

York Consulting

Department of Trade and Industry

**The Impact of Networks
on the
Learning and Skills Development of Businesses**

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Contents

EXECUTIVE SUMMARY

1	INTRODUCTION.....	1
2	THEORY FOR NETWORKING.....	12
3	NETWORKING ACTIVITY.....	21
4	SKILLS AND KNOWLEDGE DEVELOPMENT.....	34
5	CONCLUSIONS AND OPTIONS.....	53

ANNEX 1:	EMPLOYER TELEPHONE SURVEY
ANNEX 2:	CASE STUDIES

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The views expressed in this report are those of the authors and do not necessarily reflect the views of the Department, or any individual or body associated with this research.

EXECUTIVE SUMMARY

Background

1. This report sets out the findings of research undertaken on behalf of DTI to explore the ways in which businesses use networks to address their learning and skills development needs, the various ways in which different types of business networks support the learning needs of their members and the impact that participation in learning activity supported by networks is seen to have on the performance of businesses.
2. The study involved a review of existing literature on the various types of networks for both general business purposes and for learning and skills activity. It reviewed the management theory literature looking at the use of networking to improve business performance through learning. A telephone survey of 1,500 businesses was used to provide a quantitative base of evidence and to identify the extent of learning through networks. A series of case studies of individual businesses was used to explore in more detail why businesses get involved in networks and the benefits they have gained.

Networking Activity

3. Over half of businesses in the survey (56%) are actively involved in networking. This networking activity is most likely to be directly linked to their line of business (40%), but may also include involvement in more general business networks (29%) or other groups that are not directly business-related (12%). Larger businesses are more likely to be involved in networking than smaller ones, perhaps reflecting the potential to spread the load of involvement between managers and staff members. Only around 10% of businesses in the survey have never been involved in network activities.
4. Thirty seven percent of networking businesses are involved in more than one network. Most of the case study businesses are active in a number of different networks for varying business reasons.
5. These reasons include that one third of businesses (32%) have engaged in networking activity primarily to acquire new skills or knowledge. Other reasons for involvement in networking include the development of business credibility, business development or as a general source of information, guidance and support. From the case studies, it is clear that, whatever the primary motivation identified for networking, it is often part of an overall growth strategy and may also play an important part in the innovation process.
6. Businesses that are not involved in networking do not see sufficient benefit from becoming involved. It is seen as costly and time consuming.
7. Within smaller organisations, networking tends to be undertaken by owner-managers. In larger organisations, activity may be spread across the

management team and involve other staff. This therefore creates a need for the results of networking to be disseminated within organisations as appropriate. One way in which this is achieved is through the implementation of formal training in response to a need identified within a network.

Skills and Knowledge Development

8. Two thirds (66%) of businesses in the survey have positive growth objectives. Just under half (47%) of businesses expect to invest in training to achieve their business objectives.
9. Half (49%) of the businesses had experienced major changes or events in the past three years that had impacted on their operation. These include both distinct one-off occurrences and on-going factors, such as rapid technological change. A third (29%) of these businesses had to bring in new skills or knowledge to respond to these events
10. Other than the networks in which they are involved, businesses use a range of mechanisms to meet their skills and knowledge needs. Half of businesses use their supplier as their most common means of accessing new skills or knowledge; just under half draw on the experience of their customers, and a similar number use general social contacts. Where a significant event has been experienced, businesses appear more likely to seek support from their general business and social contacts than where no such event has taken place. This may be a reflection that significant events require an immediate response that can be achieved through such contacts, rather than through other relationships that may be less immediate.
11. Businesses that use networking to learn do so to acquire a broad range of skills and knowledge. This includes the acquisition of sales and marketing skills (48%), IT skills (35%), and management skills (32%). Networks are also valuable sources of knowledge and information, relating to developments in markets and enabling an understanding of the key trends that are likely to impact on business performance, including legislation or regulation (53%), finding out about competitors (47%), and understanding the local business environment (42%). Others in the survey reported that Networks allow them to share and learn from good practice, which can lead to changes in the way businesses act.
12. Ten percent of businesses gain new skills and knowledge through formal learning methods within networks, such as seminars and other organised events. Almost half of businesses use more informal methods such as discussions and conversations to acquire new skills (41%) and knowledge (43%), although it does depend on the type of knowledge or skill sought.

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13. Generally speaking, contributors have used networks to acquire tacit knowledge or to better assess their particular learning needs. Similarly, skills needs are in effect identified through networks. Networks are able to support the acquisition of knowledge and of soft skills. 'Harder' skills and specific information has to be acquired by adopting a more formal approach, though onward referral by networks will often support this.
 14. Networks are also used to meet skills needs through recruitment of skilled staff and the development of stronger management teams.
 15. The methods through which knowledge and skills are acquired in networks is significant. The key way in which network members are learning is through mentoring and support from their peers. Whilst much of the skills and knowledge gained by the case study businesses has been in the context of relatively organised networks, it must be recognised that it is actually the personal relationships that develop through this involvement that are fundamental to the learning.
 16. Seventy percent of businesses regard their use of networks in meeting their skills and knowledge needs as effective or very effective. Where businesses are not reporting benefits from networking, they attribute this to a weakness of their networking approach, rather than a weakness of networking per se.
 17. As businesses become increasingly experienced and skilled in networking, they may rely less on the formal networks to develop these relationships and work with their own personal networks of contacts.
 18. Businesses also make use of support from Business Links, RDAs and other agencies. Network involvement can enable businesses to make more effective use of such support by providing them with a better understanding of what support is available.. However, the extent to which the different routes are integrated is variable, and is not therefore as effective as it could be.
 19. Businesses reported that mechanisms related to their businesses are more valuable for learning. For example, customer feedback, employee feedback, and networking with sector-specific organisations were the most effective. Less specific materials such as trade publications and material produced by more general organisations are least helpful in helping to identify knowledge and skills needs.

Business Benefits Through Networking

20. The vast majority of businesses involved in networking for learning and skills (94%) were able to identify benefits resulting from their networking activities.
21. Many businesses report that they have gained tangible product-related benefits:
 - 51% experienced increased company competitiveness
 - 54% experienced increased quality of goods/services.
22. Most businesses involved in networking for learning and skills development report that they have gained business performance-related benefits
 - 58% have introduced more efficient working practices into the organisation
 - 49% have experienced increased profitability
 - 47% have improved turnover
23. Staff-related business benefits have also been observed:
 - 52% report improved staff morale
 - 48% report improved internal communication
 - 44% report that their employees are more willing to take part in training
24. Comparison and measurement against peers within networks has proved beneficial in strengthening business management. Elsewhere, the network involvement of one of the case study businesses has provided access to significant funding to build new accommodation and helped develop improved business planning skills, producing a stronger business overall.

Opportunities for Government Influence

25. Two fifths (40%) of businesses thought there was scope for greater government influence to support networking. Some suggestions are:
 - Less red tape / fewer rules and regulations (7%)
 - Grants / funding / financial support (5%)
 - More help and support for small businesses (5%)
26. Businesses didn't believe there was a need for government to create any new networks, as networks tend to develop informally in response to business issues.

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27. There is a strong consensus that any support from government or its agencies should enable network members to retain their control and influence over the activities they undertake.
 28. There is seen to be the potential for government to support the activities that are identified and take place through networking, by means such as funding these activities and removing any barriers to participation, rather than becoming involved in the day-to-day management of networks themselves.
 29. In addition, government could play a role in ensuring that businesses are able to identify networks and the way in which they could benefit from involvement, including pathfinding and signposting as part of the brokerage approach. The potential for coordinating more coherent integration of existing network activities with publicly funded initiatives needs to be explored.

Conclusions

30. It is clear from the survey that a significant proportion of businesses in England are engaged in a range of networking activities. This involvement is motivated by the benefits that businesses perceive they can gain from investment of time and money in networking activities.
 31. The success of networking depends on the development of the skills needed to develop and sustain the relationships that lead to the benefits identified.
 32. Networking is used to support the development of a wide range of skills and knowledge and to introduce new skills to businesses through the recruitment of staff and management. It provides a mechanism through which to develop a better understanding of the needs, issues and opportunities facing a business. Networks can assist in identifying solutions, which may or may not be provided within the network itself.
 33. Networks provide a spectrum of methods of learning and skills development. These range from highly informal mentoring and coaching through to provision of formal training and development sessions. The inherent potential to use networks flexibly is valued by network members.
 34. Most businesses involved in networks attribute improvements in business performance to changes resulting from learning that has taken place within networks. Specific changes have contributed to increased turnover and competitiveness, improved business efficiencies, and improvements in the workforce.
 35. Networking can help in increasing the motivation to learn. The nature of networking means that it provides the potential to gain new skills and knowledge through a number of different means. Over time, this can lead to the development of a virtuous cycle of networking and learning.
 36. There is little sense that there is a market failure in networking that requires significant government intervention. However, there is the potential for
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support to be focused on enabling businesses that are not currently engaged to become involved in networking. Also, resources would be welcomed in many instances, although only if the networks themselves retain the control of their activities.

37. There is the potential for networks to play a more active role in supporting businesses to identify and address their learning and skills needs within the wider brokerage and referral network. However, this will require more effective integration than is currently in place.

Recommendations

38. The most appropriate ways in which the roles of networks and networking could be enhanced in the provision of publicly funded services should be explored.
39. There should be direct engagement between public agencies and networks, to understand what each network can provide and whether networks themselves require additional support in order to maximise their capabilities.
40. Any involvement in networks should be in a way that minimises the administrative burden, which would be a disincentive to participation for some and would create a fundamental barrier for others.
41. There is a need to explore the most appropriate ways of encouraging and supporting more effective use of networking amongst micro and small businesses, as only 33% of businesses employing between one and four people are involved in networks. There is a clear opportunity within business start-up programmes to raise awareness of the opportunities presented by networking, but also to support the initial development of networking skills within new businesses.
42. There are clear links between the use of networking activities to acquire new skills and knowledge and the innovation process. Innovation activities can be an important motivation for network engagement. It is therefore important that innovation activities and policies consider the way in which networking could be stimulated or supported, which could then contribute to further network-based learning and skills development.

1 INTRODUCTION

“Watch a bunch of scientists at a convention. They swap secrets like street vendors flashing contraband Rolexes...The standard corporate view is that you’re giving away the store, but the fact is that if others are cooperating and you decide not to, you fall behind.”¹

Purpose

- 1.1 The traditional view of businesses is that they operate in a competitive manner. It is clear, however, that some form of joint activity has been common in many industries over the years, for example to share larger contracts and as a result of geographic concentration (e.g. Silicon Valley). There is now an increasing recognition that many businesses are involved in some form of collaborative relationship or network². This same study in 2001 also suggested that the benefits of inter-firm networking are now more widely acknowledged and that there has been an increase in the amount of business networking taking place.
- 1.2 In considering networks of businesses it is important to recognise that the degree of formality in composition and relationship can be seen as a continuum from totally unstructured and informal personal relationships to networks that are themselves legal entities with formal structures and membership. Available evidence would suggest that the majority of networks tend towards informality that means that there is no strong base of information on these bodies and the activities they undertake.
- 1.3 The recent report on networking by AIM³ highlighted that “a key feature of networks is their capacity to promote learning and the transfer of tacit knowledge; such informal networking provides benefits for innovation”.
- 1.4 This study explores the ways in which businesses use networks to address their learning and skills development needs, the various ways in which different types of business networks support the learning needs of their members and the impact that participation in learning activity supported by networks is seen to have on the performance of businesses.

¹ Stewart, Thomas A. Intellectual capital: The new wealth of organizations. London: Nicholas Brealey, 1997.

² Blundel, Richard, and Smith, David. Business networks: SMEs and inter-firm collaboration; A review of the research literature with implications for policy. Small Business Service, 2001

³ Pittaway, Luke et al. Networking and innovation in the UK: A systematic review of the literature. London: AIM Research, 2004.

1.5 The key aims of the study were to:

- Understand why some companies get involved in networks and some do not;
- Illustrate what business learning and skills development occurs in informal networks;
- Illustrate how business learning and skills development occurs in informal networks;
- Assess the relative importance of learning within networks compared to other routes and thus to overall learning and skills development;
- Understand if the different routes result in the same types of skills and learning or if they complement learning acquired by other routes;
- Examine whether networks play, or could play, a part in influencing the supply of formal learning;
- Assess the effect of learning and skills development via networks on business performance;
- Understand how differences in business goals impact on the motivation of businesses to learn and develop skills; and
- Determine whether and how Government could make more use of networks to influence learning and skills development in businesses.

Method

1.6 This report presents the findings from a study that had three main methodological elements:

- A review of existing literature on the various types of networks for both general business purposes and for learning and skills activity, together with a review of the literature on management theory for the use of networking to improve business performance through learning;
- A telephone survey of 1,500 businesses including both those that are involved in networking activity and those that are not, to identify the extent of learning through networks;
- Thirteen case studies of businesses to explore their motivation for involvement in networks together with their use of various networks and the benefits they have seen from that activity, particularly with regard to resolving learning and skills needs.

1.7 In the telephone survey, a third of respondents were the 'owner' of the business, a quarter were company directors and a tenth business partners. Over 80% of businesses interviewed were small firms employing up to 50 staff, of which just under half(46%) had less than 5 staff. Two fifths(44%) of businesses started trading in the 1990s and one fifth(18%) in the last 5 years. A third of businesses (29%) were involved in manufacturing activity, and the vast majority of businesses indicated that most of their sales were to customers located in the UK.

