IS IT POSSIBLE TO CONSTRUCT AN ENTREPRENEUR’S PERSONAL NETWORK: WHAT CAN THE PROFITNET PROJECT TELL US?

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ABSTRACT

This paper is about the personal networks of entrepreneurs (owner managers) of small businesses. Although it is well documented that effective networks are positively related to firm survival and innovation capacity, no efforts have been made to evaluate the effectiveness of constructing such a network on behalf of entrepreneurs. This is important because it is unclear whether entrepreneurs actually know how to build or use a personal network. The research draws on literature to construct a framework consisting of the key benefits associated with personal networks and applies this to the ProfitNet project of Sussex, England. ProfitNet is a product of the University of Brighton which brings entrepreneurs together in small sector specific groups to learn from each other. The main findings are that the project does create an environment which offers members general and innovation related benefits of a personal network.

Keywords: entrepreneur’s personal network, small enterprise, business service, incremental innovation, innovative capacity.

1. INTRODUCTION

Most of the literature on business networks focuses on relationships between companies which collaborate for competitive advantage, such as clusters. Some work, considers more personal networks that delve into relationships that individuals have with each other, such as social networks. Although it has been proven that business ventures can gain significantly from an effective personal network of the entrepreneur (owner-manager), very little has been done to see if this social entity can be constructed on behalf of the entrepreneur. And this is especially needed, since it is unclear whether entrepreneurs actually know how to build and use a personal network. In other words, is it possible for an actor to construct a networking environment which contains answers to the key issues faced by entrepreneurs, presented to them by their peers and at the appropriate time? And this, without the inherent risks involved in networking activity? This constructed network would be peer-based and focused on delivering customised and timely help for entrepreneurs. This kind of intervention is required because, currently, small businesses are faced with a ‘profusion of initiatives and programmes from government and other agencies…leading to an unstructured and frequently chaotic regional market for small firm support and development services’ (Rae, 2006) In many instances, small firms do not know about or take up the services offered through such
initiatives (Mole, 2002). This is why this research into personal networks is so important at this time. It would be unwise to assume that an external agent can construct the entire network of an entrepreneur. However, if the benefits of a personal network can be gained without the inherent risks, then there is a chance that such an intervention could supplement other links in the entrepreneur’s total network.

The paper considers the questions of a constructed personal network by drawing on literature to provide a framework of the environment, benefits and risks associated the entrepreneur’s personal network. This framework is then applied to the Profit Through Networks (ProfitNet) project in order to see if constructing a network could be a worthwhile intervention for small businesses.

2. RESEARCH QUESTIONS

This paper is about personal networks of entrepreneurs (owner-managers) of small businesses. It explores the possibility of constructing part of this personal network by an actor who is external to the entrepreneur’s enterprise. This idea is tested by studying the ProfitNet project of the University of Brighton, England.

The paper addresses the following questions:

1. How can an effective personal network be constructed to enable entrepreneurs to receive the benefits without the associated risks of forming networks themselves?

2. How can this constructed network be delivered by a University to meet the needs of small enterprises, regional economic goals and academic stakeholders?

3. How can we evaluate the effectiveness of a constructed network for its capacity to build greater innovativeness in group members?

3. TYPES OF NETWORKS

‘Network’ is a term that is increasingly being used in both literature and practise to define a variety of business and social structures. In business, there is general acceptance that the term refers to a third organisational structure, which is an alternative to a market arrangement, where market forces regulate interaction, and a hierarchy, where organisational rules and managers regulate interaction.

