

The Impact of Business Networking on SME Performance: Development of a Conceptual Framework.

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Abstract

This research attempts to create a conceptual framework that explores the impact of Business networking towards Sri Lankan Small and Medium Enterprises (SME) performance and the continuity and success of SMEs. Business networking has been gaining grounds as an influencing factor for business success in the recent years. The growth of technology has increased the avenues available for Business networking in many folds, compared to what was available a decade ago. Many empirical studies have conducted to understand and model the way how Small and Medium Enterprises (SMEs) function and perform. However, relatively limited research has been conducted on understanding the impact of business networks on SME performance throughout the world despite most of the economies recognizing SMEs as the driving force in respective economies. In the Sri Lankan context, the available literature is minimal. Sri Lankan SMEs, on the other hand differ from the rest of the world in terms of cultural values, ethics, standard operating procedures etc. This paper, therefore, attempts to develop a conceptual framework upon which further elaboration of the said relationship can be investigated. The proposed conceptual framework pay attention to certain 'personal attributes' of the entrepreneur that influences business networking and 'business justification' for the entrepreneur to consider engaging in business networking. Featured variable in the conceptual framework are Trust, Self-Efficacy, Tolerance of Ambiguity, Competition, Necessity, Reciprocity, Stability, Legitimacy and Efficiency.

Keywords: Business Network, SME success, Sri Lanka, SME Performance.

1. Introduction

Growth of business across the globe has brought about new challenges and the need to have emerging solutions to the address the same. Sustainability of business and success of business are among them in the presence of ever-shrinking 'communication gap' in global business landscape. In the global and national economic equation Small and Medium Enterprises contributes a significant proportion of the total value addition in any national economy, both in developed and in developing countries alike. Hence many academics researching on SMEs have pointed out the importance of success and continuity of SMEs to achieve national economic objectives.

SMEs have evolved as a separate field of study mainly attributable to the innovative solutions SMEs offer to pressing economic issues and employment creation of a nation (Woldie et al, 2008). Since early days, a number of studies have suggested SMEs play a critical role in economic growth, reducing unemployment, and promoting flexibility and innovation in an economy (Storey, 1994; Van Gils, 2000; Wilson, 1995). SMEs are characterized by diversity, small scale, personality, and independence (Nooteboom, 1994). Further, SMEs are specially recognized for their lean

structures and flexibility which allow them to be supplier in turbulent conditions. 'Business networks' which is an emerging paradigm in many developing countries have been identified as a possible contributory factor by many scholars which can propel and sustain SME growth.

A business network is a free association among business that is capable of creating processors and structures that enable business decision making while incorporating the input from the members to generate output while preserving the resource usage (Trequattrini et al, 2012)

Business networks are defined as interconnected business relationships (Blankenburg and Johanson, 1992). Ebers and Jarillo (1998) identified the business network comprising a collection of entities that established repetitive contacts while achieving a common objective. Today's hypercompetitive business environments imply that such ties among organizations are vital for their success, especially given the dominance of a few significant players in many markets. Such networks can be among the business entities in the same industry or between entities from different industries. A business network may be without center and without boundaries. It stretches out in all directions and

interaction processes may occur in any direction. (Frans Prenkert and Lars Halle'n, 2004)

Such networks provide excellent basis for SMEs to mitigate many of their inherent drawbacks. Van Laere & Heene in 2003 identified that market positioning, technological trajectories, competence building, and overall organizational processes as the main aspects SMEs need to concern about, which is similar to their larger counterparts. Globalization threats, environmental requirements, or large attractive customers and a diverse demand patterns may also makes it harder for SMEs to cope with (Prahalad & Hamel, 1990). Being part of a strategic development network, firms are able to cooperate and upgrade their resources and capabilities such as products, technology, quality, skill, production efficiency, information etc enable SMEs to partly resolve such threats (Ragnar et al, 2003). Better information, mutual learning, economies of scale, strategy of co-specialization, organizing market structure with network members and resource flows are among the competitive advantages that could be yielded by the participants in a business network. (Ebers and Jarillo, 1998).

