

NETWORKS AND NETWORKING

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“Thus, the world appears to be an intricate fabric of events in which different kinds of interconnections alternate, or overlap, or combine and so they determine the structure of the whole”.

Werner Heisenberg

Abstract. *There are more and more proofs concerning the benefits of networks as far as the stimulation of innovation and the transfer of knowledge are concerned. The networks transform the firm’s boundaries (both legal and economic) by extending them to a community of interests; the small firms share their resources (knowledge), their risks – in a network –, and thus they can fight against the big companies. The integration in such external networks generates synergetic effects materialized in competitive advantages for the members of the network.*

The organizational and individual culture of reciprocity, the confidence and loyalty between the members of the network represent vital conditions for the survival of the network.

Keywords: *networking, network, building relationship, business, culture of reciprocity.*

1. Introduction

The study – from the networking perspective – of the entrepreneur and business has begun at the middle of the 80’s thanks to the work conducted by professors like Howard Aldrich, Sue Birley and Bengt Johannisson.

Paradoxically, although entrepreneurs may be characterized by their spirit of independence and their autonomy, they are, at the same time, “very dependent on relationships based on confidence and cooperation” (Johannisson&Peterson, 1984). They argue that networking helps us to

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regard the entrepreneurship rather as a collective phenomenon than as an individual one.

It is necessary to distinguish between „networks” and „networking”, the “network” is a social structure, made up of a set of relations between a group of individuals that make up an entity the value of which is richer than the sum of its members’ values, while “networking” must be regarded as the action through which these relations are built, maintained and mobilized, such as the flow of information, money, power and friendship which “flow” through these relational channels. Networking is a verb, not a noun. The important part is not networking as such, as a product, but the action itself – communication between people and the relations between them.

When a business is initiated, capital is brought in a multitude of forms: financial capital, human capital – such as the professional or managerial expertise, training and education and social capital – which derives from the access to professional networks (Burns, 2011). Research reveals that, the more capital is brought into a business – and specifically the kind of capital derived from networking – the more likely it is for the business to succeed (Firkin, 2003).

The social capital is built on relations – and relations are the core of the entrepreneurial approach to business: relations with clients, with suppliers, with employees, with banks and with the shareholders.

The social capital is the one that builds up credibility in the eyes of all these stakeholders. It is that “personal touch” that makes the difference between the entrepreneur and the “faceless” gray-suited characters that are the corporative managers. For the successful entrepreneur, these relations make up a priceless network of contacts and goodwill which can be used any time a change effort is needed or any time it is necessary to undertake something which implies a greater risk than the risk of the common business. And these networks prove to be really priceless for the start-ups based on acquaintances.

The social capital in the form of networks of friends and commercial contacts can be very important. A powerful personal relationship can bring with it credibility. Your contact network can supply you with your first client, or free (or cheap) office space. It can even supply you with the cash you need that the banks won’t give you.

All networks are based on personal relations and reciprocity, hence they are based on confidence, reputation and common interests. They are strengthened by a higher frequency of interactions. Nowadays, these interactions can be real (physical), or virtual (on the internet). The internet

interactions may take multiple forms – they can generally undertake those values that don't require personal contact or the development of real relations. They were regarded many times as a forerunner of personal contacts; since these personal relations are not developed, the networks based on the internet are short-lived. With these exceptions, the virtual networks share many of the advantages of the “real world” networks.

2. Building relations – the key to developing the ability of doing business

By doing effective networking, you start to build relations.

In every aspect of our lives, whether we are involved in social activities, whether we intend to develop our own career, whether we socialize with our family and friends, we interact with diverse typologies of individuals. These interactions occur both with close people and with new acquaintances. We can build up relations with our work mates or in a club, with its members. We are social beings inevitably.

Relationships are about giving and receiving; a relationship is a mutual process. There has to be reciprocity in building a connection between business partners. Especially in business, you lose something and you gain something else. In a business relationship you can't just take and always take, you also have to offer something in return. Business relations should always be treated in a mutual way; you receive something good out of the connection, contributing in turn with something positive in exchange. In the end, this is what the building of relations is all about. The key is to always be the first to do something for the other members of the network!