Network Formality and Support for Learning

1.8 In carrying out this study we sought to establish how different types of network can offer and support learning opportunities.

1.9 Business networks vary in form from very informal groups of participants with a perceived common ground – a desire to exchange experiences, share business opportunities or to discuss current needs – to much more highly structured and organised 'formal' networks with recognisable membership, regular and official business and established structures.

1.10 As networks become more organised, they tend to have more formal structures for management of the network's business – for example, a board or committee will organise activities, arrange events and speakers. Many of these more formal business networks will employ staff to support the network in conducting its business and promoting its services and benefits.

1.11 It is therefore possible to identify a broad continuum of management arrangements that reflect the relative formality of networks, as set out in **Table 1.1**.

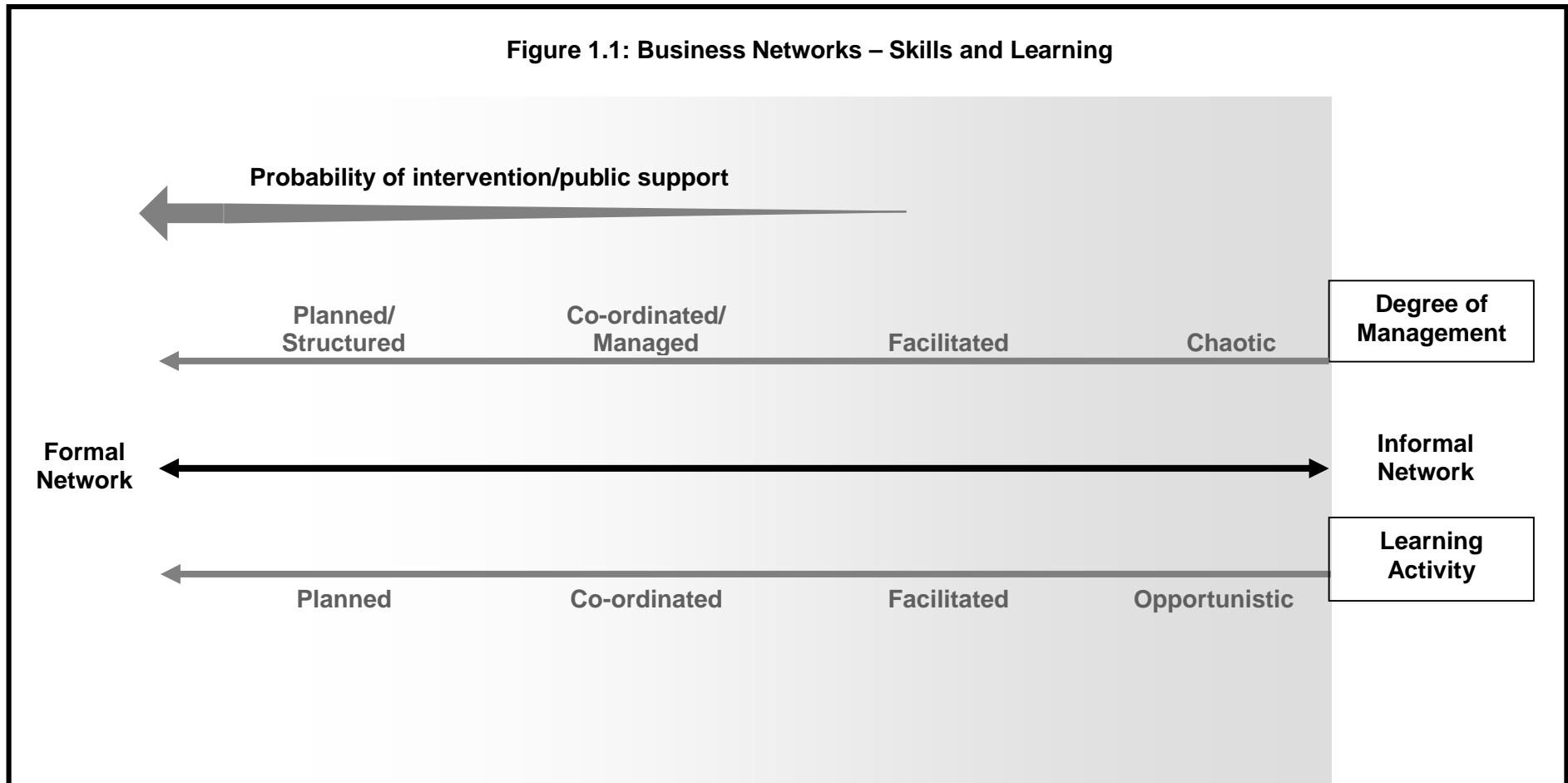
Type of Management	Features
Chaotic	No apparent management structure
Facilitated	Individual members support activities, often on an ad-hoc basis
Co-ordinated	The network has established mechanisms to support members on a routine or longer-term basis
Planned	Explicit management structures are embedded as part of an overall structure and forward plan

1.12 Similarly, the learning activity that can potentially take place through networks will vary to a significant degree. The broad categories of learning are set out in **Table 1.2**.

Type of Learning	Features
Opportunistic	Learning activity occurs on an ad-hoc basis when members' needs coincide and are expressed by the members themselves
Facilitated	Members of the network support other members to express and address their learning needs, including helping members to work jointly
Coordinated	The network itself provides facilitation and resources to assist members to address their learning needs
Planned	The network has a programme of learning activity as part of its core activities.

1.13 **Figure 1.1** shows the model used to describe the relationship between the extent to which networks are organised and how they offer learning activity. This indicates the likelihood that as networks become more formal and adopt more planned or structured management, the learning activity will be more planned.

Figure 1.1: Business Networks – Skills and Learning



- 1.14 However, this should not be taken as implying that planned learning will take place through all formal networks with planned or structured management. Much will depend on the prime purpose of the network. Where learning is not a key focus of a formal network, it is possible that only opportunistic learning activities will take place. It is unlikely that more formal learning activities, such as seminars and organised training courses will be possible in those networks with little formal management.
- 1.15 In the context of this assignment, it is also important to reflect on the probability of public support, either for the networks themselves or the learning taking place. It is suggested that the likelihood of public support will increase with increasing network formality, reflecting the structures that are in place to identify and secure the support, but also to provide accountability for its use.
- 1.16 During the course of the assignment, we established contact with a wide range of networks. **Table 1.3** shows examples of the type of activities and learning described by some of these networks. The final column of the table indicates, in our opinion, the nature of the networks' management structure and the approach taken to managing or facilitating learning.

Table 1.3: Network Examples

	Organisation	Characteristic	Features
1	Business Improvement Network	Planned Network Coordinated Learning	Network is managed by a training company. Learning is facilitated but organic growth. 'Open Space' gatherings based on a theme
2	SOLOMAN – South London Manufacturers Network	Planned Network, Facilitated, Coordinated and Planned Learning	Networking and learning only part of a wide range of services/activities
3	Artistic Women Entrepreneurs E-group	Facilitated Network, Opportunistic Learning	Learning informal and ad hoc though network is facilitated – organic growth controlled by members, mainly an internet/email forum
4	Asian Business Group	Planned Network Opportunistic Learning	Linked to Business Link, moving to self sustaining basis, aim to encourage informal learning
5	Women into the Network	Coordinated Network, Opportunistic Learning	Network focuses on providing information links, tries to bridge gap between business and providers of support
6	Disabled Entrepreneurs Network	Facilitated Network, Facilitated Learning	Support, advice and networking opportunities which members may not ordinarily be able to access training offered through regional networks
7	Bridge Club (North East)	Planned Network, Opportunistic Learning	Private networking enterprise. Very informal network, organised events e.g. monthly on topic, bridges work and socialising. Top tips of speakers circulated
8	M42 Club	Facilitated Network, Facilitated Learning	Consortium of businesses, organically developed and driven by members
9	Entrepreneurs' Forum	Coordinated Network Opportunistic learning	Private, informal forum, main ethos 'learning from peers' experience' and

Table 1.3: Network Examples			
	Organisation	Characteristic	Features
			'sharing business challenges'. Real networking culture apparent
10	East Midlands E-business club	Facilitated Network, Opportunistic learning	Small group training, peer learning approach, facilities 'First Step' informal network of workshop participants
11	Ecademy	Coordinated network, Opportunistic learning	Training focus on how to network, ad hoc learning, online network and forum
12	South East Media Network – Wired Sussex	Planned Network Planned Learning	Monthly formal network events, specific training, supported by SEEDA/Business Link
13	Leeds Media	Planned Network, Coordinated Learning	250 members, events have a training slant, membership dominated by small local businesses but linked with Screen Yorkshire

1.17 Each of the networks participating in the study was thriving by its own terms and was successful in attracting a group of participants. Yet it is clear that there is considerable variation in both the extent to which there is formality in the management of the network's activities and in the nature of the learning 'offer'.

1.18 Businesses taking part in the case studies were referred through our contact with various networks. They were chosen because they are all actively involved in networks were able to illustrate the benefits of networking, and showed a range of experiences and types of companies. They ranged from sole traders to multinationals and covered sectors as diverse as promotions/PR to engineering. In most cases the contributors were the business owners or directors. **Table 1.4** provides a summary of the characteristics of the businesses contributing to the case studies.

Table 1.4: Case Study Participants

Business	Nature of Business	Years Trading	Size	Region	Referring Network	Other Network Involvement
Baxter Promotions	Producing recycled promotional items for businesses	2	2 person partnership	North East	Entrepreneurs Forum	Business Network International
Bedsearcher	Internet accommodation booking service	3	4	North East	Bridge Club	Darlington & District Business Club GLEAM Personal networks
Chromalox (UK) Ltd	Manufacture of heating equipment	78	75 in UK	London	South London Manufacturers Network (SOLOMAN)	
Eutechnyx	Digital media/games	18	150	North East	Entrepreneurs Forum	Codeworks Games Horizons
Fresh Element	Prepared Food/catering	1	4 plus seasonal	North East	Bridge Club	Newcastle University Enterprise Centre Regional Food Cluster Farmers Market
Hilary Farnworth	Management and professional development	7	Sole trader	London	Artistic Women Entrepreneurs	EFBO Chamber of Commerce Women in Docklands North London Enterprise Club Other ethnic minority networks
Leighton Group	Media design and publishing	Over 25 years	Over 100	International/ North East	Entrepreneurs Forum	Codeworks The Alchemists

**The Impact of Networks on the Learning and Skills Development of Businesses
Main Report**

Business	Nature of Business	Years Trading	Size	Region	Referring Network	Other Network Involvement
Musa Fine Art	Fine Art exhibitions	1	2 person partnership	North East	Women into the Network (WIN)	Bridge Club RDA
Shelley Engineering	Manufactured engineering	40	32	London	SOLOMAN	Sector Skills Action Team Industrial Estate Network
Solutions Recruitment	Recruitment	20	Small (<50)	North East	Women into the Network (WIN)	Bridge Club Codeworks Business Clubs North East Service Network CIPD Chartered Institute of Marketing Institute of Directors
Tiddlywinks Day Nursery	Child care	8	25	South Yorkshire	Sheffield Childcare Community Network (SCCN)	Out of School Childcare Network
Toasty Heating	Local heating company	1 year	Micro (<10)	North East	Bridge Club	Young Farmers Club National Farmers Union Rural Affairs Forum Personal and Informal Networks
Unilever	Food Division	Over 25	Large (250+)	Multinational	Bridge Club	North West Innovation Forum Wide range of personal networks across divisions and with external organisations

Report Structure

1.19 In the remainder of the report:

- Chapter 2 outlines the type of networks and their use, and of management theory from which the primary research activities were derived;
- Chapter 3 describes the key findings regarding the extent and nature of networking activities and the factors that are influencing this involvement;
- Chapter 4 describes business approaches to skills and knowledge development and the way in which they use networks in this respect.
- Chapter 5 draws the main conclusions from the study and describes a number of options for taking forward the findings of this report.

1.20 The detailed findings of the Employer Telephone Survey are set out in Annex 1. Annex 2 contains the individual case studies and profiles of networks from which illustrations in the main report are drawn.

2 THEORY FOR NETWORKING

Introduction

- 2.1 In this Section, we discuss some of the emerging theories about the development of business networks and the way in which they can be used to support learning and skills development within businesses.

Networks

- 2.2 The importance of small and medium sized businesses to the UK's economic success is consistently stressed. Smaller businesses often benefit from their ability to be responsive, flexible and innovative, enabling them to keep pace with rapid change. However, owners and managers may not have the same internal support structures as managers in larger enterprises, which could lead to isolation. Also, firms may lack the scale to be credible in competing for large contracts or may lack the resources individually to deliver them. Collaboration between businesses can help to overcome these problems.
- 2.3 Businesses will work jointly if there are perceived to be potential business benefits from doing so. This can mean that two or more firms that would normally regard each other as competitors will collaborate to benefit from combined strengths that may cancel out individual weaknesses.
- 2.4 In *Creating Tomorrow's Advantages*⁴, Michael Porter discussed the fact that with increased collaboration between businesses, the scale of the individual businesses becomes less important than where businesses act independently. With a strong network, cluster or other grouping of organisations, individual businesses can be smaller than would otherwise be optimal.
- 2.5 For example, in the mid 1990s a group of maritime technology SMEs in North Tyneside formed the Argonautics network, which developed from the recognition that the skills and capabilities of the individual SMEs could be combined to enable them to secure business in competition with larger multi-disciplinary businesses worldwide. Their collaboration not only allowed them to benefit from shared marketing, research and development capacity but also to identify and share the costs of needs such as training.