Although such benefits are available from business networks to SMEs, only a limited quantum of literature are available examining whether 'business networking' contributes to driving the success of such SME networks. Very little research has been conducted in Sri Lankan context thus far to identify the later. Trust, Competition, Self-Efficacy, Tolerance of Ambiguity, Necessity, Reciprocity, Stability, Legitimacy and Efficiency are identified as key variables that lay a strong foundation for a successful business network through extensive literature reviews. These factors are evaluated in light of the personal attributes relating to the entrepreneur to view business networking as a positive engagement and simultaneously to have a valid business justifications for continuous engagement in the business network despite the size, capacity, financial strength etc within the SME domain.

1.1. Objectives of the Study

Development of a conceptual framework is the purpose of this paper which will facilitate broadening of understanding of impact, in a Sri Lankan context for business networks on SME

performance by incorporating the identified driving forces into model which captures both the personal challenges the entrepreneur needed to overcome to engage in business networking together with having a justifiable 'business case' to engage in business networking on a continuous basis. Inter-alia the outcome of the conceptual framework will contribute to enrich the existing body of knowledge about Sri Lankan SMEs. Further, the research will facilitate and invite for further research to be undertaken regarding the role of business networking in SME success. The research is also capturing the variations prevalent among Sri Lankan SMEs compared to their counterparts in other countries in relation to business networking and its impact on business success. The impact of influencing variables such as Trust, Self-Efficacy, Tolerance of Ambiguity, Competition, Necessity, Reciprocity, Stability, Legitimacy, Efficiency and the inter-relationship between the variables is examined together with their combine impact on the SME performance.

2. Literature Review

2.1. Business Networks

Networking acts as a conduit to address pressing issues in the presence of complexity and uncertainty in communities as published by the Ministry of Science and Innovation in New Zealand, 2012. The same identified that networking allows to resolve Complex Problems in the presence of effect of synergy. According to Harri Kulmala and Erkki Uusi-Rauva 2005, networking by an entity is a form of social behavior and business networking is a continuation of the same communal conduct. Researchers have identified eight characteristics that help to distinguish networked entities from non-networked firms. They are, Business to enhance flexibility in SME's capacity to perform, enhancing the flexibility of inputs, minimizing the dependency on inputs, eliminating barriers to communicate among the participants of the network, enhancing the flow of information among the entities, improved prospects on outsourcing, operations focused on geography, combined efforts to enhance output and improvement to the systems and processes. The degree to which a firm adheres to these characteristics can be used to determine whether that particular firm is networked or not. Openness is another distinguishing character used

by scholars to identify networked firms. Forstrom (1997) found that collaboration while facilitating flow of information is well structured among 'networked' businesses and "information dissemination" among entities are functioning properly among 'networked' business entities. Accordingly, many found that that networked firms are well-motivated, growth oriented and phasing towards openness and industry development. While weak business networks are important for encouraging the progress of networks, the robust and well-functioning business networks have indicated strong correlation with the development, assistance to members, trust and social unity, and these are among the features that facilitate resolution of the complex business problems (Ministry of Science and Innovation, New Zealand, 2012). As presented to the first International Workshop on Software Ecosystems in 2009, Management of Business Network was identified as a vital Survival Strategy for Information Technology (IT) companies. Scholars identified four levels of business networking of which the first layer of networking focuses on a market association with a dominant business entity, the second level of business networking exhibits some emergent networking among similar business, a third layer of business networking indicates where the dominant entity has shared influence and encourages others, and as the final layer of business networking as the emergence of a mutually beneficial relationship among all participant with no dominant entity while all participants promoting progress. (Farbey and Finkelstein, 2001)

2.2. Trust

Strong business networking relationship can be maintained in the presence of 'trust' between business networking entities, thereby facilitating the movement of relevant information for business success among networking partners (Prell et al. 2009). The openness among the business network participants creates an environment conducive to flow of constructive business information among members of the business network. Trust is a visible business networking partner attribute which entities can use to predict whether a firm will engage in cooperation at the first place (Wincent, 2006). An expectation is raised that trust facilitates the removal of uncertainty that may rise due to

behaviors such as being opportunistic among cooperative partners (Bradach & Eccles, 1989). It also involves an element of confidence that an entity is reliable with demonstrated levels of integrity to fulfill business network participants responsibilities in the business network (Madhok, 1995). Trust is essential for the success of both, the firm and the success of the network it belongs to. Trust indicates the partners in the firm are free from opportunistic behaviors which will hamper the network performance in the long run among the participating business. This is justifiable since firm outcomes are highly correlated with partner attributes. The health of the business network can be affected significantly due to the presence or the absence of trust among participating entities (Krebs & Holley 2006). Above researchers have observed a positive correlation between trust and engagement among business network participants in the business network initiatives.