The ability to listen is a very important characteristic that a good networker must have. It is not surprising, hence, that it is said that a good networker has two ears and a mouth and he should use them proportionately – he should listen twice and talk only once... (Mihaila, 2010).

Every professional business person should ask themselves: “What business am I in?” The answer is very simple: if the business has to do with people – and of course all of them have to do with people – then they are in the business of building relations. Some people think that since they are in the field of sales, then their job is to do sales. It is not! The business relies on building relations – this is how you sell. And managers (the company's management in general) are in this business because they manage to carry the work through.

Communication is a factor with an important role in the building of a relation. In fact, how could be built a relation without any communication?

This is almost impossible, especially in work relations. Results cannot be obtained if the members of a community work individually, when every project needs cooperation and exchange of ideas. The development of both one's verbal and non-verbal communication skills makes the building of relations easier.

Respect is a fundamental aspect in networking. Respect means understanding the attitudes, the values and beliefs of other people.

Confidence is yet another important aspect. (Of course, there will always be people who will want to take advantage of it when they have the opportunity. We shouldn't allow appearances to deceive us, we should always verify in detail the references of those we wish to collaborate with and to build up partnerships with before discussing projects in detail and establishing partnerships).

Empathy is a hard currency. It allows you to create connections based on trust, it gives you perception over what others think or feel, it sharpens your intuition and clarifies your decisions. Some people have this quality since birth, others need to make efforts, to learn and practice in order to obtain it.

Also, in a business relationship the first impression really matters. You need to speak and interact with confidence, conviction and to have an imposing presence.

Professionalism is another important aspect in building up business relationships. Even if things don't work out well, the professionalism must be maintained.

Building up business relations is different from building up personal relations, although the principles are very much the same, yet there are special abilities for the business networking that must be developed. (Mihaila, 2010). In many ways, it is similar to practising a sport. In order for one to become a sport professional, there are certain training principles that must be followed: discipline, attention, consistency, perseverance and practice. Even though for each sport in turn the abilities and skills vary, these principles remain the same. The same thing happens in networking. The fundamental abilities you have developed in the personal network will provide a solid basis, but they will not prepare you for the big business network.

3. The Characteristics of Networks

Experience has proved that it is networks that carry things through in a company, rather than formal relations established in an organization chart. What is important is that relationships do not replace the existing

structures, but rather they coexist. In fact, what gives the formal networks life and breath is the existence of the informal networks behind them; solid personal relations are essential both at formal and informal level. An informal relationship is very difficult to distinguish from a simple friendship relation. If two friends have a short chat before a meeting and agree on a strategy, does this really mean that they act in a network? Regarded from this perspective, the network activity adds professional life a new dimension and may contribute to career development.

Experience reveals that, in order to be efficient, networks need to have certain characteristics (Giber&Carter, 2009):

1. Target. In order to be effective, networks need to have an aim (either personal or organizational), which must be predefined; thus, the results may be measured. The informal networks (such as the Internet) may offer the satisfaction of a social interaction, but they can't reach the goals of the business.
2. Member identity. This is essentially an accessible list of all the abilities, knowledge, motivations, problems, geographical locations, goals, beliefs, etc, of those who are part of the network. The member identity goes deeper than simply being a list of roles within the network or a list of connections. Making these identities public and connecting similar members will help building lucrative communities. In time, these communities will become "collective experts" in certain fields.
3. Ability to act. The connections between the members of a network should be functional, so that the network may have practical value.
4. Search ability. It is a critical characteristic in finding existing information, in generating new knowledge – in eventually reaching the goal of the network. It is not the means of searching that is important in a small network, but the focus in the right direction. It was discovered that a successful search usually starts with weaker links (e.g. a friend's friend) and does not require the access to important nodes in the network in order to finalize.
5. Confidence level. How can we trust the information that "flows" in a network? It is considered to be a combination between the authority of the sources and the connections' (channels') ability to act. We define an authority in connection with the flow of information as a "net exporter" of information.