⁴ Porter, Michael. 'Creating tomorrow's advantages' in Gibson, Rowan, *Rethinking the future*. London: Nicholas Brealey: 1999.

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- 2.6 Business networks can develop for many reasons. In today's language – which was not common when Argonautics developed – the 'cluster' developed from the recognition of mutual advantages from collaboration among firms in the same sector who were also closely co-located geographically. Much is done now to encourage and support the development of clusters (which evolved from a McKinsey consultant's notion of a node in an 'economic web'). Whether as part of a 'cluster' or not, networks develop as a result of increasing collaboration between individual businesses, through supply chain developments, from partnering between businesses with complementary specialisms to bid for work, or to facilitate the development of support infrastructures.
- 2.7 The term 'business network' can therefore be used to refer to everything from informal relationships that develop between the managers in a number of businesses through to formally established bodies that have a specific purpose of enabling or facilitating links between member businesses.

Defining networks

- 2.8 The wide variation in the characteristics of networks is complicated by the large number of names that are used, often interchangeably, to describe groups of businesses interacting with each other, including:
- Association;
 - Business club;
 - Cluster;
 - Network;
 - Consortium;
 - Group.
- 2.9 The term used by members of any grouping to describe their relationship will depend on their own sense of identity, purpose and continuity. Business people that are involved in 'networking' may not actually consider themselves part of a 'network' despite the interactions they engage in and the potential implications for their business. For example, in this project we were directed to extremely informal groups of local farmers in North Yorkshire who meet routinely in local pubs in their market town to exchange information, news and ideas. Certain groups meet – regularly, routinely, casually, but specifically at market time, in specific pubs and there is little movement between groups; however there is no notion of being involved in a 'club' or 'network' of any kind.

2.10 For the purposes of this study, we sought to draw together a secure evidence base from which to establish definitions for networks, and for learning and skills development, and to develop a suitable typology of networks. After this review we concluded that the most suitable starting point for definition of networks and typologies is based on the findings of the SBS Business Networks Report⁵.

2.11 In their literature review of business networks and inter-firm collaboration, Blundel and Smith defined business networks as “a complex pattern of formal and informal linkages between individuals, businesses and other organisations such as Government and voluntary agencies”. Such a description would encompass linkages such as trade associations, Chambers of Commerce and clusters facilitated by Regional Development Agencies. Blundel and Smith do not make reference in their definition to the purpose for which the linkages are made.

2.12 The SBS goes on to identify four different types of network:

- Industrial clusters – comprising spatial concentrations of firms in a single or closely related line of work – traditional examples include ‘the potteries’ in the Midlands and textile firms in the North West;
- Supply chain networks – consisting typically of producers of final products and the associated chain of suppliers. These are often represented as hierarchical or pyramid shaped networks, with the producer of the finished product at the top and tiers of suppliers underneath. Well defined examples are found in the aerospace and automotive industries, for example around the Nissan plant in Washington, Tyne and Wear;
- Innovation networks – considered a relatively new form of network comprising a loose-knit group of knowledge-intensive firms and other organisations (including universities and research specialists) that contribute to the development of new products and services. They are sometimes found in ‘dynamic’ spatial clusters and examples include ‘Motorsport Valley’ in Oxfordshire/Northamptonshire;
- Entrepreneurial networks – described as ‘ego-centric’ structures created out of the personal contacts of entrepreneurs, in which new and existing links are synthesised and ‘enacted’ in a variety of ways – to create new ventures (start ups) and to redirect current business activities into other areas (diversifications, investments, ‘serial’ and ‘portfolio’ entrepreneurship).

⁵ Blundel, Richard, and Smith, David. Business networks: SMEs and inter-firm collaboration; A review of the research literature with implications for policy. Small Business Service, 2001

2.13 Of these four types, the first three are most likely to have the characteristics of formal networks, with the fourth type most likely to tend to the informal. In undertaking the research, therefore, we sought to establish the type and range of networks that businesses were involved in and how those networks were used.

Why Network?

2.14 Management literature recognises both that 'networking' is a fundamental characteristic of human life and that there are characteristics of successful business performance that benefit from networking activity. For example, Charles Handy⁶ has identified the way in which individuals establish "other sorts of families" through their networks, professional associations and clubs.

2.15 According to Tom Cannon⁷, successful businesses rely on effective networks of relationships to provide the support structures to either achieve growth or respond to difficulties faced in their business activities. This reflects the recognition that if businesses become insular or isolated from the communities in which they operate this can limit their potential to succeed. Through the use of networks of relationships, businesses are able to gain access to tap into a wider field of expertise than would otherwise be available.

2.16 Management writers comment that the processes of problem solving, decision making and innovation all rely on gathering and sharing information, both inside the business and by exploring the world outside. Cook and Slack⁸ consider interaction with other individuals and organisations essential to the decision making process in business. They suggest that comparison with other people or organisations is critical in judging performance. In order for such comparisons to go beyond the superficial, there is a need for relationships to develop. The information or intelligence generated through the establishment of such relationships can in themselves assist both in developing a better understanding of problems and identifying potential alternative solutions.

2.17 It is important to recognise that the development of networks or relationships can provide access to information or knowledge that would not otherwise be readily available. Thomas Stewart⁹ highlighted the importance of contact and relationships between people to make explicit the tacit knowledge that exists within businesses, enabling it to be examined, improved or shared.

⁶ Handy, Charles B. *The hungry spirit: Beyond capitalism – a quest for purpose in the modern world*. London: Hutchinson, 1997.

⁷ Cannon, Tom. *Enterprise: Creation, development and growth*. Oxford: Butterworth Heinemann, 1991.

⁸ Cooke, Steve, and Slack, Nigel. *Making management decisions*. London: Prentice Hall, 1991.

⁹ Stewart, Thomas A. *Intellectual capital: The new wealth of organizations*. London: Nicholas Brealey, 1997.

2.18 A.L. Minkes¹⁰ draws from the work of Marianne Jelinek¹¹ on the importance of developing a wider perspective and accessing new sources in order to innovate. Jelinek stressed the significance of businesses having the means to identify alternative futures. In particular, there was a recognition that established management systems may not be suitable for identifying or pursuing initiatives that are outside the business as it currently stands. This therefore creates the need to draw on experience and knowledge that sits outside the individual business, which could be achieved through networking activity.

The Nature of Networking Relationships

2.19 Therefore, the relationships that can develop between businesses and business people provide an opportunity to share information and knowledge that can assist in problem solving, identifying business opportunities and other factors that can contribute to optimising business performance. We therefore need to consider the nature of the relationships that can support these outcomes.

2.20 Handy defines involvement in networks as participating in "communities of interest". The existence of mutual interest is critical in prompting the initial development of a relationship. However, for this relationship to be sustainable, the common interest must also be combined with commitment to engage and mutual trust.

2.21 Whilst it is possible to facilitate the development of such "communities" or networks, Stewart suggests that they will emerge as a result of common characteristics, indicating that "people find themselves drawn to one another by a force that's both social and professional; they collaborate directly, use one another as sounding boards, teach each other". However, one of the key features of such relationships is that they are dynamic and will evolve over time. People will participate and continue to participate in these relationships because they can learn from them and contribute to them.

Networking, Learning and Skills Development

2.22 Here, we reflect on the way in which learning and skills development can take place and the ways in which networks can contribute to this process.

¹⁰ Minkes, A.L. *The entrepreneurial manager*. Harmondsworth: Penguin, 1987.

¹¹ Jelinek, Mariann. *Institutionalising innovation*. New York: Praeger, 1979

The Learning Process

- 2.23 As identified by Kolb and Fry¹², learning can be viewed as a cyclical process, combining experience, reflection, conceptualisation and experimentation. In order for this cycle to operate, there is a need for appropriate support mechanisms and structures, providing the necessary information and inputs to support a change in knowledge or skills that can then support new activities or practice.
- 2.24 At one extreme, learning is incremental or adaptive, such as learning to do something a little better. At the other, learning may be radical, involving a fundamental shift in understanding and approach. Whatever the extent of learning that takes place, there will be a need for some motivation or stimulus to enter the learning cycle. For example, this could include particular circumstances faced by a business, or it could reflect the activities that need to be undertaken in order to achieve the goals that have been set for the business.
- 2.25 Most, if not all, businesses operate in a dynamic environment, although clearly some face more rapid and fundamental changes than others. However, it has been argued¹³ that learning is fundamental to enable businesses to respond successfully to the changes that they face.

Learning through using networks

- 2.26 As noted above, there is a need for appropriate mechanisms and structures for learning to take place. These mechanisms could include the availability of formal learning provision through educational institutions, training providers or other support organisations. However, it could also include a range of formal or informal mechanisms through business networks. Here we focus on the evidence from previous research and publications on the way in which networks can support learning and skills and development.
- 2.27 Where organisations are actively engaged in learning, it has been identified that they are particularly good at carrying out five broad activities¹⁴:
- Systematic problem solving;
 - Experimentation with new approaches;
 - Learning from their own experience;
 - Learning from the experience and practice of others; and
 - Transferring new knowledge quickly and efficiently throughout the organisation.

¹² Kolb, D. A. and Fry, R. 'Toward an applied theory of experiential learning' in C. Cooper (ed.) *Theories of group process*. London: John Wiley, 1975.

¹³ Stannack, Peter. *Managing people for the first time: Gaining commitment and improving performance*. London: Pitman, 1993.

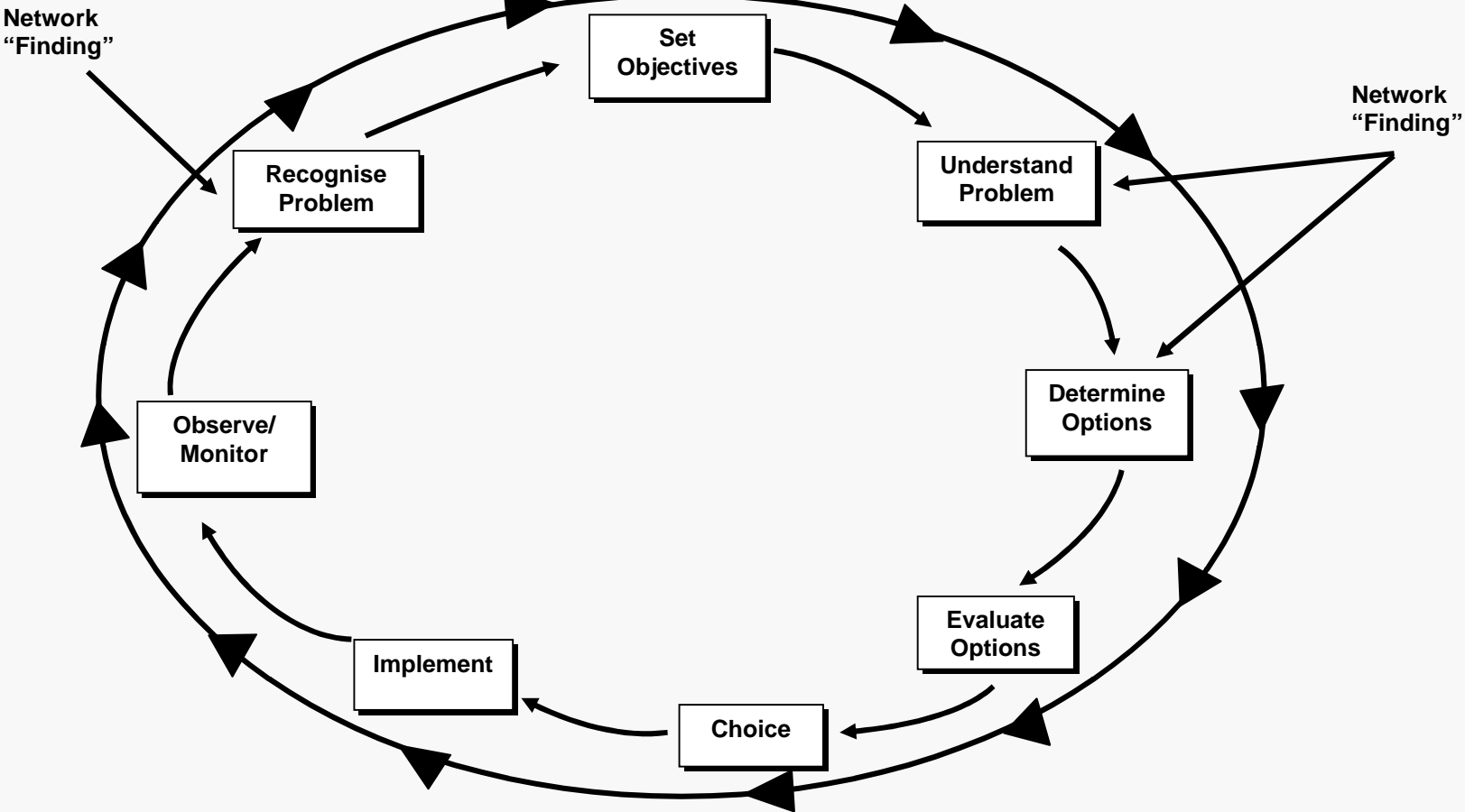
¹⁴ Garvin, David. *Building a learning organisation*, Harvard Business Review, July 1993

- 2.28 This indicates that strengths in learning from others are characteristic of learning organisations. Indeed, it has been suggested¹⁵ that the most successful businesses will be those that are best at drawing on the skills and attributes of others – what Tom Peters described as ‘creative swiping’ and Garvin calls ‘enthusiastic borrowing’.
- 2.29 The stimulus for learning may be seen as a problem faced by the business addressed through a cycle of distinct activities. **Figure 2.1** shows this cycle, modified to show the points at which active networking to draw on the experiences of others could feed into the process.
- 2.30 This indicates that networks may be used to:
- Recognise that the business is facing a problem (based on reflection on others’ practices and performance)
 - Develop a better understanding of the problem;
 - Identify potential options to respond to the problem.
- 2.31 Entrepreneurial managers are able to stimulate the best from the organisations and individuals they collaborate with. However, one of the key problems faced, even by those individuals who have particular strengths in networking, is knowing where to go in order to access the information or learning required¹⁶. Whilst it is relatively easy to draw on the experience of direct contacts, and through them to access their direct contacts, anything beyond this becomes far more difficult. Therefore, the extent to which an individual’s or an organisation’s networks are able to support appropriate learning will depend to a significant extent on the nature and extent of these networks.