There are many types of network structures and the categorisation put forward by O’Donnell et al. (2001) is useful for this paper as a helps to differentiate personal from other kinds of networks. Their broad categories are: inter-organisational and the entrepreneur’s personal network. Inter-organisational networks (ION) tend to reflect arrangements between companies to achieve specific business objectives (Doyle, 2000). They are also called formal, vertical and horizontal networks and examples include strategic alliances and joint ventures (O’Donnell et al., 2001). The entrepreneur’s personal network (EPN) consists of a ‘set of ties linking several individuals and providing various types of exchanges’ (Sawyerr et al., 2003). Other titles found in literature include social, functional, informal, egocentric and personal contact networks and examples include colleagues of a previous job and family members.
There is a natural overlap between inter-organisational and the entrepreneur’s personal network. Some argue that it is not possible to study one in isolation of the other (Johannisson et al., 1994). For example, a personal network contact could be a supplier who joins an agreement with the entrepreneur to reduce transaction costs between the two organisations. Likewise, as Bessant and Tsekouras (2001) summarise, networks may be ‘formed for particular purposes, but then offer the possibility of additional activity taking place…’ (Ibid: 83). Despite these arguments, there are key differences, between ION and EPN, which are relevant to understanding how parts of an EPN can be constructed by an external actor. These distinctions relate to network objective, formality and approach to network set-up and are discussed in the next sections.

3.1 NETWORK OBJECTIVE

Networks differ in their purpose and related benefits. ION exist to achieve a specific business objective including, increased sales and profits (Rosenfeld, 1997), collaboration on product development (Doyle, 2000), shared risks, access to new markets and technologies and speeding products to market (Pittaway et al., 2004). The entrepreneur also forms a personal network for some of those reasons but a broader objective is defined by Jack et al., (2008): personal contacts ‘are recognised to contribute to entrepreneurial capacity by extending the individual’s asset base of human, social, market, financial and technical capacity’ (Ibid: 125). Early network research by Mitchell (1969) suggests two important ways of extending the asset base – to provide a specific service and to offer support. This is where EPN specifically differs from ION. In addition to material service, EPN offer what O’Doherty (1998) calls psychological support (entrepreneur is encouraged by peers and recognises that their problems are shared by others) and developmental support (increased learning and the ability to adapt to changing competitive environments) (in Doyle, 2000).

Therefore, if part of a personal network is to be constructed, it should offer some of the following material, psychological and developmental benefits as summarised by both Hoang and Bostjan (2003) and O’Donnell et al.(2001): information sharing, extending of contacts, introduction to peers; motivation, support, encouragement; and product or service ideas.

The research which links networking and innovative capacity generally focuses on inter-organisational rather than personal networks and on high-technology sectors. Consequently, the principal innovation benefits of ION (e.g. Pittaway et al., 2004) may not be relevant for EPN. It seems better to identify the key innovation activities or outcomes of small businesses across multiple sectors and identify them as benefits that entrepreneurs may want to gain from networking. Scozzi et al., (2005) offer such a list from their multi-sector research on small and medium sized enterprises (SMEs) in Italy: improve quality, improve marketing properties of products, reduce costs and improve production processes.

3.2 FORMALITY

Although both types of networks are embedded in interpersonal relations (Granovetter, 1985), there is a difference in the formality of relations: in types of key actors and in their regulation.
Actors: Relations in the ION tend to be between companies whereas in the EPN, relations tend to be between individuals (who may or may not be a representative of a company) (O'Donnell et al., 2001). Larson and Starr (1993) explain that in the early stages of a venture, the entrepreneur focuses on building links with individuals who can help in setting-up the venture. These ‘essential dyads’ could come from previous working relationships, voluntary connections, kinship and community ties. Indeed, these individuals play an important role as demonstrated by Jack et al. (2008) in their case study of a successful entrepreneur on his start-up network. ‘He [entrepreneur] estimated that he invested around half his time before, during and immediately post-start-up, in “face to face chatting which such people…I can bounce ideas around with,…help me recognise opportunities and who are happy to share information with me” (Ibid: 138). The life-cycle approach to network evolution suggests that after this early stage in the venture, personal networks are still required (e.g. Lechner and Dowling, 2003).