2.3. Competition

Scholars have appreciated the possibilities for generating business networks alongside value creation chain however the presence of competition while wishing to be independent pose and additional barrier for business networking and therefore benefits seems difficult to materialize. (European Commission, 2001). Competition in relation to business networking was seen as the competition prevalent within the network, among the participating business entities. In strategic SME networks within the presence of competing members, consisting multiple organizational relationships with multilateral structures, competition and cooperation was seen as 'administrative' often to assist firms in the network to cooperate in some project but yet to compete in others (Wincent 2006). This 'on and off' hostility between the firms enable the network to be distinguished from their larger counterparts such as joint ventures, strategic alliances, cartels etc. which limits the occurrence of such corporation and competition simultaneously. However, the competition between the firms must be meticulously dealt with care, as adverse competition can hinder the prosperity of the network. Tensions between cooperation and competition are naturally evident, but must be dealt with as the firms are partners in the network and work towards a common future

(Wincent 2006). The network also allows members to compete individually in taking network orders and does not restrict competition at the firms market (Human and Provan, 1997). Above research findings indicate that firms have to deal with partners that may or may not be cooperative and may lead to inter-organizational conflicts within the network. In business networks, competition calls for trade-offs and these trade-offs appears to be closely linked to the implementation of network findings, participation in the business network as well as resources to which a direct correlation exist. (Ford and Hakansson, 2012). Competition was referred as to the decisions arrived by the network participants to realize a relative benefit at the expense of another participant in the network in aspects relating to such as buyers, sellers both equal in nature or specific to some. (Ford and Hakansson, 2012). Further, in their research findings they refer to two aspects that need to be present in order to competition to exist among the participants of the business network. The first being the 'Alternative actors' and the second being 'similarity' between actions. Alternative actors indicate presence of alternative choices offered by business networking participants while similarity in dimensions among network participant is represented by the later. In business networking, corporative dimension plays a significant role that the competition dimension to have an effective business network. (Ford and Hakansson, 2012)

2.4. Self-Efficacy

Self-efficacy was identified as consistently the predominant proponent among objectives associated with other traits in the literature of behavioral control perception (Celuch et al, 2007)

Self-efficacy in business networking literature corresponds to entrepreneur's self-efficacy or managerial "capabilities to mobilize the motivation, cognitive resources, and courses of action needed to exercise control over events" (Wood and Bandura, 1989). Self-efficacy is a concept developed based on the social cognitive theory by Bandura (1997), which is an approach to understand human cognition, action motivation and emotions. This is also identified as one's perceptions of their capability to accomplish a particular undertaking and is among the main elements of social learning theory (Bandura, 1977). Competitive outcomes of the firms in the network are largely dependent on

personal traits of the entrepreneur. No direct relationships between entrepreneur's self-efficacy to organizational entrepreneurship has been observed, but was observed to be related to inter-firm networking in strategic SME network. Self-efficacy is a trait of managers that significantly matters for networking in business environments where partners seek common grounds. Among Important factors for business network's successful functioning, fostering the collective self-efficacy of the business network was identified. (Sluijs and Doyle, 2009). Not only the individual self-efficacy of the participating entrepreneur but also the collective self-efficacy of the business network itself in the constructive direction with a belief that change is possible to the benefit of the network with the ability to facilitate participation is critical for the success of the network. (O'Brien, 2012). Scholars identified four methods for improving self-efficacy. Among them are vicarious experience, physiological arousal, verbal persuasion, and enactive mastery (Bandura 1986). Since self-efficacy is an important element to enhance the participation in the business networking, raising the levels of self-efficacy was also suggested to improve the outcome for the network (Brown et al, 2005).