Many of these points are commonsensical, but it is amazing how often one may hear about people who want to become part of a network only of for the sake of networking.

Networks as a whole may differ in the number of freedom degrees (Conway&Jones, 2006):

1. Size – this dimension refers simply to the number of network participants.
2. Diversity – this characteristic refers to the number of member categories, defined according to various criteria: age, gender, education etc.
3. Density – it refers to the number of functional connections between the members of the network. It is a measure of the network potential.
4. Openness – it makes the distinction between networks with strong connections (gangs), individuals with great dependence and multiple mutual interactions and networks with weak connections, which allow interactions outside the group, boundary interactions.
5. Stability – defined by the proportion in which the structure or pattern of the network changes over time.

4. The Importance of Networks

The positive effects generated by networking at the level of SME's may take the shape of: reduction in the supply costs through the amplified access to resources; significant reduction in distribution costs, as well as in the costs for marketing activities; compression of the time used for sales; rationalization of the movement of merchandise; acceleration of the merchandise turnover; reduction in the risks for each member of the network etc.

Paul Burns (2011) considers that networks are important structures, as they supply information and opportunities and they allow the entrepreneurs the following:

- Acquiring new clients by developing relations based on confidence and reciprocity. Mass marketing may be costly in terms of money, but this form of “direct marketing” is costly rather in terms of allocated time than in terms of money.
- Acquiring knowledge about completely new markets and help in finding new contacts for marketing the products or services.
- Gain knowledge that will allow the entrepreneurs to face the changes in the market; the ability to keep up with the changes in the market – an attribute of the successful entrepreneur.
- Sharing knowledge that will allow the entrepreneurs to keep up with the innovation, and, through partnerships, to obtain resources they would otherwise not have.

- Gaining confidence in their own abilities by interacting with people who are in the same situation – which is particularly beneficial for the “marginal”, groups (women for example, feel especially unsure in relation with their entrepreneurial life).

There are more and more proofs regarding the benefits that networks bring as far as the stimulation of innovation and transfer of knowledge are concerned. Chesborough (2003) calls this process “open innovation”, the search for source ideas outside the company, and thus the connections become more important than the property of knowledge. Procter&Gamble have the slogan „Connect and Develop” (C&D), thus regarding networks as crucial in helping them stay in contact with results of research they have not conducted.

Networks transform the company’s boundaries (the legal and economical ones) by extending them to a community of interests. The small firms – in a network – share their resources (knowledge) and their risks and thus, they can fight against the big corporations.

The integration in such external networks generates synergic effects which take the shape of competitive advantage for the members of the network.

Competition manifests itself more and more not with regard to the quantity and the quality of the resources acquired, or with regard to superior competences, but with regard to the ability to faster and efficiently find the partners which possess the competences and complementary resources. The increasing consumption of specialized services (marketing, applied research, specialized sales, associated financial services, managerial services, etc) constitute an element of added value which is very difficult to copy.

Acting in the absence of a common legal framework, of directives or instructions, the network members successively assume roles that will allow them to reach the network goals. Each member, having specific objectives and hence different aims, contributes with his own resources and competences at the moment and in the way established within the network. The organizational and individual culture of reciprocity, the confidence and loyalty between the network members represent vital conditions for the survival of the network.

If the business idea involves innovation, the nature of innovation has implications for type of networks you might be usefully involved with. How an innovation network is operated depends heavily on the type of networks and the purpose it is set up to achieve. Tidd et al. (2005) map some of these different networks onto a simple matrix, differentiating

between how radical the innovation outcome and how similar the participating organisations. This relationship is shown in figure below. Zone 1 has similar firms dealing with tactical innovation issues – „good practices” forums. Zone 2 has similar firms working together to create new products or processes by challenging existing boundaries, dealing with the issues of knowledge-sharing and risk taking through the structures of formal joint ventures and strategic alliances. Zone 3 has different firms bringing key pieces of information, perhaps from a wide range of disciplines, to the network. The risk of disclosure can be high so the ground rules for disclosure need to be set well in advance and any intellectual property rights issues resolved. The stakes are even higher in Zone 4 and third-party gatekeepers such as universities can play an important part as neutral knowledge brokers.