Regulation of Link: ION are characterised by proxies for trust, such as contracts and other formal agreements. This formalisation helps to reduce the risk of investing in the relationship (finance, human resources, brand assets, facilities, R&D- future products to remain competitive) without gaining the agreed outcome. Conversely, the EPN is less formal and relies on the entrepreneur’s ability to find, form and maintain links based on interpersonal relations (O'Donnell et al., 2001). Johannisson (1996) proposes that when it comes to regulating personal links, entrepreneurs prefer informal, personal encounters to formal, impersonal contacts and contracts. This is because reliance on implicit and open-ended contracts are generally supported by social mechanisms and norms (Hoang and Bostjan, 2003). Entrepreneurs trust that those in their networks are reliable and do what they said they would (Das and Teng, 1998).

Consequently, personal networks tend to be founded on social ties and regulated by trust. This implies a deeper dependence on the goodwill of individuals than in ION. Therefore, in constructing part of the entrepreneur’s network, informal interactions based on trust need to be part of the design.

3.3 APPROACH TO NETWORK SET-UP

The inter-organisational and entrepreneur’s personal networks also differ in the approach taken for their establishment. Gulati et al. (2000) highlight the strategic aspect of ION by defining them as ties between companies that are enduring and provide strategic business advantage. The strategic aspect of this definition implies a proactive nature in seeking competitive advantage through collaboration with others.

There is no consensus about whether entrepreneurs build their personal networks strategically. While some studies find evidence of proactive and deliberate approach to building networks (Jack et al., 2008), others find that entrepreneurs approach network building in a passive, subconscious manner and are unpractised in planning networking activity. For example in the McGowan and Rocks (1995) study of entrepreneurs, they found that networking activity was largely unstructured and coincidental in nature even though entrepreneurs thought they were using their networks proactively. Larson and Starr’s (1993) work highlights the fluky nature of personal network building as ‘trial-
and-error’. This is when the entrepreneur includes individuals into their network without really knowing whether said individuals can assist in expanding the venture’s asset base or worse, have a negative impact. An example helps to explain some of this uncertainty.

‘…You can lose friends thorough business relationships. You have someone who is the best of buddies…He wants to get involved and you want to get involved with him’. Then, for some reason, not enough customers, he didn’t work hard enough, whatever, there are mixed expectations. He has invested his life saving and he is losing money or not coming through. He feels you aren’t supporting him as a friend would and you are concerned he is telling people that you are ruining him. All in all you aren’t making him look good and he isn’t making you look good. You can get burned out of a relationship. That is one of the saddest parts of doing business with friends. On the other hand, you have relationships with people you didn’t know before’ (Starr 1990 in Larson and Starr, 1993).

Apart from engaging with individuals, Curran et al. (1993) also find that entrepreneurs do not network extensively with business services that exist specifically to help small businesses. The authors attribute this to perceived poor service from such organisations or a lack of time on the entrepreneur’s part (also supported in work by: Mole,(2002) and Malecki and Poehling (1999).

Since it seems that networking is valuable but that entrepreneurs may not have the ability to build and use a network, this indicates a need for intervention. An intervention that reduces the coincidental (unstructured) nature of personal networks but works within the time constraints of entrepreneurs.

### 3.4 A FRAMEWORK FOR CONSTRUCTING A PERSONAL NETWORK

Is it possible to construct a personal network or rather, part of an entrepreneur’s network which includes the benefits of a network but without some of the inherent risks? The framework for answering the research questions is taken from the benefits and risks of EPN identified in the previous section. Table one summarises the key variables.

| Environment: Trust, goodwill, timeliness of information, fosters networking |
|-----------------------------|----------------------------- |
| General Benefits:           | Innovation Benefits:        |
| • Information sharing       | • Improving quality         |
| • Extending of contacts     | • Improving marketing properties of products. |
| • Introduction to peers     | • Reduce costs              |
| • Motivation, support, encouragement | • Improve production processes |
| • Product or service ideas  |                             |

Table 1: Framework which considers the key benefits of networking
4. PROFIT THROUGH NETWORKS (ProfitNet)

ProfitNet was created by the University of Brighton based on their research in learning networks and years of research in innovation management. The pilot network, which involved 70 enterprises, flourished and was the platform for funding for a much bigger network involving almost 400 micro and small enterprises in the Sussex region of England.