2.5. Tolerance of Ambiguity

Tolerance for ambiguity has surfaced together with self-efficacy in the business networking research literature in many occurrences (Katsaros et al,2011,2014) (Johnson and Scholes,2002) (Armenakis et al, 1993). Tolerance of ambiguity has been another management trait that determines the successful outcomes of the firms and the network as a whole. The degree to which an individual feels threatened in the presence of an uncertain circumstance was also seen as tolerance of ambiguity together with the degree to which an individual's confidence is affected when resuming an action was also identified as the tolerance of ambiguity (Dermer, 1973). In other words it is the degree to which a business decision maker is risk-averse. If the business decision maker is still willing to make decisions and implement in high uncertain situations, he may be considered a risk-loving business decision maker. CEOs with high self-efficacy and tolerance for ambiguity seem to have more proclivity and possibility to engage in

networking due to the uncertain nature of the projects within such networks. (Wincent 2006). Tolerance of ambiguity was defined by researcher with slight variants while the core meaning remaining static. Among various interpretations of tolerance of ambiguity includes following, where a threat was perceived due to the presence of ambiguous situations or an opportunity was seen in the presence of an ambiguous situation (Burdner 1962). Where outcome of a situation associated a probability and the said probability is unknown then the same is perceived as a risk.(Ellsberg 1961). Where inability to structure an outcome due to absence of adequate clues is perceived as ambiguity (Burdner 1962). Tolerance of ambiguity has also associated with openness and originality there by promoting new ideas and entrepreneurship among entrepreneurs. (Tatzd 1980)

2.6. Necessity

Oliver (1990) has identified necessity as a top motive for firms to incorporate themselves in business networks. Some business networks are formed in the absence of voluntary reasons but due to a necessity. Formation of certain networks are due to the order of law or regulation by authorities or even compelled by industry or applicable professional body. A business necessity is a legitimate business purpose that justifies an employment decision as effective and needed optimal achievement of the organization's goals and ensure that operations run safely and efficiently (Cascio, W. F., & Aguinis, H. 2010). Entrepreneurs were identified in some instances being driven by necessity to engage in business and business networking (Reynolds et al, 2002). 'Intending' or 'wanting to do' was defined as necessity (Jordaan, 2014). Entrepreneurs who engage in business and surrounding activity because they 'have to' was seen as necessity than because the 'want to' (Acs and Serb, 2007). When an entrepreneur engages in a business activity and when the same is driven by necessity, the entrepreneur might not have had the opportunity to understand the consequences of associated risks and opportunity. Systematic and through anticipation of above may lead to better outcomes from the engagement (Block and Sandner, 2009). It ensures that the firms in the network adheres to a common vision and works towards achieving it. A state of reduced conflicts

could be facilitated via networking, through a 'body of members' due to confidential information being able to share among the likeminded members (Borch et al, 1995).

Oliver (1990) has also highlighted that necessity indicates a direction by a higher authority and noncompliance with such directions may have repercussions while patterns of corporation and degree of networking may differ if formed due to necessity.

2.7. Reciprocity

Reciprocity is based on a foundation of collaboration, corporation and coordination between business network members than control, domination or exercise of power over the other participants. (Oliver, 1990). He further elaborated that business networking due to reciprocity occurs to drive mutually beneficial objectives and interest. Reciprocity contingency provide a motive as a direct alternative to interdependency of resources among business network partners. Blau (1964) came up with the concept of reciprocity in his theory of social exchange in which the mutually beneficial ideas among the participants or expectation formed that members in the network would reciprocate via offerings together with assistances. Further elaborated that individuals associate with one another because they all profit from their association. In recognizing strategic SME networks as 'forums for resource exchange', attention is also given to the fact that mechanisms from social exchange theory should be adequate in explaining the resource contributions mentioned (Wincent 2006). Actors in networks contribute valued resources expecting valued outcomes in the future from the network. This was termed as the concept of reciprocity and is one of the main motivational mechanism driving actors' actions in networks. Based on the norm of reciprocity, the key to gaining access to valuable resources held by another firm lies in offering valuable resources to the said firm and then later providing benefits to them (or others) through the relational norms of solidarity and mutuality (Ahuja 2000). Earlier researches has observed deep rooted linkage of reciprocity in Finance Capital Theory of corporate interlocks (Scott, 1985) and in the Reciprocity Model of Director Interlocks (Gogel et al, 1979).

