It also became apparent that they believed in an informal code of conduct when dealing with others. This included saying ‘yes’ or ‘no’ to a request fairly promptly, and not being afraid to say ‘no’ if necessary. If they could help someone else they would; however if there was conflict of interest they were not afraid to say so.

Their belief in trying to do a good quality job for their customers was extended to the network. They did not expect to get something out without putting something in, and tried not to over extend themselves.

‘I have learned not to take on too much at once. If I can't do a good job I'd rather not do it at all. Over the years I've been asked to do some really interesting things, including judging something for a television show. It coincided with our busiest time and I just couldn't do it’.

There was also an element of being willing to take part in situations where the outcome was not always clear. Sometimes the interviewees would agree to take part in a project even if it did not immediately lead to profit or business.

“I always wanted to be a part of my own company. For years I worked with a major multinational and although I was really busy and travelling a lot I tried to

keep in touch with anyone I met who was involved with smaller businesses. That paid off when the time came for me to make a move into a business of my own”.

Discussion - Network Activation as an Aid to Absorptive Capacity Acquisition and Social Capital Accumulation

Cohen and Levinthal stress the need for effective communication internally and externally as vital for the development of absorptive capacity. It is argued in this paper that the presence of a network activator may be a means that influences the speed and extent to which knowledge is absorbed and transferred. All our interviewees appeared to have the capability to express themselves fluently both inside and outside their businesses, and to have made the attempt to instigate structures which would maximize information flow.

Changes in product design and consumer preferences can often take businesses by surprise. The individuals we interviewed were well aware of the need to maintain a watch on their trading environment, taking in fact what Fountain termed a scanning role (Fountain, 1998). In many cases they made deliberate attempts to include diverse stimuli into their business experience, and encouraged their staff to take a wide variety of interests, inside and outside the work environment. For example, the Managing Director of a construction company took part in a television series after contacting the producer. An interviewee from a clothing retail company took on a high profile role in a major sporting event, following consultation with his staff.

In one case, multiple contact points outside the business helped the company to recover from a severe setback. One of our interviewees learned one Saturday evening that her factory was ablaze. By 10pm that night she was looking at a smouldering ruin. She contacted her staff and other business acquaintances and by 9am Monday morning staff were working in a temporary building, dealing with customer inquiries. Our interviewee put part of the fast response down to very good customer relations and being able to ask for help from other business contacts.

As a result of such varied experiences, the individuals interviewed appeared at ease in differing social and work situations, and appeared to find it relatively easy to accept often unusual ideas in relation to their businesses. If necessary they seemed quite happy to speak to someone they had never met before, to see if there was any way an idea could be taken forward. Privately the researchers referred to this as ‘being comfortable with themselves’. They also did not appear to have the need to try to dominate a conversation, or show how much more they knew. In fact, they appear to enjoy listening to other people. An interviewee reported ‘it’s such a relief to be to listen to someone else’s experience as well as my own!’.

Taking a long term view, and being willing to tolerate ambiguity, emerged as key characteristics of our correspondents. One of the features of their behaviour seemed to be a willingness to find something useful in a situation, even if appeared that things were not going to the original plan. The CEO of a holiday company, regretfully declining participation in the Business School project (because it occurred at her peak season), was nevertheless prepared to make special arrangements to act as a judge for the event. In some cases, companies unable to take part in the innovation project asked to be kept in touch about the possibility of participating in future years.

Encouraging staff to take further training, and often being willing to undertake it themselves, was a characteristic of all our interviewees and could lead directly to the development of absorptive capacity. It is not the intention to argue that the behaviour, as classified here, of network activators will definitely lead to development of absorptive capacity, however it is argued that it will provide a positive influence. The emphasis on facility at internal and external communication, tolerance of ambiguity and a long term view of network relationships are key elements.

Many of our interviewees indicated that they realised that to participate in an informal network, reciprocity in terms of returning information or help at some stage is critical. Fountain refers to this as a 'favor bank', well known in the functioning of social networks. It can be argued that working in an environment conducive to good reciprocal arrangements will lead to further accumulation of social capital.

The CEO, in the form of a network activator, has a leading role to play in two related but differing domains.

Within the organisation, the emphasis on open lines of communication, continuing business education contribute to the development of absorptive capacity. Outside the organisation, the variety of contacts and links within 'hard' and 'soft' networks contribute to the formation of social capital, as described by Fountain.

Conclusions

This exploratory study has indicated that the concept of network activators deserves further study. A key question is what influences lead to such apparently outstanding performance. In the next phase of research, attention will be focused on this question; and the research may include such areas as social and educational background, previous work experience, and the expectation of SME's CEOs.

In the absence of such research, it is possible to speculate what influences may be at work. Marceau, in a comprehensive study of business networks in Australia, suggests that the possibilities of success in networks, both formal and informal, vary considerably. Factors that must be taken into account include the industry structure and relationships between principal clients and their smaller suppliers. She also speaks of the 'sociological trajectories' of such individuals, in terms of educational and professional experience (Marceau, 1998, p. 20). She argues that many managers are prevented from working well in networks by a dearth of social, managerial and technical experience and skill.

Detailed questions about educational background and previous business experience did not figure formally in the interviews. From recollections of informal discussions, three of the interviewees had completed university degrees, and one had an MBA. It could well be that to take part successfully in networks, more substantial experience of varied social and educational contexts is important. Perhaps even more significant might be the expectations of those running SMEs. Penrose suggests that the expectations of those running their own companies are critical to future performance (Penrose, 1959). Any future work would certainly take this factor into account.

Other key issues are the structures and behaviours possibly initiated by network activators which lead and encourage the process of network activation.

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