ProfitNet is a project that brings small business owners and managers into groups of up to 15 people. Each group meets once per month for three hours and follows a facilitated process. The main objective is that group members learn and get support from their peers and when required, can get expert instruction on topics of their choice. During the first meeting members sign a contract of confidentiality.

The foundation of the ProfitNet model comes from studies on learning in organisations. Bessant and Tsekouras (2001) draw heavily on the cyclical process of learning to show that, ‘learning can be supported by structures, procedures, etc. to facilitate the operation of the learning cycle – for example, through challenging reflection, facilitated sharing of experiences or planned experimentation’ (Ibid: 85). Following that model, the ProfitNet process is based on a combination of experience, reflection, concept formation and experimentation. Each group meeting follows the structure outlined in table two.

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<thead>
<tr>
<th></th>
<th>Business planning (half an hour)</th>
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<tr>
<td></td>
<td>One entrepreneur, each month, presents their business plan. This enables the presenting entrepreneur an opportunity to step away from day-to-day ‘fire fighting’ and to think about and received feedback from their peers. This feedback from peers is based on knowledge and experience. The presenter agrees with the group on some action plans to further their business plans. This process does not only help the presenting entrepreneur, but the entire group benefits from the discussion on business planning.</td>
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<th>Action Learning (one hour)</th>
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<td></td>
<td>The members divide into two groups to enable the entrepreneurs to discuss issues, concerns, or hot topics with their peers who may have faced similar problems and found solutions. The two groups have a facilitator each to ensure that issues are identified and tackled in a confidential and friendly manner.</td>
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<th>Break (15 minutes networking)</th>
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<th></th>
<th>Creativity Workshop (one hour)</th>
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<td></td>
<td>In this segment, topics are covered which the entrepreneurs have previously identified as important to them. Topic experts (practitioners or academics) are invited to share and discuss their knowledge and experience to the group. Entrepreneurs tend to choose topics such as marketing, business planning and finance.</td>
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<th></th>
<th>Wrap up (15 mins)</th>
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<tr>
<td></td>
<td>In this section there is chance to reflect on the workshop and agree actions for the following month and pick topics and presenters.</td>
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Table 2: ProfitNet Meeting Process
Members with specific needs can receive in-company intervention, in which a consultant from the University of Brighton or any other allied provider, such as Innovation Advisory Services, works with the entrepreneur.

Each meeting has two facilitators that remain with that group throughout the project. They are recruited from local partners such as Business Link, the University of Brighton and through general recruitment. The facilitators are trained by the University in facilitation skills relative to learning in networks and given opportunities to practise the ProfitNet process before the start of the project.

The project is managed by two departments of the University of Brighton: The Centre for Research in Innovation Management (CENTRIM) and Business Services. CENTRIM is a research centre which has focused on technology and innovation management since inception in 1986. The centre's main research interests are in knowledge management, continuous improvement, agile manufacturing and inter-organisational networking. CENTRIM has a unique model that integrates academic research and business engagement, so that each contributes and supports the other. The centre developed ProfitNet and plays an active role in project delivery and evaluation. The Business Services department is the University’s interface with the local business community. The department ensures that knowledge transfer opportunities are fully exploited by creating links between local businesses across Sussex and the relevant schools or academics within the University. Further the department has responsibility for project management and coordination of several projects including ProfitNet.

ProfitNet is generally promoted through local partners such as Chambers of Commerce; through the contacts of Business Services and CENTRIM, mass mailings and launch events. The aims of promotions are to create awareness of the project and to recruit members.