2.8. Stability

Uncertainty prevailing the surrounding environment prompt business to group and network with a view to create stability, dependability and predictability among the participating entities. Further, business networking is promoted as a strategy to cope with uncertainty via forecasting to absorb the impacts of uncertainty in order to predict an orderly pattern of the flow of resources (Pennings, 1981). Stability in networking relates to the state of being stable or continuity of the networks and the firms connected within that particular network. Håkansson and Snehota (1995) identified four structural characteristics of business relationships to improve stability in a business network such as continuity, complexity, symmetry and informality. Continuity in this regards refer to the enduring nature of the relationship in focus. Longer the relationship exists, more stable the network gets. Complexity is the relative ambiguity involved within the relationships between firms in the network. Less complex structures are considered to be more stable over more complex ones. Symmetry is fairness in distribution of information or equal access to information for every firm involved in the network. A high degree of symmetry ensures a high degree of stability for the network. Informality refers to the relative degree of lack of formal structures and other aspects regarded to be ceremonial. Researchers have proven that less formal structures are more stable than their counterparts over the long run. Companies appear to be tied together by apparently long-lasting, broad, relatively balanced and informal relationships (Håkansson and Snehota 1995). Therefore, the degree of each characteristic collectively is expected to exhibit the relative stability of any particular business network. Sometimes, however, episodes of conflicts become potential opportunities for greater relationship stability and further development of trust. Accordingly, stability is a continually evolving phenomenon that bring about trust in the actors in the particular network. In certain instances Business networking has also been seen as an adoptive response to uncertainty posed by the environment (Williamson, 1985). The absence of uncertainty promotes stability where uncertainty in the environment is created by knowledge deficiencies

relating to fluctuations in the surrounding and the presence of resource scarcity.

2.9. Legitimacy

“Legitimacy is socially constructed in that it reflects congruence between the behaviors of the legitimated entity and the shared (or assumedly shared) beliefs of some social group; thus, legitimacy is dependent on a collective audience, yet independent of particular observers” (Suchman, 1995). The status of legitimacy is also a motive to business networking as advocated by the ‘Institutional Theory of Interconnect’ (Fennel et al, 1987). Further it explains the pressure exerted by the environment on the business, compels the business to group up to withstand the pressure which in-turn will lead to organized forms of business networking. Legitimacy in strategic business networking literature corresponds to the state of being legitimate. Human and Provan (2000) revealed how legitimacy to be particularly significant for the strategic business networks, denoting the generalized insight of membership firms and outside constituents that action, activities and structure of a network work desirable and is appropriate. Legitimacy is proposed to build along three key dimensions and (i.e. network as a form, an entity, and as interaction among members), without which strategic SME networks are likely to collapse or fail to produce benefits for their participants (Human & Provan, 2000).

One of the major drawbacks SMEs are facing is that their lack of legitimacy hindering them from hiring skilled labor, obtaining capital to expand and the like. It is the responsibility of the firms therefore to contribute their own resources to improve the network’s legitimacy or the reputation which fortes members’ own reputation and long term competitiveness. Among motives to business networking is ‘legitimacy’ to improve entity’s image, reputation or prestige within accepted norms of business environment. Legitimacy also attracts safety and acceptance due to the larger number of grouped entities and there by business networking was promoted by certain licensing requirements, donor agency requirements, stakeholder requirements or even pressure by general public (Farinda et al, 2009). Legitimacy provides competitive advantage to business in the business network (Anderson et al, 1994). This has probably

been a reason that inhibits SMEs to gain value by being part of larger supply chains which promotes higher value additions (Farinda et al, 2009). Legitimacy effect improves when the perceived image of the business network is higher than the individual image of the entity. This has been particularly seen as relevant to the healthcare industry to improve patient confidence (Oliver, 1990). Legitimacy assist new SME entrants to improve their public acceptance by being part of an already accepted association of businesses.