¹⁵ Irwin, David. Planning to succeed in business. London: Pitman, 1995.

¹⁶ Krebs, Valdis E. Managing the connected organization. (<http://www.orgnet.com/MCO.html>, 2002)

Figure 2.1: Problem Solving Cycle: Network Dimension



2.32 As relationships develop between businesses and individual business people, the ability of the group of businesses to capitalise on the opportunities available to them jointly may rely on one or more partners learning about the others' products, services or business processes. This may potentially lead to an important change in practices within individual businesses – a clear demonstration that learning has taken place. , However this learning may not be recognised as such by the members of the network.

2.33 Where network activities exist, there is the potential for joint learning through cross-fertilization of ideas to become an on-going process, where in other networks it may be limited to one point in the network's life cycle. In addition to informal learning or transfer of information, where business networks are formally established, they provide an opportunity to secure learning and skills provision tailored to their specific requirements. Where business groupings are fully formalised entities such as Chambers of Commerce they have often developed into major providers of business training in their own right, for members and non-members.

3 NETWORKING ACTIVITY

“Using networks enables a person to do something they wouldn’t otherwise get done – it helps to find a fix”

Ian Noble, Open Innovation Champion, Unilever Foods R&D

Introduction

- 3.1 In this section, we set out the evidence from the survey and case studies relating to networking activity, under the following headings:
- Extent of Networking;
 - Motivation for Networking;
 - Who is involved in the Networks?
- 3.2 During the survey and case study interviews, the term ‘networking’ was defined as “the use of informal and formal links with people and businesses” that the participants either know or seek out.

The Extent of Networking

- 3.3 The survey has demonstrated that a significant proportion of businesses are active networkers. Over half (56%) of businesses in the survey reported that they have been involved in networking activity in the past three years. We described three broad types of network:
- Formal or informal organisation directly related to the line of business;
 - Formal or informal organisation that is more generally business related;
 - An organisation or club that is not business related, such as a sports or social club.
- 3.4 Where businesses are involved in networking, this is most likely to be directly linked to their line of business:
- Two fifths (40%) of business managers or others from their business have been involved in organisations directly related to their line of business
 - Just less than one third (29%) have been engaged in more general organisations
 - One tenth (12%) reported involvement in organisations that are not directly linked to their business.
 - Nearly two thirds (63%) of networking individuals or businesses were involved in only one of these types of network.

- One third of businesses (29%) were represented in two types of network, while just less than one tenth (8%) of networking businesses were involved in all three types of network.
- 3.5 It is also of note that smaller organisations were less likely to be involved in networking than larger organisations – 33% of businesses employing between 1 and 4 people were involved in networks, compared to 60% of businesses employing more than 250 people.
- 3.6 Most of the case study businesses are engaged in a number of different networks. Involvement in networks varies depending on their needs and what the networks are able to offer. For example:
- The founders of Fresh Element, a catering company, developed their initial business idea whilst at university, and used Newcastle University Enterprise Centre for further research. This led to an introduction to the Bridge Club, where they met two business people who are now both investor partners in the business. Attendance at Farmers' Markets across the region has provided the basis to develop a more informal network of 'peer' contacts for collaborative business opportunities. The company is also a member of Northumbria Larder, the RDA's food and drink cluster, which is seen to provide credibility and access to information;
 - Bedsearchers, a company providing an internet accommodation booking service, has been involved in networks as an integral part of its business development. This started with Darlington and District Business Club, with later involvement with GLEAM (a graduate start up programme offered through Durham University) and the Bridge Club. The managing director also clearly defines as essential to his business his 'own telephone network' that includes other contacts and people who have contacted him;
 - Eutechnyx, a digital media/games company, is actively involved in three networks. The Entrepreneurs Forum provides them with access to business knowledge and an opportunity to share good practice. They are also involved in two networks that are specific to their industry, Codeworks Connect and Game Horizons, which provide them with access to more specialist knowledge relating to their digital media activities.

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- 3.7 Professional networking organisations such as the Bridge Club¹⁷ invest substantially in offering two different kinds of networking opportunity to clients:
- ‘Access’ events for general networking, organised around an informal social event including a key speaker or theme.
 - Structured network events focused on a specific group of participants with the aim of developing much more in depth relationships and exchanges of information. This approach includes both networking facilitation and introduction of the discussion themes.
- 3.8 A key aspect of both these activities is that they are often sponsored by larger organisations, or actually commissioned by larger organisations wishing to broaden their network range.
- 3.9 However, such professional network facilitation (as opposed to event management) does not appear to be common. Therefore, in addition to programme or policy specific gaps there may be a need to develop local or regional facilitators (to help deliver awareness of and engagement in networks).
- 3.10 In total, only around 10% of businesses in the survey stated that they have never been involved in networking and some 20% had no involvement over the past three years. The main reasons put forward by these businesses were that it was not necessary for their business, that they did not have time for networking or that they perceived a lack of business benefits from the activity. One of the case study contributors put it this way: *“many businesses are just happy doing what they do – they don’t need to network really”*. The underlying issue behind this is the awareness in businesses of the potential value in networking in appropriate circumstances.

Motivations for Networking

“In the early stages it was the simple things like how to present yourself, seeing things in others that you do or don’t like for your own business – the graduation to being credible business people rather than scruffy students.”

Fresh Element

- 3.11 Given the evidence that has emerged from the survey regarding the number of businesses that are actively involved in networking and from the case studies indicating that some businesses are engaged in a wide range of different networks, it is important to understand the factors that have motivated this involvement in networking activity.

¹⁷ www.bridgeclubnorth.com

- 3.12 Contributors to the survey and the case studies both reflected the importance of acquiring information and skills through networking. A third of businesses (32%) in the survey have engaged in networking activity primarily to acquire new skills or knowledge, compared with just over 20% who stated that membership of networks was primarily for other reasons.
- 3.13 The survey showed that where businesses are involved in sector-specific networks, where the primary motivation for involvement was not to acquire either new skills or knowledge, the main reasons given for being involved were:
- Business credibility;
 - Generating business leads or referrals;
 - As a source of general information, guidance and support.
- 3.14 The prime reasons given for involvement in more general business networks (other than to acquire new knowledge and skills) were similar to these, but also for general networking.
- 3.15 Whilst these businesses are engaging in networking activities primarily for reasons other than acquiring new knowledge or skills, it must be recognised that this may be an important by-product of the activities undertaken.
- 3.16 Several of the case study contributors were clear that active participation in networks was more likely to be part of a growth strategy – “networking is really something that works for businesses that are changing, growing – a business tool. If you don’t have anything to achieve you won’t use it” (Jim Mann, Bedsearcher).

Solutions Recruitment provide recruitment services across eight sectors. They use their involvement in sector networks to keep up-to-date on new developments taking place in these industries. They also use these networks to identify training solutions in relation to sales and negotiation skills, and to raise the profile of the business, through, for example making presentations or sponsoring events. The opportunity for mentoring and peer support from other business people through networking is seen as valuable. Decisions on who from the business will attend a particular network will depend on what is on offer, what the business is seeking to achieve through involvement and how the timing of a network event fits with other commitments. There is also a cultural influence on the networks that the business becomes engaged with.

Hilary Farnworth identified three key reasons for her involvement in networking:

- 'social', helping to alleviate the isolation experienced as a sole trader;
- speed – the networks can provide quick and easy access to answers to problems by discussing them with others, especially through electronic networks rather than formal network meetings;
- support for personal development, by providing opportunities to learn.

The way in which the networks operate are a key influence on her willingness to join. This reflects the trade-off between the time required to be involved in networks and the benefits to be gained.

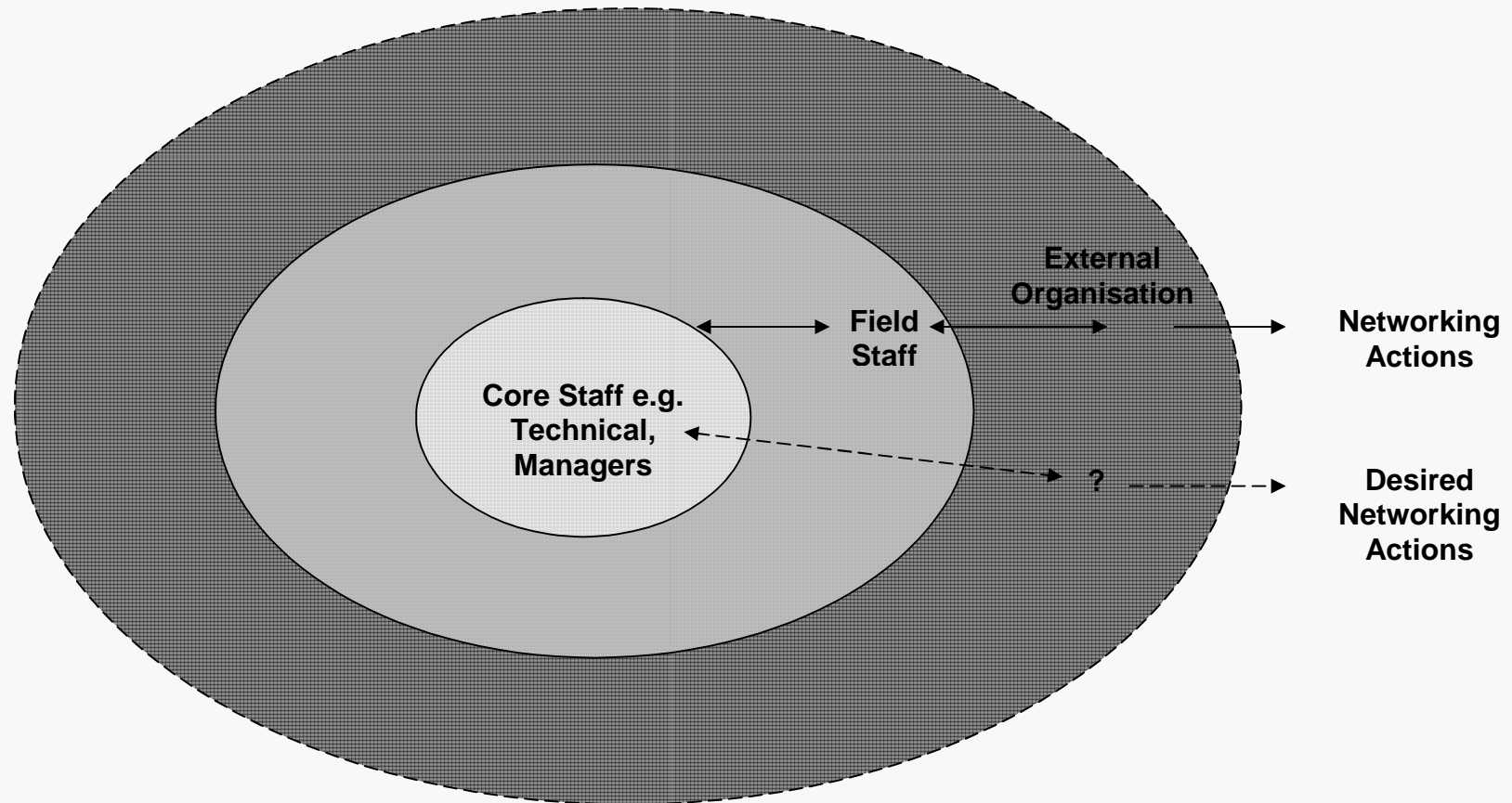
3.17 As noted earlier, the review of evidence on networking and innovation by AIM highlighted the capacity for networks to promote learning and the transfer of tacit knowledge¹⁸.

3.18 The survey indicated that smaller firms are less likely to network than larger ones, perhaps due to resource constraints. Based on his personal experiences in industry and academia, Ian Noble pointed out the need for larger, often multinational, organisations to break out of the tendency for networks to operate internally for most employees, who do not naturally have a lot of involvement with external organisations in their daily work.

¹⁸ Pittaway, Luke et al. Networking and innovation in the UK: A systematic review of the literature. London: AIM Research, 2004.

3.19 **Figure 3.1** shows that the natural tendency within a large organisation is for externally-facing field staff to engage with external organisations, whilst core staff and technical managers will often have a tendency towards only indirect contact with external organisations through these field staff. What is desirable is for these core staff and managers to achieve more external engagement, providing greater potential to draw in new or different ideas or information.