4.1 PROFITNET HASTINGS: PILOT PROJECT

The first ProfitNet project was run in Hastings as a pilot in 2004 for 12 months. It was funded by the South East Programme for Innovative Actions (SEPIA). A total of 70 entrepreneurs (representing 70 enterprises) participated fully in seven groups. These groups were sector based and consisted of hotels, manufacturing, construction, start-ups, social homes, creative and social enterprises. 87% of the members were owner-managers.

The project was evaluated in several ways including in-depth interviews with 25 entrepreneurs and an anonymous survey. The survey was sent to all members at the end of the project. The survey response rate was 75%. It focused on five broad areas: membership satisfaction, quality of delivery, impact on business, local economy and clustering (formation of ION). In general, there was a high rate of satisfaction among respondents: 96% said they were satisfied or very satisfied with the project. (Trevedi, 2006) The main aim of the pilot’s evaluation was to see if the process worked. However, the data can still be used for the purposes of this paper. Table three aligns the results of this survey and qualitative information with the general and innovation benefits of personal networks as identified earlier in the paper.
<table>
<thead>
<tr>
<th>General Benefits</th>
<th>ProfitNet Pilot (Hastings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information sharing</td>
<td>Not available</td>
</tr>
<tr>
<td>Extending of contacts</td>
<td>The Manufacturing group shared their best service providers with each other to set up a technical supplier’s directory</td>
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<tr>
<td>Introduction to peers</td>
<td>Willingness to work with members: On a scale from 1 to 7, the average appreciation of the participants for other members was 2.56 (between very good and good)</td>
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<tr>
<td>Motivation, support, encouragement</td>
<td>93% of respondents said the project was significant in providing emotional support to run/develop the business</td>
</tr>
<tr>
<td>Product or service ideas</td>
<td>91% of respondents admitted the project was significant in getting new business ideas</td>
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**Innovation Benefits**

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<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Improving quality</td>
<td>Not available</td>
</tr>
<tr>
<td>Improving marketing properties of products.</td>
<td>Not available</td>
</tr>
<tr>
<td>Reduce costs</td>
<td>Not available</td>
</tr>
<tr>
<td>Improve production processes</td>
<td>84% said the project has a significant impact on supporting the enterprise to introduce changes</td>
</tr>
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</table>

**Table 3: ProfitNet Pilot Evaluation Results**

4.2 **PROFITNET – AIF PROJECT**

After the success of the pilot project, the University of Brighton was funded by several organisations to launch ProfitNet in several areas of Sussex. These include a continuation of the Hastings project (funded by The Local Enterprise Growth Initiative); a project including Brighton and Hove funded by the Higher Education Research Council for England and the one to be reviewed here, the Eastbourne and Hailsham project funded by the East Sussex County Council under the Area Investment Framework (AIF). This is the first of these projects to have ended and for which data is available. The AIF ProfitNet ran from June 2006 to March 2008.

This project had 76 active members and consisted of seven groups. The groups were formed from the following industries: creative; professional services; construction and technical services; social enterprises; hospitality, leisure and tourism; fashion and design; and manufacturing and engineering. The sector with the greatest contingent was hospitality, leisure and tourism consisting of 30% of the members and the next largest group was professional services (20%). The years of operation of the enterprises represented were: two years (32%), 3-10 years (43%) and over 10 years (25%). 74% of the members were owner-managers.

The programme was evaluated based on four themes identified by project funders: member satisfaction, economic performance, innovation and linkages with other organisations. These themes were researched primarily through a survey that was given to members at the beginning and end of the project. The same questions were asked at both times to track changes made by members. The survey used a mix of scale and ordinal scaled questions. This mixture offered responses to measurable outcomes (e.g. turnover) with a self-assessment of performances (e.g. upgrading of skills).
Although the sample size is small (76), this project was evaluated to a greater depth than the pilot project and so offers considerably more and relevant data. The survey generated a 37% response rate of members who completed both applications of the survey. This represented 28 members. Instead of overall satisfaction measures, the ProfitNet AIF evaluation attempted to assess satisfaction of specific aspects. In the scales of satisfied and very satisfied, 82% of the respondents identified with general business skills training; 71% identified with supportive social environment for learning and 68% identified with business plans and business strategy training. (Readman and Aguilar Nova, 2008) Table four aligns the results of this survey with the general and innovation benefits of personal networks as identified earlier in the paper.