2.10. Efficiency

Efficiency allows SMEs in the business network to consolidate knowledge and resources to improve competitive advantage (Farinda, 2009). Efficiency was identified by Oliver (1990) as the desire to reduce unit cost, increase return on assets, minimize wastage and down time. Transaction cost prompted business networking to take off to the next level due to the collective bargaining power offered by business networking. It is expected that, by participating in networks, firms can improve their long term competitiveness significantly. This is referred to as the direct effects in firms' performance in many literatures. Efficiency has also been defined as the performance of an entity by comparing the ratio between organizational input and output in the presence of effectiveness. Efficiency is the function of an organization to manage its input-output processes; cf. Katz and Kahn, 1978). Therefore, by participating in networks, firms are expected to improve performances within a relatively a smaller timeframe which are often stated as improvements relating to throughput, earnings, consumer gratification together with revenue. In addition business networks functioning in collective form will lead to reduced risk levels, minimized cost of production, enhancing the flexibility while improving knowledge levels of the participants (Lin and Zhang, 2005). Oliver (1990), suggested that efficiency is driven by motives specific to the entity. Evolution of business operations and transaction cost has facilitated SMEs to think big and focus on intermediary transaction cost rather than the entity's internal or market at large. Further Oliver (1990) referred to the improved efficiency of the partners in the business network due to ability to mediate transaction cost in a more efficient manner

in the market there by forcing entities to engage in business networking than perform the activities via the market. There were negative observations by some researches on above due to business networking seen as promoting anticompetitive behavior (Gupta, 1983). Efficiency in the business network might threaten completion due to economic stagnation due to organized activities of the business network partners (Oliver, 1990).

3. Empirical Evidence between the Variables

3.1. Trust and Business Networks

Trust is an important concept widely explored in domains such economics, psychology, and social behavior. In the recent past it was observed that noticeable consideration was placed in 'trust' between the participants within the network (Zaheer et al, 2006) This has been proven to be an essential component in business networking. The degree of trust between the participants creates a major effect in the performance of the SME due to minimized cost of transactions together with any conflicts (Antoldi et al. 2011). Further advantages in the areas of improved revenue, improved investment return are among primary results due to trust (Zaheer and Harris 2006). Antoldi et al. (2011) identified three main areas of limitations (a) adverse effects due to exploiting opportunism, (b) lack of engagement by participants and (c) formation of sub alliance within the network. The risk of opportunism increases the deviations of objectives of the networking and complexity as well. Network members' commitment is another necessity that must be present to enhance the performance of the particular network. Individual cultures play a crucial role since most of the networks comprise of individual entrepreneurs who are from vivid backgrounds. It was also observed that Trust emerging as a solution to above limitations where it brings about a common ground, for business owners while promoting openness and achieving expectations of network participants (Zaheer and Harris 2006).

3.2. Competition and Business Networks

Controlled competition has become common among the business (Gulati et al, 2000). The impact of competition between the interconnected firms within a network have been analyzed in several previous researches. Competition was observed to

be taking shape and evolving from the firm level to business network level (Kulmala et al, 2005). Networks are ever present with competition and corporation when collaborating and partnering in the business network relationships (Veludo et al, 2006). Entities in the business network were seen as moving from standalone competition to network rivalry, therefore partners in the business network requires the skills to manage the business network as oppose to their own resource dependency (Ojasalo, 2008). Some researchers suggested that inter-organizational corporation through business networking as the only way to overcome ever increasing domestic and global competition while managing competition concerns within the network.

Bengtsson & Kock, (1999) found that firms in business networks varying in degrees of strengths and capacities tend to develop several types of relationships with competitors and will adopt several strategies as well. A firm having a strong position capable of standing alone will probably opt for a relationship based on competition. For a firm who is not quite strong and need resources held by the competitors, the strategy is to cooperate with the competitors in the network. For a strong firm but lacking competitive resources, cooperative relationship is recommended which comprise of both cooperation and competition.

3.3. Self-efficacy, Tolerance of Ambiguity and Business Networks

Self-efficacy and tolerance for ambiguity are two personal traits of entrepreneurs which many scholars identify as important in competitiveness development for small firms. Self-efficacy was expressed as the self-confidence of the entrepreneurs of small and medium firms. Tolerance for ambiguity, on the other hand, is the degree to which entrepreneurs are willing to take risks, how they respond to ambiguous situations. These two traits are often described together in literature since they are closely linked and hence identified together in this section as well. Wincent (2006) examined the relationship between CEO self-efficacy and tolerance for ambiguity and organizational entrepreneurship in the context of strategic SME networks. The strong, confident CEO with higher tolerance for ambiguity and self-efficacy was hypothesized to be better suited for the pursuit of organizational entrepreneurship

(Wincent, 2006). However, a positive relationship between self-efficacy and tolerance for ambiguity and level of inter-firm networking with other strategic SME network participators were found by Wincent (2006). Inter-firm networking, in turn, was found to be linked to organizational entrepreneurship.