Figure 3.1: Staff Networking in Large Organisations



3.20 The motivations for networking described by several of the case study contributors reflected the potential for networks to be used to support innovation, often linked to growing the business through refining processes and products. Gene Slowinski¹⁹, developed a model of innovation which is shown in **Figure 3.2**. This identified four distinct phases in the innovation process:

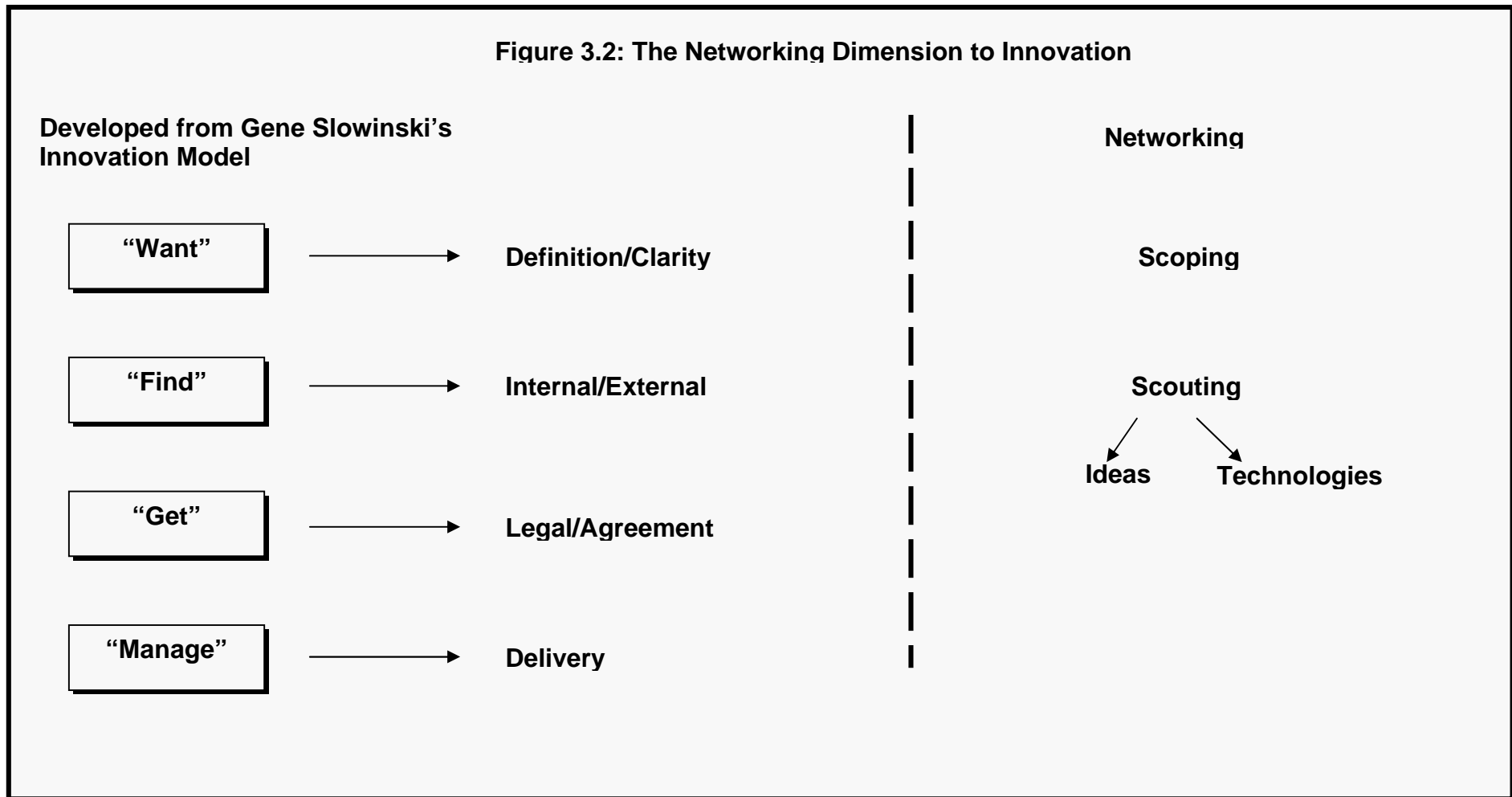
- **Want** – the identification of needs and goals;
- **Find** – seeking out options or ways of achieving those goals;
- **Get** – putting in place what is required to achieve the goals;
- **Manage** – delivering the activity.

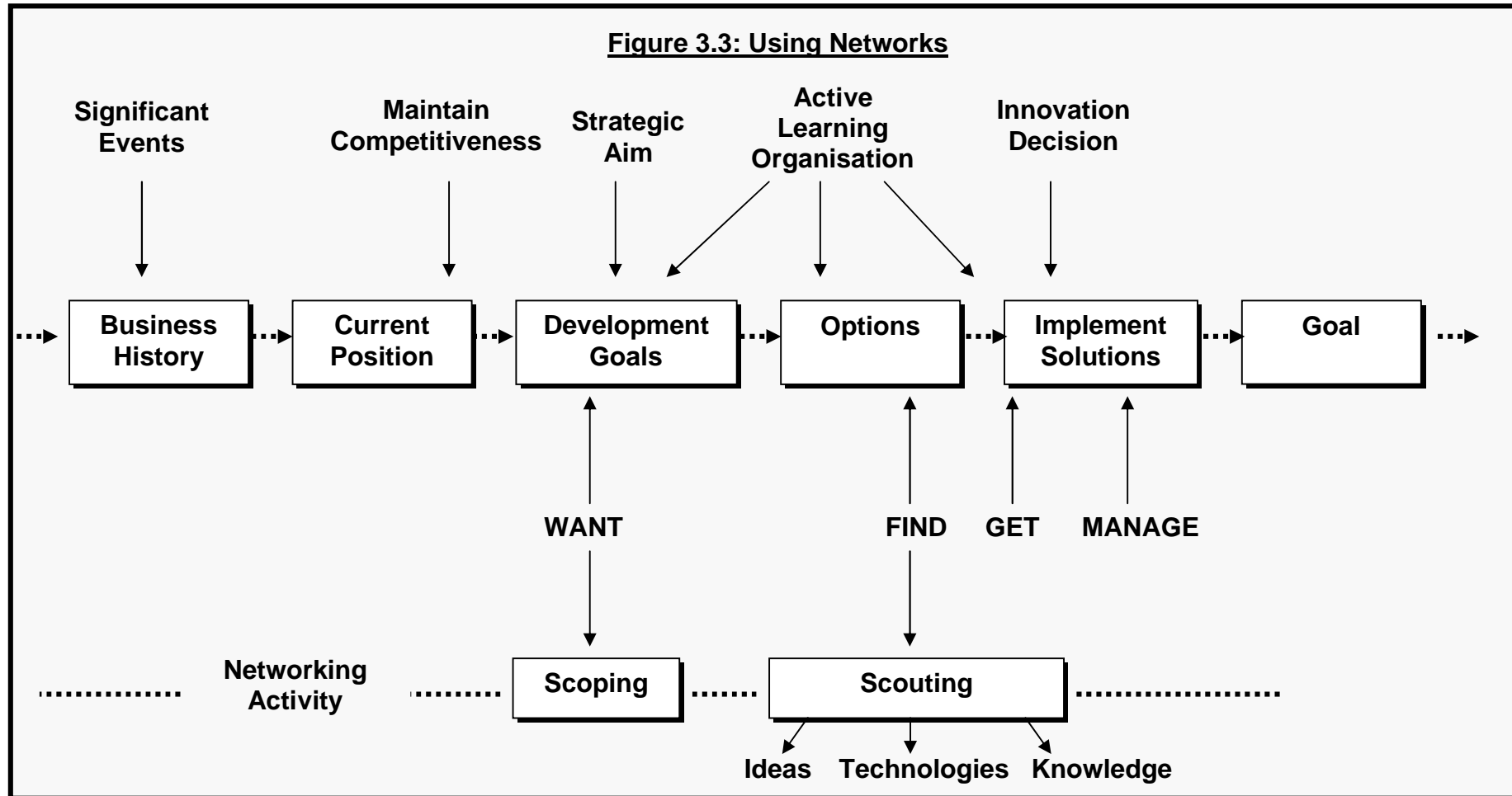
3.21 In Ian Noble's view, it is critical to achieve an appropriate balance across these four phases. Networks have been identified as playing a part in two phases of this process in particular. Involvement in networks may help at the 'want' stage, helping the organisation to understand and define its aspirations. However, they play a more significant role during the 'find' phase, providing an opportunity to scout and test ideas, exploring potential sources of knowledge and technology.

3.22 If we apply the innovation model to a business cycle we can see why networking is valuable and given that problems, issues and opportunities occur on an ongoing basis and have different life cycles, we can observe from this why businesses network continuously. **Figure 3.3** shows these linkages.

¹⁹ Slowinski, Gene. The strongest link: Forging a profitable and enduring corporate alliance. New York: AMACOM, 2003.

Figure 3.2: The Networking Dimension to Innovation





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- 3.23 This analysis is consistent with other contributors' views on why and how networks are valuable to them.

Leighton Group's involvement in digital media design and publishing means that innovation is an integral part of the company's ethos. It needs to be at the forefront of technology development, in order to be able to tailor its services to clients. As such, networking and using networks is a vital component of developing and expanding the group. Involvement in networking enables the company to learn about new developments that could be significant to the business and to find ways to address technical issues relating to new developments. This could be through peer learning with others in the networks or through masterclasses on particular issues.

- 3.24 Whilst all were actively engaged in networking, some of the case study businesses highlighted concerns regarding networking that were similar to the reasons given by non-networkers for their failure to become involved. In particular, there is recognition that networking activity can be time consuming and needs to be appropriately focused in order to maximise the benefits gained and avoid disruption to day-to-day business activities.
- 3.25 The factors that motivate networking activity are a significant determinant of the networks in which businesses engage. For example, a number of the case studies were using networks as a mechanism to improve their knowledge of the industries in which they operate, leading to their involvement in specific sectoral networks. Others were looking to draw on more general experience, which had led to their involvement in local groups with representation of a range of industries.
- 3.26 In addition to the nature of the networks and their member businesses, the ethos and culture of networks were significant factors influencing decisions about involvement. One of the case study businesses is of the view that networks membership should be open to all, and stated that they had specifically decided not to join a particular network because it was selective in its membership. Another of the case study businesses had chosen to join this network partly due to its approach to selecting members which ensures that there is a common purpose for involvement. This highlights the value of diversity in the networks available and the ways in which they operate.
- 3.27 Whether to achieve the end result by using networks for social capital ('who you know') or human capital ('what you know'), businesses seek out the networks that they feel best offer the solutions they want, in the form they want it. The majority of networks used are either informal by their nature or if they have formal structures businesses will use the relationships they establish through them both as a direct means of gathering information and to support the continuation or expansion of their 'own' networks.

Who is involved in the networks?

- 3.28 In our case study consultations, we sought to understand who within the business is involved in networking activities and how the results of networking are then communicated across the organisation in order to embed the benefits. Both of these aspects depend to a significant extent on the nature and scale of the organisations involved.
- 3.29 In the smallest of the case study organisations, the participants in the networks were the owner-managers, partners or equivalents. This is a reflection of their overall responsibility for all aspects of business management. The size of these organisations means that it is possible for the results of networking to be embedded and communicated appropriately without the need for more formalised mechanisms.
- 3.30 In the larger organisations, network participation tended to be divided between members of the senior management teams and other more junior staff, as appropriate. Decisions about who would be involved in particular networks or events would depend on the nature of the network itself and the subject matter of an event.

In Leighton Group, most of the networking activity is carried out by the senior management. The managing director will usually attend events at the Entrepreneurs Forum, as this is generally aimed at and attended by senior managers.

Leighton use networks to access coaching in relation to technical skills. In these instances, more junior technical staff will attend the events.

The members of the senior management will consider the most appropriate ways to implement new methods or good practice identified through network involvement.

Similarly, in Solutions Recruitment, networking activity tends to be undertaken by the senior staff, although other staff do attend at times. This is seen as a benefit in that it helps to maintain the awareness and interest of staff. Where they are involved in network activities, they will always have a clear purpose for attending the event such as identifying training solutions relating to sales and negotiation skills, or to raise the profile of the company.

The knowledge gained through participation in networks will be disseminated across the company as appropriate. Where networking has been used to source training for a specific activity, the effectiveness of the approach is reviewed.

3.31 Across a number of the case studies, knowledge gained through networking has been embedded within the company through formal training, which has therefore contributed to changes in company activities, reflecting that networking is one of a number of different influences on the way in which the businesses operate. For example, as a result of their involvement in networking, Eutechnyx became aware of a potential issue in relation to Intellectual Property Rights. As a result of this, external training has been taken up, helping them to understand the scale of the issue and its implications for the business. Musa Fine Art have used their networking activity as a route into using the universities in the region for more formal training. Solutions Recruitment specifically use their involvement in networks as a means of improving their industry knowledge and identifying training solutions in support of the training plan.

4 SKILLS AND KNOWLEDGE DEVELOPMENT

Introduction

- 4.1 In this section, we set out our findings relating to skills and knowledge development by businesses, under the following headings:
- Business Goals and Motivation to Learn;
 - Sources of Skills and Knowledge;
 - Skills and Knowledge Development Through Networking;
 - Public Funded Support;
 - Effectiveness of Networking for Learning and Skills Development;
 - Business Benefits from Networking;
 - Opportunities for Government Influence.