<table>
<thead>
<tr>
<th>General Benefits</th>
<th>ProfitNet – AIF (Readman and Aguilar Nova, 2008)</th>
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<tbody>
<tr>
<td>Information sharing</td>
<td>• 32% said they have asked another member for business advice</td>
</tr>
<tr>
<td>Extending of contacts</td>
<td>• 59% were satisfied and very satisfied with new contacts afforded by the project</td>
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</table>
| Introduction to peers             | • 50% were satisfied and very satisfied with opportunities for joint business activities  
• 40% indicated that they are buying or selling with at least one other member |
| Motivation, support, encouragement| • 71% were satisfied and very satisfied with the supportive social environment of learning |
| Product or service ideas          | • # of respondents who launched new products increased from 29% at beginning to 36% at the end of project  
• Similarly, # of respondents who launched a new service increased from 29% to 54% |

**Innovation Benefits**

| Improving quality                  | • Before project, respondents made approximately 2 product/service improvements per year. At the end of the project, this number rose to 7 |
| Improving marketing properties of products. | • 64% said their marketing skills had improved  
• 18% of total respondents said increased marketing skills increased turnover or reduced costs and  
• 4% said that this increased skill turned their enterprise around |
| Reduce costs                       | • 46% reduced their costs |
| Improve production processes       | • 57% made changes to their operations  
• 39% made changes to people management  
• 25% made changes to back office operations |

**Table 4: ProfitNet AIF Evaluation Results**

**4.3 SUMMARY OF EVALUATIONS**

Both the pilot and the AIF ProfitNet projects had a significant impact on most of the member entrepreneurs. The survey response rates of 75% and 35% indicate that these respondents not only felt that the project was effective but where interested in providing this feedback.

In terms of the general benefits associated with personal networks, both projects seemed effective in providing a platform for both material and psychological support. In the pilot project, the most notable data relates to 93% of the respondents feeling satisfied or very satisfied with the psychological benefits of motivation, support and encouragement. This was also high in the AIF programme (71%).
In terms of innovation benefits associated with personal networks, the AIF project produced more data; showing changes in all aspects of innovation benefits. The most noted change is from 2 (in 2006) to 7 (in 2008) product changes per year while 57% of respondents made changes to their operation processes.

5. CONCLUSIONS

The paper provides some transferable lessons for academics, policy makers and those involved in services to small businesses.

Network Objective/benefits: From the comparisons made, it seems as though a constructed network can offer the general and innovative benefits of a personal network. It did this through small groups of peers consisting of the same or similar sectors; trained facilitators; a specific process based on the learning cycle; peer input and support and expert advice as requested by the group.

Formality: Although the concept of construction implies some formality, entrepreneurs seemed to welcome the formality of ProfitNet as an effective way of extracting the benefits of the project. Although ProfitNet issues a contract to members at the start of the project, this is more about confidentiality of shared information than about agreed output from the network. In which case, ProfitNet does not encroach on the social regulators between peers in the network.

Approach to Network Set-Up: A question may be asked here, if entrepreneurs do not know how to build and use a personal network, are they likely to join a ProfitNet group? The scope of this paper can not answer that. However, those that joined ProfitNet spent three hours per meeting, which is a relatively long time for a busy entrepreneur. This indicates that the members thought that the process was worth the invested time. Also, the results from the projects show that members gained general and innovation benefits from having attended the sessions.

Therefore it seems probable that part of an entrepreneur’s network can be constructed by an external actor, which in this case is a University. This constructed network reduces some of the trial-and-error associated individual network building. This paper shows that it is possible to construct a non-intrusive environment where small enterprises can gather the assistance they need, when they need it.
REFERENCE