3.4. Reciprocity, stability and Business Networks
Floren and Tell (2004) has tested the impact of reciprocity on business networks using SMEs from two different industries and have shown prerequisites and outcomes of higher-level learning that developed over time when participating in strategic SME networks. They have conclude that learning is based on trust and necessitates reciprocity between firms, receptive and confronting capacity, and transparency in the network. This results in truthful giving and taking, openness about how others can contribute, knowing when to confront members and honest sharing among members. Wincent (2004) found in the empirical research that an orientation to contribute and benefit can lead to better outcomes or at least better prerequisites to gain future outcomes. However, the concluding remarks of the work reveal that “only receiving benefits from partners who reciprocate directly influences competitiveness” (Wincent, 2004). Contributing back to partners has not shown a direct link to competitive improvements in firm performances. Therefore, it is important for a participating firm to ensure its contribution towards the network is in order, to benefit from it through the norm of reciprocity and improve competitiveness. Oliver (1990) referred to key assumptions for reciprocity is to be effective in a business network. First being the business networking is induced by the scarcity of the resources instead of presence of competition followed by, reciprocity upholds the values of mutual support, balance, equity and harmony rather than domination or conflict and the last assumption being the disadvantages of forming a business network is less than the advantages of being part of a business network with particular attention to cost of managing the business network.

3.5. Legitimacy and Business Networks

Suchman (1995) defined “legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or

appropriate within some socially constructed system of norms, values, beliefs, and definitions". Business legitimacy has gained its importance over the years and has become a vital aspect for an organization, especially for small and medium enterprises, which stakeholders often seek when engaging with. Business markets have seen an increased importance of different kinds of value that are nowadays necessary to legitimate the offer (Coulibaly & Sauvée, 2010).

According to Elsbach (1994), legitimacy enhances performance and can represent a way to avoid or reduce competition effects, and governance help firms in deciding which legitimacy principals to apply. Provan and Kenis (2007) explained that legitimacy is crucial for preserving the status and viability of networks. They distinguished two types of legitimacy, first being 'legitimacy in business networks' and second is 'legitimacy of business networks'. Internal legitimacy is the way individuals internalize common values and norms related to a specific network. External legitimacy is the necessity to be legitimate in network's deals with outside parties.

Coulibaly & Sauvée, (2010) in their research have identified certification as an effective means of building legitimacy. Certification systems can help them to build trust between actors in the commodity chain by providing independent assurance that the end product meets the appropriate process and product standards (Hatanaka and al. 2005). Further added that all of the partners in business networks must organize and center the relationships with 'third party certifiers' which will improve the image directly and performance indirectly. These actions consist in establishing and respecting standard rules and norms, to define the rules and obligations of each partner in the relationship (Coulibaly & Sauvée, 2010). By building up legitimacy, entrepreneurs in the network can reduce their costs on a market while improving SME profitability. It is also necessary for a nascent entrepreneur to obtain a formal certification to have a greater chance of reaching operational start-up and gear-up SME's performances (Coulibaly & Sauvée, 2010).