Business Goals and motivation to learn

- 4.2 The business survey explored the nature of the business goals that respondents had and what was likely to motivate the organisation to learn.
- 4.3 While around 20% of businesses stated that their main aim was to maintain their current situation, which may in itself require development of new skills or bringing in new knowledge, some 60% had identified **positive growth objectives** for the business over the following three years. The key strategy adopted by nearly three quarters of businesses to achieve business goals was to maximise sales of existing products or services in current markets (71%). Over half aimed to maximise margins on existing products or services (55%). A large proportion sought to expand through investment in technology (53%) with a similar proportion aiming to develop new products or services (47%).
- 4.4 Businesses also outlined a number of 'skills related' strategies to achieve business objectives. Almost half of businesses were looking to invest in training existing staff (47%), actively develop management skills (44%), expand into new markets (42%), invest in product/service innovation (40%) and/or recruit staff with new skills (37%).

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- 4.5 Almost three quarters of businesses reported that they expected to come across **barriers** that may affect their ability to meet their business goals, with competition from other organisations cited as the most common potential barrier (mentioned by 18%). Other issues included the effect of Government legislation, ensuring there was sufficient cash flow in the business, achieving sufficient sales and being able to recruit staff.
- 4.6 Around half of the businesses indicated that in the last three years they had experienced major **changes or events** that had affected the organisation, with changes in regulation or legislation the most common reason. Of these businesses, just under one third had to bring in new skills or knowledge to address the issues they faced.
- 4.7 The case study businesses had faced a range of significant changes or events that had impacted on their operations. The case studies included a number of relatively recently established businesses, for which the most significant event to date has been their initial start-up. For example:
- The partners in Musa Fine Art had little previous formal business and management experience. During their first year of trading, they have used their involvement in networks to enable them to build their skills and industry knowledge;
 - Fresh Element was established through the Enterprise Centre at Newcastle University. This provided them with introductions to the Bridge Club and other events. The involvement with the Bridge Club itself has been significant in providing the founders with contacts who have subsequently become directors of the company, providing both investment and far greater business knowledge than was previously available to them;
 - Toasty Heating has developed as a result of a number of strands of activity coming together. Ian Brown, the Managing Director of Toasty Heating had previously developed a small business park as part of the diversification of the family arable farm, in response to the limited prospects for the farm going forward. A further part of the diversification involved the land being given over to woodland, some of this being for heating fuel. This led to the creation of a rural district heating system, serving the business park. Increasing upward pressure on oil and gas prices, together with the increasing need for sustainable alternatives to fossil fuels, have provided the opportunity to develop Toasty Heating as a regional heating services organisation.
- 4.8 Periods of rapid growth have also been identified as significant by case study businesses. For example, as a result of rapid growth, Bedsearcher have faced a need to establish cashflow and management systems to enable successful operation. A mentor introduced through GLEAM has assisted with setting these up.
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- 4.9 It must be recognised that the significant events faced by businesses are not necessarily one-off occurrences. For example, both Eutechnyx and Leighton Group operate in industries that are subject to rapid and on-going technological change. This requires constant updating of equipment and skills if the businesses are to remain competitive.
- 4.10 Businesses in the survey identified a wide range of new or improved skills that were required to respond to these events. The events were most likely to have led to businesses needing to improve their IT skills, skills to use newly developed systems, machinery or equipment, improved management skills or improvements in technical skills. A fuller analysis of these responses is given in Annex 1.
- 4.11 Alongside the need to improve skills to respond to the events faced, the businesses surveyed identified new areas of knowledge requirements. In particular, these included an improved knowledge of legislation or regulation, better understanding of health and safety requirements and knowledge regarding staff recruitment, legal issues and improved industry-specific knowledge.
- 4.12 The survey indicated that the larger the business in terms of number of employees, the more likely it was to bring in new skills or knowledge to address the change. However, it may be merely that this reflects a better understanding among larger firms of the skills or knowledge implications of events, rather than differing needs.
- 4.13 Half of all the businesses had a company business plan. 75% of those employing five or more staff had a business plan compared to only 37% of those employing between one and four people.
- 4.14 Of those businesses with five or more employees, half reported having a company training plan and three quarters had a staff training budget. Around three quarters (79%) of these businesses indicated that there were close links between their business plan and training plan.
- 4.15 This is consistent with the reported strategies to achieve business objectives – just under half of businesses stated that they would invest in training existing staff and actively develop management skills. Over one third aimed to recruit staff with new skills to help achieve objectives.

Sources of Skills and Knowledge

- 4.16 The survey has provided evidence on the main sources or mechanisms used by businesses to meet their needs for new skills or to acquire new knowledge, other than from formal training or education providers. Where possible, we make the distinction between skills and knowledge, although it must be recognised that the distinction is not always absolute.
- 4.17 Other than the formal or informal networks they are engaged in, businesses use a range of different mechanisms. In particular, half of businesses use their suppliers as sources of new knowledge or to acquire new skills. Just under half draw on the experiences of their customers, and a similar number use general social contacts. Other sources of knowledge and skills include sector organisations, business and personal membership organisations. The significance of these responses is that they reflect other forms of networking and relationships that may not actually be considered in such terms by the businesses concerned.
- 4.18 The University of Plymouth Business School sought to identify how businesses respond when faced with a problem²⁰. They found that the natural response of business owner-managers is to draw upon contacts within their local business community, rather than turning to formal business support services. The nature of these networks of contacts in the business community will vary by geography and business sector. However, the view from owner-managers was that these informal networks provide a superior source of help as they have greater in-depth knowledge of solving specific problems than is available through the formal business support agencies.
- 4.19 In the survey, we found there to be differences between those businesses that had experienced a significant event leading to a need for new skills or knowledge and those where no such event had taken place. In the latter case, businesses were less likely to turn to their general or social contacts to address their skills needs, but are more likely to turn to others in the supply chain.
- 4.20 This raises a question regarding the factors that influence the ways in which businesses make use of the networks within which they operate. It may be that significant events require an immediate response that can be achieved more effectively through personal contacts than through other mechanisms that may be less immediate.

²⁰ Using learning networks to embed new learning into UK small firms. Plymouth: University of Plymouth Business School, 1999.

Skills and Knowledge Development Through Networking

4.21 The survey identified a range of different skills and knowledge that businesses acquire through their networking activities. Just less than half of the businesses that indicated they use networks in this way stated that sales and marketing skills are acquired. Other skills identified included IT skills, mentioned by just over one third of networking businesses, management, personnel, finance and production.

**Table 4.1:
Types of Skills and Knowledge brought into the business through Networking**

Skills	%	Knowledge	%
Sales & Marketing	48	Legislation or regulation	53
IT	35	Finding out about competitors	47
Management	32	Understanding the local business environment	42
Personnel	26		
Finance	26		
Production	23		

Base: n=1,213

Skills

4.22 The survey identified a range of skills that businesses acquire through their involvement in networking. These networking businesses make extensive use of personal contacts and relationships with suppliers or customers to provide access to new skills:

- Where sales and marketing skills are needed, 15% of businesses will make use of suppliers in meeting these needs. Personal contacts would be used by 13% of businesses in this situation;
- 18% of businesses seeking new IT skills would use suppliers as a source, whilst 15% would make use of their personal contacts;
- 10% of businesses needing to improve their management skills would use their personal contacts in this situation;
- Where production skills needs are identified, a quarter of businesses would use their suppliers to address these needs. Personal contacts would be used by 12%.

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- 4.23 The case study businesses have provided evidence of a broad range of skills that they have gained or improved through their involvement in networking. The majority of the skills described by the case studies as having been acquired through networking can be seen as cross-cutting, including:
- The development of coaching and presentation skills. Leighton Group described how their involvement in making presentations and coaching others in their networking activities helps to strengthen these skills.
 - Improved mentoring and guidance skills, reported by the partners in Musa Fine Art;
 - General management skills and more effective sales skills in Fresh Element, through involvement in the Bridge Club and more informally through the farmers' markets.
- 4.24 Tiddlywinks, which is a nursery, is a member of Sheffield Community Childcare Network (SCCN) and makes frequent use of the development workers employed by the network. The types of learning are mainly business development oriented rather than about the specifics of childcare. The help with business planning and help to source funding streams has resulted directly in capital investment and new facilities. Tiddlywinks is clear that this would not have happened without the support of SCCN.
- 4.25 A number of the case studies have used networks to provide a response to skills gaps they have faced. As noted earlier, through their involvement in GLEAM, Bedsearcher were introduced to a mentor who assisted them in developing more sophisticated cash-flow and management systems, which were critical for the rapidly growing business. The Bridge Club provided contacts that enabled Bedsearcher to integrate its accounts and booking systems, which they did not have the skills to do internally.
- 4.26 Through their involvement in networks, Eutechnyx have identified a need to develop better understanding of intellectual property rights and their exploitation. The realisation of the potential significance of this issue to the business gained through their network contacts has led them to take on external training in this area.
- 4.27 Some of the newer case study businesses have been able to strengthen their management teams through involvement in networks. For example, Musa Fine Art has formed its board of directors through contacts they have made at the networks in which they are active. This has strengthened the experience base within the organisation, providing a 'first port of call' before wider contacts within networks are used where a problem is faced. Similarly, Fresh Element have been able to introduce two new directors to the business through their network involvement, one of whom is a successful chef who is now working with the business. This has helped increase the skills base and build the credibility of the business.
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- 4.28 Chromalox UK have recruited two skilled members of staff through their involvement in the Network, SOLOMAN, initially on casual contracts and now permanently employed. They regard the ability to secure good quality staff through involvement in the network as one of the key benefits of their involvement.
- 4.29 One of the intangible attributes (rather than a skill) that can be developed through networking is confidence. For example, the partners in Baxter Promotions have found that involvement in the Entrepreneurs Forum and Business Network International has helped them to build further confidence to drive their business forward by learning from the experiences of others.
- 4.30 It is important to recognise that using networks effectively is a skill in itself. For example, the **Bridge Club** has produced a set of tips to help those involved to get the best from networking, which is supported by interacting with those who are more experienced. Some networks, including the Bridge Club, recognise the benefit of having high quality facilitators who do not have a direct interest in individual businesses, but who are skilled at engaging people and making introductions or connections between people/businesses who may not otherwise meet. This was compared by one business to the notion of the professional dinner party hostess.
- 4.31 Support extends beyond the actual networking event and is seen as part of the process of helping and encouraging others to learn how to help themselves, rather than leading to major discrete 'learning episodes'. For example, Ian Brown of Toasty Heating, who has networked extensively as an entrepreneur, described examples of coaching other network colleagues to learn how to get the most advantageous finance terms when negotiating with banks.
- 4.32 A good quality network can provide a range of roles to its members that can contribute to the skills they develop. This can include either structured or informal events; prepared, facilitated introductions for members; active animation of discussions and onward referral and brokerage. These can lead both to the informal acquisition of skills described above, but also into more formalised training and development.

Sourcing Training Provision through Networks

- 4.33 In addition to building skills through involvement in networking, case study businesses have used the networks in which they are engaged to source training support. For example, Solutions Recruitment use the networks they are involved in to identify good local training providers. Discussions of other network members' experiences of using providers have been valuable in providing confidence in their ability to meet the company's needs in sales, negotiation skills and IT, as have taster training sessions that were recently delivered by the local Business Link. Both these aspects have been seen to help in ensuring that the training the company then takes forward provides good value for money.
- 4.34 SOLOMAN, the network of manufacturers, is itself a training provider and also offers a brokerage mechanism for its members to access training from other suppliers. Chromalox UK have used SOLOMAN for courses on sexual harassment and time management and for training and mentoring regarding redundancy, and were considering possible appraisal training for managers at the time of this study. Shelley Engineering, also a member of SOLOMAN, highlight that the members of the network can shape what is provided, reflecting their common needs.
- 4.35 Participation in training or support programmes can also be an important means of developing new contacts or networks. Ian Brown of Toasty Heating completed a Masters in Entrepreneurship. In addition to the formal learning through the course, he saw this as a valuable opportunity to develop links and relationships with other entrepreneurs and business people.

Knowledge Development

- 4.36 Networks are also used as a source of new knowledge or information that is of value in supporting business activities. Just over half of businesses in the survey use their involvement in networks to find out about the potential impact of new legislation or regulations. Networks would be used by almost one third of businesses to find out about their competitors whilst similar numbers use their involvement in networks to help in understanding their business environment.
- 4.37 When we look at the nature of the networks or relationships that businesses are using to acquire new knowledge to help them understand their business environment or find out about their competitors, it is clear that businesses in the supply chain are seen as important:
- One fifth of businesses would use contacts with clients or customers to help them understand their local business environment. One tenth of businesses would use their contacts with other local companies to build this knowledge;

- When trying to find out about their competitors, just over a quarter of businesses would use their contacts with clients or customers for this purpose. Suppliers or sales representatives were also mentioned by 14% of businesses;
- Relatively few businesses identified specific sources of information regarding new legislation or regulations. Those sources that were identified included the Federation of Small Businesses, the local authority and the Chamber of Commerce.

4.38 The use of networks to gain new knowledge was also reflected by the case study participants. In particular, a number of the managers consulted highlighted the value of networks in helping them to gain business knowledge. Fresh Element find the involvement in networks to be valuable in finding out about trends and developments that might impact on their business.