	Zone 2	Zone 4
Radical innovation	<ul style="list-style-type: none"> • Strategic alliances • Sector consortia • New technology development consortia 	<ul style="list-style-type: none"> • Multi-company innovation networks in complex product systems • New product or process development consortia
Incremental innovation	Zone 1	Zone 3
	<ul style="list-style-type: none"> • Sector fora • Supply chain learning programmes 	<ul style="list-style-type: none"> • Regional clusters • Best practice clubs • Topic networks
	Similar organizations	Different organizations

Figure 1. Innovation networks.

Source: Burns P. (2011) Entrepreneurship and small business, Palgrave Macmillan

Networks may also involve more formal structures. These may be effective in many ways, for instance in exchanging complementary resources that will constitute a competitive advantage, firstly through vertical integration and scale economy that will offer a low economical cost. There are many potential advantages in this approach: access to new markets, acquisition of new technologies, development of new products, pressure leverages over prices and costs, mutual exchange of knowledge. Alliances evolve and change their nature in time – it has to do with the mixture of emotions created by the competition culture of companies vs. the necessity of mutual assistance. Other times, alliances evolve toward the

strategic level, where the synergy is evident – for example, one ally owns the necessary assets and the other owns the financial resources, and thus the risk associated with the entrepreneurial approach is diminished and the flexibility is increased.

5. Networking in Romania

For now, in Romania, networking is not perceived on a large scale as a business tool – some business people associate it rather with a waste of time than with an investment of time in the business. “Unfortunately, Romanian people associate networking with a social leisure activity, they can’t see its business value. What they need to understand is that when you’re doing networking you are not concluding a business for the next day. It is something you need to permanently and consistently do, but something that will bring long-term benefits. Some people don’t know what network means and this is why they don’t use it”. Ciprian Trandafirescu, CEO Kingstone

Taking into account the kind of company involved in networking, the managers-entrepreneurs of the small businesses tend to be more inclined towards networking than the multinational employees. The multinational employees don’t really need networking for business, as they are used to receive opportunities through the network they belong to – the ones that are most open are the employees in sales, human resources and the top management. A tendency towards networking is also expressed by those who work in consultancy or training – a lot of them are doing networking although they don’t realize it. Besides, just like in other countries, there are companies in Romania in which networking is part of a manager’s job description, an activity the manager is forced to undertake.

Here is what Marius Ghenea (2011), series entrepreneur in the most varied domains of business says in a recently published book: “...at present, the information in the contact networks (generally the social kind of internet-networks, but without underestimating in any way the great value of the traditional social networks) are an extremely powerful weapon which an entrepreneur can use in any moment of his business’ development. When we are only analyzing the real business opportunity that an idea presents, how important could the information in these contact networks really be?

Logic tells us that the value of such networks in the initial stage is extraordinary, because you have there, in these networks, so many people who can validate (or invalidate, or correct) your idea on your way to a

business opportunity. And yet, thanks to reasons that are very difficult to identify, too few starting entrepreneurs are really using this kind of information.

6. Conclusions

Networking may be regarded as an interpersonal relationship, starting from the premise that relations between organizations are actually relations between the people belonging to the respective entities. Networking consists, thus, in the development and maintenance of relationships with people who impact the business directly or indirectly.

We can become more efficient by improving our relationships, but we can't improve our relationships without improving ourselves, without becoming better people and without becoming more responsible with our lives. In other words, we should look inside us before looking outside. There must be reciprocity between the business partners in the building of a connection. Every relationship is based on the principle of balance between giving and receiving.

All networks are based on personal relations and reciprocity, hence they are based on confidence, reputation and common interests. They are strengthened by a higher frequency of interactions.

In conclusion, the organizational and individual culture of reciprocity, the confidence and loyalty between members constitute absolutely vital conditions for the survival of the network.

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