3.6. Efficiency and Business Networks

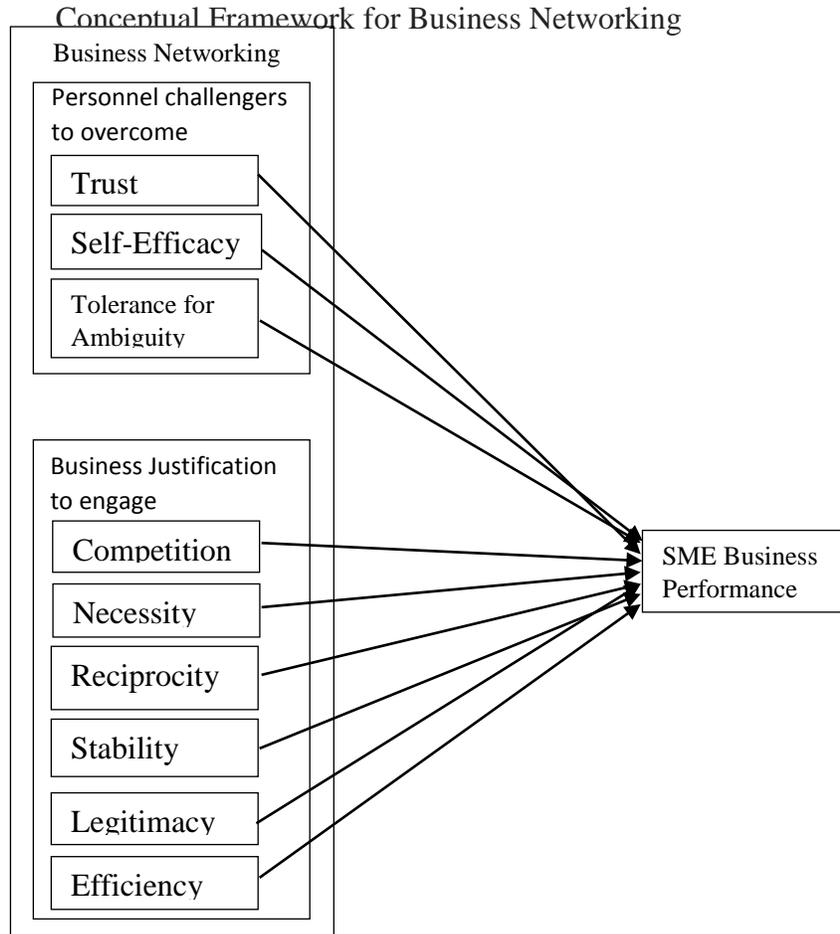
Efficiency is concerned with minimizing costs and improving operational margins (Mouzas, 2006). However, it was only seen as a measure of

operational excellence or productivity, not a measure of success in the market place. It has been observed by scholars that business networks are able to improve efficiency of the participating firm due to active participation in the business network. Financial performance is also a measure of efficiency, indicated by profitability and productivity due to its reflection on how well the firm can translate its demands in the market into products that generate profits (i.e., how efficient the firm is in organizing this transformation of market demand) (Wincent, 2004). Financial performance has been cited in prior researches to measure efficiency effects of business networking. Ahlström-Söderling (2003) have observed in their study that participating in strategic networks by SMEs increased their efficiency significantly through means such as improvements in productivity, profits, customer satisfaction and sales.

4. Development of the Conceptual Framework

The following conceptual framework has been developed based on the pertinent theories and literature discussed in the earlier chapters. This model proposes how a successful SME business network could be built based on several motives and further leading to strengthen the relationship between the business networking and business performance. Over two hundred articles were referred to conceptualize the proposed model. This model advocates that the driving factors to constructing business networks are initiated from the purposes or relative advantages of it and that they could be used either independently, holistically, or combining some them. The conceptual framework has examined the contributing variable to the business networking and the impact of them on the success of SMEs. This model is expected to be extended to the future study of how business networking and adaptation of ICT can improve SME performance in the Sri Lankan context.

Figure 1



5. Methodology

When developing the conceptual framework, author has reviewed over two hundred relevant articles from previously published sources. Interrelationships among variables as well as the variables themselves were critically evaluated to form the conceptual framework. Literature review captured the evolutions in the variables to-date and theories associated with the variables to develop the conceptual framework.

6. Conclusion

This conceptual paper proposes the conceptual framework depicted in the earlier section. The model is generated in order to assess the motives that drive firms to engage in business networks which are expected to be used to examine the Sri Lankan context of business networks in future. Wincent (2004) and many others have developed and tests similar models, however, it has not been tested in Sri Lankan context thus far. This is especially important since the values, attitudes, cultural motives etc. of Sri Lankan people that affect business motives are entirely different from other small-scale developing countries which have been cited in relevant literature thus far. Nine unique motives have been analyzed throughout this conceptual paper which are believed to have direct influences on business networking among entrepreneurs. They are trust, competition, self-efficacy, tolerance of ambiguity, necessity, stability, legitimacy, reciprocity and efficiency. Although, the proposed conceptual framework is yet to be tested empirically, it is expected to enrich the existing body of knowledge in the business networking domain. The proposed model is expected to set a milestone in the academia enlightening many scholars that will refer it.

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