4.39 Ian Brown of Toasty Heating identifies a number of aspects of learning that come about as a result of the networks in which he is involved. He does not consider that networking activities have tended to lead to involvement in 'formal' learning, rather it has enabled him to learn about developments in markets and understanding key trends in business fields in which he is active.

4.40 Sharing good practice is also a potentially valuable aspect of networking activity. Jim Mann of Bedsearcher sees his involvement in a range of networks providing a good mechanism to find out what does and does not work:

"You see someone else and realise they're doing it wrong and that you are too, so you change. You see good practice and plug it into your business".

4.41 Through an informal discussion with a commercial lawyer at Darlington Business Club, Bedsearcher were able to avoid a potential contractual problem. Jim Mann commented "the lesson was about contractual relationships, partnerships and so-on that I wouldn't have known about without access to someone in the network". This highlights the fact that networking activity can provide immediate information or solutions that may prevent costly problems but can also save considerable time in searching for alternative sources of knowledge.

Methods of Skills and Knowledge Acquisition

- 4.42 The way in which people acquire knowledge and skills within networks is also significant. Across the majority of the case studies, the key way in which people are learning is through mentoring and support from their peers. For example, Musa Fine Art specifically sought out the Entrepreneurs Forum as it was known to provide an environment in which this would take place.
- 4.43 These elements of learning therefore rely heavily on the personal relationships that can be established within networks, rather than formal inputs from the networks themselves. However, the formal presentations are also found to be beneficial. In particular, Baxter Promotions found that presentations within the networks provide inspirational learning from other experienced business people who have 'done it'.
- 4.44 The survey has shown the importance of informal methods of acquiring skills through networking. Across all the types of skills identified in the survey, between one third and half of businesses would make use of informal discussions or meetings in order to gain new skills. Seminars or events were also identified as important methods for acquiring production and management skills, just over one tenth of businesses identifying both of these as useful methods.
- 4.45 Informal conversations were by far the most important method of acquiring a better understanding of the business environment (53% of businesses mentioned this) and finding out about competitors (59%).
- 4.46 For these informal methods of skills and knowledge acquisition to be beneficial, businesses need to be engaged in appropriate relationships with other business people. This could be either through formal membership of networks, or through less formal 'networking'.

Informal Networking

- 4.47 In our discussion of the skills and knowledge gained by the case study businesses through networking, many of the examples given were the result of engagement in organised networks, such as the Bridge Club, SOLOMAN and the Entrepreneurs Forum. However, it must be recognised that much of the learning and skills development that has taken place is the result of the relationships that develop through involvement in those networks, rather than necessarily as a result of the content of formal networking events.
- 4.48 It was clear from a number of the case study businesses that more informal networking activity was becoming increasingly important and valuable to them. This is perhaps a reflection of the networking skills that people can develop through their involvement in formal networks that can then be used in building and sustaining a wide and fluid base of contacts. As Margaret Clare of Solutions Recruitment commented:

“The more informal networks are becoming more frequent and useful – ways of doing business are changing”

- 4.49 As someone who could be described as a ‘portfolio’ entrepreneur, running several businesses at the same time, Jim Mann of Bedsearcher is clear on the need to have access to informal networks:

“Formal networking structures only take you to a certain level. Beyond that, people don’t use formal networks – you get to the point where you pick up the phone and contact direct”.

- 4.50 One of the key advantages to being engaged in informal networks is that they provide this opportunity for immediate contact when a need arises, rather than requiring the context of a formal network meeting or event to discuss issues.

- 4.51 Our review of the background literature on networking in Section 2 included a comment on the interactive nature of networking that participants must expect to contribute as well as to gain. This view was reflected by the case study participants, many of whom were actively involved in making presentations and providing support as well as learning themselves.

Ian Brown of Toasty Heating’s view is that one of the critical aspects of networking is that it must be a two-way exchange. If people become involved in formal or informal networks purely because of what they can get out of it, they risk others disengaging from the relationship. Ian sees networking as an account that must be built up. There will be an inevitable ebb and flow over time. Throughout this process, trust is regarded as critical.

- 4.52 This view was supported by Eutechnyx:

The main motivation is to meet others in similar situations to discuss problems and develop ideas and solutions...The reciprocal nature of networks means that members need to be proactive and think about what they need or would like from network involvement. This causes the company management to reflect on their own practices - a learning experience in itself – and reciprocate by giving talks and presentations. Proactivity comes from both sides.

4.53 Many of the contributors to case studies were involved with multiple networks simultaneously, while others described how they had moved from some networks into others as their business and needs had changed. This was often linked to changing learning goals. As Leighton Group commented, “involvement in one or two networks can lead on to involvement in others and subsequently the type of learning can evolve as the company grows”.

Publicly Funded Support

4.54 In addition to involvement in networks as a means of addressing their needs for new skills or knowledge, a number of the case study businesses were also making use of Business Links, RDA supported activity and other publicly funded provision. Baxter Promotions had used Business Link support in relation to the manufacture of their products and had also received general start-up support. They see the role of agencies such as Business Link as providing support for start-up businesses. The skills and knowledge they gain through their involvement in network appears to be ‘softer’ than this support.

4.55 Involvement in networks can enable businesses to make more effective use of the support available through Business Links, RDAs, SSCs the LSC or others. SOLOMAN is seen as well linked to Business Link and to the Sector Skills Councils (SSCS), enabling its members to be well informed of what is available.

4.56 The partners in Musa Fine Art have found that their involvement in networks since start-up has provided them with a better understanding of the way in which they can make use of formal support. They are now using Business Link support to improve their IT capability, to develop a website and improve their administration and their network activities have been useful as a route into the universities for more formal learning. The business is currently seeking support from the RDA to convert a disused building to provide exhibition space, with the anticipation that contacts developed through networking will be used to assist in this development.

4.57 The RDAs are currently highly active in supporting the key clusters within their regions. These reflect regional concentrations of specific industries or sectors. However, the existence of a concentration of businesses does not necessarily mean that there are strong links between the individual businesses concerned. For example, Fresh Element is a member of the Northumbria Larder food and drink cluster. They find that this provides them with access to useful information and can assist in building the credibility of the business. However, little interaction between members has been facilitated to date and so this has not enabled the opportunities to build business or learning relationships that have come about through the other networks in which they are engaged.

- 4.58 As we have seen, many of the respondents to the survey and the majority of the case study businesses use their involvement in networks as a source of business information and knowledge. This is an area in which Business Links, RDAs, Chambers of Commerce and other agencies play a very active role. One of the benefits found through using networks of contacts rather than approaching formal support providers is the potential immediacy of response. With support providers, much can depend on finding the right individual. As Hilary Farnworth commented, “if you ask somebody a question at these agencies, it is not easily disseminated and fed back to you”. It is not always clear who the first point of contact within an agency should be and signposting can sometimes be poor.
- 4.59 It appears that some of the case study businesses are using the networks they are engaged in and the contacts they develop through these routes as an alternative to seeking formal provision from Business Links, the Learning and Skills Council, RDAs or other sources. This is demonstrated by Bedsearcher’s use of network contacts in developing its cash-flow management and in integrating its accounts and booking systems. In some ways, the networks are providing an informal brokerage system, offering recommendations and onward referral to resolve issues. As Jim Mann of Bedsearcher commented: “There are no fob-offs. The introductions come from someone you know and respect. They’re credible and people have already done the vetting for you”
- 4.60 There is the potential for close links to be developed between business networks and other learning and business support providers. In some cases, such as SOLOMAN, the networks themselves offer both formal provision and links to other providers. Elsewhere, however, the level of integration between networks and other providers may not be as close as it could be. For example, there is the potential for networks to form part of the brokerage solution. It is not clear that this is happening as fully as possible. For example, Ian Brown of Toasty Heating has been involved in BizFizz, which provides free coaching and one-to-one support to entrepreneurs through a panel or network of people with a range of expertise and local knowledge. This has been funded through the New Economics Foundation, Civic Trust and the Phoenix Fund. However, it has not been possible to integrate this easily within the brokerage system in the area. As brokerage approaches are further developed, it will be important to consider how less formal, network-based approaches could be incorporated alongside more traditional consultancy or training solutions in meeting the needs of SMEs.

Effectiveness of Networking for Learning and Skills Development

- 4.61 Three quarters of the business managers interviewed in the survey were of the view that their personal links are very effective, or at least quite effective, in meeting their skills and knowledge needs. As we have seen from the case studies, in larger businesses, a number of business managers and others are engaged in networking. It is therefore important to consider views on the effectiveness of networking across these larger businesses as a whole. The survey found no difference between managers' views of the effectiveness of networking across businesses as a whole and the business managers' own networking activity.
- 4.62 Significantly, the survey found that where businesses did not report benefits resulting from their networking activity, this was attributed to them "not networking well", implying a weakness of approach rather than a weakness of networking per se.
- 4.63 All the case study businesses considered that their was continued benefit from networking.

Business Benefits from Networking

- 4.64 The survey sought to establish the extent to which businesses considered their use of networks to have had an effect on business performance. The vast majority of businesses (94%) responding to the survey indicated that they have gained benefits as a result of networking for learning and skills. In considering the benefits identified, it is important to recognise that networking will be most likely to be only one of a number of factors that have contributed to them.
- 4.65 Half of businesses in the survey indicated that networking had led to an increase in their competitiveness in general. The survey also identified a number of benefits that can be categorised as product-related, including:
- increased quality of goods or services (54% of businesses);
 - increased range of goods or services (46%);
 - increased market or market share (36%).
- 4.66 Business performance-related benefits identified in the survey included:
- more efficient working practices (58%);
 - increased profitability (49%);
 - increased turnover (47%);
 - reduced costs (38%).

- 4.67 A range of staff-related benefits from networking for learning and skills was also identified. Just over half of the businesses in the survey reported improved staff morale as a result of networking. Other benefits included:
- improved internal communication (48%);
 - workforce more willing to take part in training (44%);
 - changed management attitude towards staff training (36%);
 - shared training costs (25%).
- 4.68 Other business benefits from networking identified within the survey included contacts to find sources of information (63%), reduction in the search time to solve a problem (54%), a shorter learning curve (43%) and the business having met or implemented regulations or standards (41%).
- 4.69 Whilst it is possible to identify that networking for learning and skills has contributed to a diverse range of business benefits, the case studies have shown the difficulties of identifying the specific impacts of these activities. For example, Shelley Engineering indicated that whilst they could identify a number of benefits from their network activities, it is very difficult to isolate its impact on business performance and profitability and learning.
- 4.70 Involvement in network activities provides inputs that can contribute to the way in which businesses may develop. There may be lags before these lead to changes in activity. The Leighton Group find that their working practices are constantly being challenged and discussed through their networking activities. This causes the senior management to reflect on their own practices and evaluate what they are doing. As a result of a presentation at a network event, they learnt that by streamlining their client base, they could be more efficient and productive. Implementing this approach has been seen to contribute to both improved efficiency and profitability.
- 4.71 Eutechnyx have been involved in sharing problems and identifying solutions through their network activity. The structure of the business has been strengthened as a result of network activity with the introduction of a new level of management. The results of the solutions identified through networking are regarded as having contributed to increasing turnover. The business is now using the network, “The Alchemists” to explore how they can further build the value of the business and achieve the next stage of growth.
- 4.72 Solutions Recruitment have found that network activity provides the opportunity for managers to measure themselves against their peers, which is difficult otherwise. It therefore contributes to improved management capacity. Networking activity is seen as helping to build brand awareness with other businesses in the region.

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- 4.73 Musa Fine Art have seen their network activity as enabling them to generate new business. Part of this is attributed to intangible benefits such as reputation and gain in individual confidence.
- 4.74 Tiddlywinks Nursery are able to identify significant financial benefit from their involvement in Sheffield Community Childcare Network (SCCN). SCCN has supported Tiddlywinks to secure capital investment that will ultimately total £2 million to provide their new accommodation. This has been combined with improved skills in business planning and development to produce a stronger overall business than would have been the case without the network's support.
- 4.75 Businesses are engaging in networks for a variety of different purposes and they regard the benefits as justifying the costs and time associated with this involvement.

Opportunities for Government to Influence learning and skills development through networks

- 4.76 The extent to which Government should use networks to influence development of skills or learning received mixed reactions from contributors to both the telephone survey and the case studies.
- 4.77 Two-fifths of survey participants indicated that there were actions the Government could take to encourage more effective networking among businesses. However, the most common specific action suggested was a reduction in red tape or to have fewer rules and regulations – proposals that do not appear to sit easily with the context of networking and probably reflect views on interventions in general. A third of businesses were unsure what else Government could or should do, and 20% indicated that there was 'nothing' that could be done to encourage more effective networking.
- 4.78 The case studies were more revealing however, in the way in which government and public agencies could become involved in support for networking. In most cases, comments reflected the fact that the networks in which they are involved had developed because of the common business interests of the members. There was therefore a strong consensus that any support from government or its agencies should enable those involved in networks to retain control and influence over the activities they undertake. This reflects the view that the success of a network depends on the 'chemistry' between members.
- 4.79 It was therefore suggested that government support for networks should focus on funding individual activities, rather than becoming involved in the day-to-day organisation or management of networks themselves. For example, Chromalox UK suggested that networks could benefit from more resources to enable improved facilitation and engagement than is currently possible with the available resources.

- 4.80 Both Leighton Group and Solutions Recruitment suggested that government support would be most appropriately targeted at enabling the activities that businesses put in place as a result of their networking activities. For example, Solutions Recruitment had indicated that one of the most beneficial networking activities for them had been intensive brainstorming with other network members. The costs of these activities meant that they could not be sustained in the absence of external funding.
- 4.81 The final potential area for government support identified by the case studies relates to access. In particular, this included ensuring that businesses are able to identify the networks and the ways in which they could benefit from involvement and the removal of practical barriers to participation. In terms of the identification and engagement in networking, it was suggested that signposting or pathfinding support would be beneficial to some businesses. One possibility would be for this to be built into the brokerage approaches, with networking being seen as an alternative means through which to respond to business needs. From a purely practical point of view, it was suggested that support for childcare could help remove a potential barrier to the participation in networks of some women entrepreneurs in particular.
- 4.82 The evidence from the survey and the case studies is that there is not a lack of suitable networks and therefore there was no suggestion that government and its agencies should become more involved in establishing networks. However, the potential for coordinating network activity with existing Government supported activity or training provision needs to be explored.
- 4.83 Essentially the view taken by contributors was that Government support for networking would be welcome, but must be focused and place an emphasis on what members need. Many stressed the need to support start-ups and enabling companies to get themselves in a position where they can access knowledge and support to continue development once they have passed the 'start up' phase. However, any Government funded or supported approach to networking must be able to retain the flexibility and responsiveness that exists in the networks currently being used and avoid adding bureaucracy that detracts from the organic nature of these networks.
- 4.84 The characteristics of some of the networks are also very entrepreneurial, identifying and responding to trends in the business environment and predicting the needs of network members. Some participating networks (both those operating as private enterprises and 'public' networks trying to deliver longer term programmes) stressed their frustration at being displaced by the action of a publicly funded agency such as an RDA or Business Link that could focus resources (cash and people to a perceived resource).

4.85 In considering government support for learning through networks, it must be recognised that networks can be a force for uncertainty and discord – many networks form due to issues. Whilst this can be beneficial to those involved in networks it provides a potentially difficult context for public intervention.

4.86 Valdis Krebs²¹, a management consultant and researcher on organisational networks has stressed that government and large institutions should not interfere with the organic processes by which networks operate, but rather should help to create the conditions by which networks and networks can succeed. Krebs commented: “Fertilise the soil but stay away from the actual husbandry. Fund them too much and you’ll start to want deliverables. You won’t get what you want. You’ll get what the community wants to deliver”.²²

4.87 Other examples show how public funds have been used in a way similar to this, devolving much of the influence over the way they are used to the organisations on the ground:

- Business Link South Yorkshire’s High Growth Business Start-up programme includes agreed action plans between the business as a ‘fund holder’ and the business adviser as an ‘Enabler’, essentially a guide or mentor for the individual business;
- The recent pilot Company Rescue Scheme in the East Midlands included referral and networking arrangements between Business Link advisers and commercial management advisers to support businesses at risk of failure;
- The recent feasibility study on an Employer Helpline for Skills, on behalf of DfES and DTI, highlighted skills and learning brokers working in some Business Links, often informally, to help businesses to network to find solutions;
- The current ‘Skills for Clusters’ programme in Yorkshire and the Humber, operated by Yorkshire Forward and the LSCs includes good examples of brokerage and voucher-based funding support to enable the ‘networker’ to drive the supply of learning.

²¹ Krebs, Valdis E. Managing the connected organization. (<http://www.orgnet.com/MCO.html>, 2002).

²² As quoted in Stewart, Thomas. Intellectual Capital: the New Wealth of Organizations. London: Nicholas Brealey, 1997.

4.88 These are examples of ways in which public funds could be used in ways that would support the successful operation of networks, without taking overall control of their development or operation. As Ian Noble commented: “Critical to any network’s sustainability is its insight into its ‘consumers or customers’ – what do they want and are they getting it? The weakness of ‘rationalised’ networks is that the chemistry is missing – the information sharing can still happen but the interactive ingredient is missing. However, given the recognition that this kind of networking activity cannot be directed, Government can help by promoting good practice and helping others to adopt the practices perceived as successes”.

5 CONCLUSIONS AND OPTIONS

Engagement in Networking

- 5.1 It is clear from the survey that a significant proportion of businesses in England are engaged in networking activities, including involvement in formal networks and more informal relationships between businesses and business people.
- 5.2 Those businesses that do network take a variety of different approaches. Some are regularly involved in networks, others are more selective or sporadic in their use. Some engage in only one network whilst others move fluidly between several different networks, creating their own informal network of contacts in the process. Use of networks depends on the needs of each business at the time it chooses to engage.
- 5.3 It is clear that businesses are motivated to network because they see benefits resulting from the relationships they are able to establish with other business people. However, the motivation to become involved in networks appears to be the result of a combination of a range of factors, which may include seeking out new knowledge or skills, but may also include the growth aspirations of the business, or the need or desire to innovate, amongst other things.
- 5.4 The common theme among the motivating factors is that they provide the potential to look outside the business itself.
- 5.5 Engagement in networking requires an investment on a number of levels. This may include the payment of formal membership fees, but there is also the time required to participate and the willingness to contribute in the relationships that are established. Those businesses that do not engage in networking do not see sufficient benefit resulting from these investments to justify their involvement.
- 5.6 However, it must be recognised that effective networking is a skill in itself. Those businesses that gain least from their networking attribute it partly to their lack of networking ability, rather than a lack of potential benefit. It is possible, therefore, that a lack of appropriate skills may in itself be creating a barrier to effective engagement and maintenance of networking activity among some of those who are not involved.

The Nature of Learning and Skills Development in Networks

- 5.7 Businesses are making use of networks to support the development of a range of new knowledge and skills. These include business development, management, coaching, mentoring and guidance, but also more specific process skills relating to IT, accounting and other systems development. The skill of networking itself is also developed, enabling businesses to capitalise on their relationships with others.
- 5.8 In some cases, networks are providing the route through which formal training provision is identified.
- 5.9 Networks are also being used by businesses to identify and recruit skilled individuals, as opposed to developing the skills of existing management and staff. They have been seen to provide opportunities to build new management teams and to recruit skilled staff.
- 5.10 Engagement in networks enables businesses to gain new knowledge as well as skills. In particular, they are seen to be valuable in understanding the business environment and developments that are taking place that could impact on business success and in providing a forum to discuss and share good and effective business practice.
- 5.11 Involvement in networking is valuable in developing a better understanding of the needs, issues and opportunities facing a business and in assisting in identifying appropriate solutions to them. These solutions may or may not be provided within the network itself.

Methods of Learning and Skills Development

- 5.12 The types of skills and knowledge that can be gained through networks are not significantly different from those that could be developed through participation in formal training, development or business support activities, or through the use of a business information service. However, the means through which they are acquired within networks is different.
- 5.13 Networks can potentially provide a spectrum of methods of learning and skills development. The range available from any individual network will depend to a significant extent on the nature and function of the network itself. Across the case studies, we have seen that learning and skills development has taken place as a result of mentoring, coaching and simply through the mutual support between members, resulting in the sharing of experiences.

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- 5.14 More formal learning approaches are also possible within networks. Many networks provide expert presentations, which are seen as both inspirational and beneficial to members. They also offer activities such as facilitated brainstorming with small groups of businesses. Some are also training providers in their own right.
- 5.15 It is clear that the businesses involved in networking value the flexibility associated with these activities and the fact that they are able to control what and how they learn. Their needs may be fully met within the network or could lead to further more formal training and development taking place through other means.
- 5.16 The involvement of businesses with common needs means that networks provide the potential to package support to respond to them. This can mean that networks enable more cost-effective learning, but also more tailored provision, than would be possible for businesses seeking support individually.
- 5.17 It is important to recognise that, as networks can provide a route into other forms of provision, they can be complementary to, rather than a competitor with other forms of skills development and business support. This is an area where further integration would be beneficial. In this context, networks can play a valuable role as a facilitator rather than as a provider.

Effects on Business Performance

- 5.18 Most businesses that network for learning and skills development are able to attribute business benefits to their networking activities (94%). Specific changes have been seen to contribute to increased turnover, improved business efficiencies, increased management capacity and capabilities, helping the overall strength of the business.
- 5.19 In addition to positive changes as a result of network activities, we have also seen examples of contacts at networks leading to businesses avoiding problems that would otherwise be potentially costly.

Motivation to Learn and Develop New Skills

- 5.20 The survey has shown that networking can lead to an increasing motivation to learn, both amongst management and staff in the businesses involved. In this context, it is important to consider the nature of the individuals and businesses who are most likely to be involved in networking.

5.21 Networking requires an active decision to participate, which is likely to come from those businesses that are actively seeking to achieve change. As we have seen above, the desire to acquire new knowledge or skills may be one of a number of factors that, in combination, motivate involvement in networking. The nature of networking means that, once engaged in such activities, it provides the potential to gain new skills and knowledge through a number of different means. This can lead to something of a virtuous circle of networking and learning. However, we would argue that it is the initial impetus to network that then creates the motivation to learn and develop new skills. The network provides a context within which such developments can take place.

Government Influence on Networking for Learning and Skills

5.22 For those businesses that are already engaged in networking and who report successful outcomes against their aims, there is little sense that there is a market failure in networking that requires significant government intervention. Businesses and many of the networks were sceptical about the role government could play in improving utilisation of networks to achieve learning and skills goals.

5.23 However, there are other groups that might benefit from support to engage, or engage more effectively, with networks. In particular, the survey has indicated that smaller businesses are less active networkers than larger businesses. Support targeted at smaller businesses could include enabling them to gain a better understanding of the ways in which networking could benefit them or enabling them to access and test out networking for themselves. Active promotion of networking as a beneficial means of identifying, scoping and resolving skills and learning needs may encourage some, otherwise passive, businesses to engage.

5.24 It is clear that the businesses involved in networking value the sense of ownership, investment and engagement in those networks that have developed in response to the needs of member businesses. Any approach to supporting or influencing networking for learning and skills must therefore be compatible with this.

5.25 The main area in which active networkers see the potential for government input to the groups in which they are involved is in relation to resourcing, especially of activities that are developed in response to needs identified within the networks. However, if resources are to be made available for this purpose, there is a clear consensus that control of activities must remain with the networks themselves.

5.26 Networks have the potential to play an important role in facilitating learning and skills development activities. Whilst some networks are well integrated with the principal publicly funded providers of support, others are not. There is the potential for networks to play a more active role in supporting businesses to identify and address learning and skills needs within a wider brokerage and referral network. For this to take place, there is a need for much greater clarity regarding the ways in which the activities of networks, Business Links, local LSCs and RDAs can be coordinated.

Recommendations

- 5.27 The key message from our research is that government should not seek to manage networks directly to achieve its goals. However, there is a need to develop more effective interaction between government policies and agencies and the range of networks that exist across the country.
- 5.28 The most appropriate ways in which the role of networks and networking could be enhanced in the provision of publicly funded services should be explored. In particular, as diagnostic and brokerage models are further developed with the introduction of the National Employer Training Programme, it will be valuable to explore the most appropriate ways in which networks could be incorporated in the range of possible brokered solutions to diagnosed needs. This will require careful consideration of the way in which networks can be quality assured as providers alongside the more traditional suppliers of training, development and business support.
- 5.29 In this context, the potential role of networks in responding to diagnosed needs must be clearly identified. Given their diversity and the differences in network activity across locations, it is clear that the potential for networks to form part of the potential brokered solutions will vary significantly by location and nature of business. Where this is to take place, there should be direct engagement between the public agency and the network, to understand what each network can provide and whether the networks themselves require additional support in order to maximise their capabilities in this context.
- 5.30 The need to target resources to support the development of professional network facilitation should be reviewed. This would help to develop local or regional facilitators who could support both awareness raising and effective engagement in networks.
- 5.31 Where networks are to play a role in supporting the provision of publicly funded learning and skills development, it will be necessary to minimise the administrative burden on them. Perceived 'red tape' will be a disincentive to many networks to become involved, but may also be prohibitive where networks do not have staff or premises. The onus of administration should rest with the public agency or its broker responsible for delivery of the wider support or learning programme.

- 5.32 A programme that aims to develop engagement with networks will be more of a case of establishing the expected outcomes and promoting or transferring good practice, rather than fundamentally developing new schemes. Ultimately, this would need to include all areas of the country. However, we recommend an initial pilot of the new approach in one or two regions, to assess its added value, prior to wider implementation. The starting point for these activities will require the RDAs, Business Links and others to seek further engagement with regional and local networks, in order to improve mutual understanding and then derive appropriate actions. This could include work to facilitate further links between networks and cluster initiatives, or to seek to facilitate further opportunities to build networking relationships as part of these programmes.
- 5.33 There is a need to explore the most appropriate ways of encouraging and supporting more effective use of networking amongst micro and small businesses, as only 33% of businesses employing between one and four people are involved in networks. There is a clear opportunity within business start-up programmes to raise awareness of the opportunities presented by networking, but also to support the initial development of networking skills within new businesses. Wider awareness raising and signposting, built on the back of improved links with networks, could help to demonstrate further the opportunities arising from networking, including the development of links to a broader base of knowledge than may sometimes be available through other types of support.
- 5.34 There are clear links between the use of networking activities to acquire new skills and knowledge and the innovation process. Innovation activities can be an important motivation for network engagement. It is therefore important that innovation activities and policies consider the way in which networking could be stimulated or supported, which could then contribute to further network-based learning and skills development.