

## **Collaboration and Information Exchange in the Portuguese SMEs: What distinguishes traditional and modern industries?**

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### **Abstract:**

The every-day life of business involves a great extent of relationships with other firms and institutions. Among these relationships, some are of a collaborative nature. Industries are characterized by a set of norms and values that are specific of each industry and that can be related to a number of aspects. In fact, these characteristics are important determinants of both the motivations and the forms of collaborative relationships in the context of business. These characteristics can also be very sensitive to innovation processes, and collaboration in particular assumes different forms when it is aimed at innovation of R&D processes.

In this paper two contrasting industries are used to explore the role of sectoral characteristics in business collaboration. These industries are the furniture and the events organization. They are contrasting in a number of aspects: manufacturing /services, location (rural vs urban), characteristics of the entrepreneur, physical aspects of business, etc.

The process of developing a methodological approach to studying the phenomenon of co-operative relationships in the Portuguese context took place at different levels, as described below.

1. The qualitative nature of the variables used to explore the phenomenon of business co-operation, and in order to meet the aims of the research, a grounded theory methodology was used, generating categories of entrepreneurs with distinct approaches to co-operative relationships.

2. The assumption that factors of sectoral and geographical nature influence the characteristics of co-operative relationships led to the use of two case studies (sectors) relying on polar cases of quite different industries.

3. The nature of the variables emerging from the theoretical review demanded a qualitative approach to this research. The process of data collection (in light of the feasibility of time/costs and according to the aims/theoretical assumptions) was undertaken via 29 interviews – some to specific experts on the subject and others to firms that met the necessary conditions.

The data presented in this paper was collected in several periods between May 2004 and September 2005. Information was provided by entrepreneurs, business associations, as well as by some representatives of local government. The interviews with firms followed a guide, allowing in-depth semi-structured interviews. Interviews conducted with business associations and local governments were organised around a specifically designed interview guide. In these cases, interviewees were asked to provide a general insight of the sector (region) with particular regard to co-operative relationships and the key points were discussed in further detail. Subsequent questions were based on the information provided by the interviewees, and adapted to the particular case in discussion.

The categorization of data used in this paper aims to cover all possible aspects of the business. Seeing co-operation as a way of relying on other people's resources to attain one's own aims and objectives, this article will look at co-operative relations not only between firms, but also between individuals. In fact, an important part of the arguments used in this research look at relationships of mutual help between the entrepreneur and his/her network of personal contacts, in a way that affects the business. In line with this argument, this paper also deals with relationships that link two different aspects of life: the private and the professional aspects. By introducing the personal life, it is assumed that personal contacts play an important role in business. Looking only at businesses and professional contacts would neglect this important (and often marginalised in the literature) aspect of business.

The results reveal that factors at different levels impact on the characteristics of co-operative relationships. At an individual level the background of the individual and the institutions he/she has been exposed to seem to determine particular motivations for seeking mutual help relationships and specific expectations of their outcome. Additionally, both the social network and family linkages in which the entrepreneur is enmeshed also seem to be important determinants of the trust that seems to enhance the success of co-operative relationships. Contextual factors relating to society, local culture, location (namely dispersal versus concentration and urban versus rural) and the physical characteristics of production also seem to be important for explaining co-operation. Finally, from a macro-economic perspective, historical events, national institutions and national policies were also identified as important determinants of the context in which economic transactions take place and thus how co-operative relationships occur.

**Keywords:** Business Co-operation, SMEs, Furniture industry, Events organisation, Strong and weak ties.

## 1. Introduction

Economic growth is widely considered by local, national and even supranational government institutions as the main final goal of economic policy. In fact, economic growth and economic development is important for people's higher standard of living. The academic literature is, to some extent unanimous in finding some relation between networking phenomenon and economic development. In fact, there are several works that consider this as a hypothesis, presenting different explanations related to the entrepreneurial processes, the division of labour and the competitiveness of SMEs. Jones and Conway (2000) consider networks and networking central to entrepreneurial processes and the creation of new business ventures by fostering the start-up of firms and a better innovation environment. Fuller and Lewis (2002: p319) summarise an extensive list of scientific literature which agree that entrepreneurial networks as well as social networks are mechanisms to promote competitive advantage:

“The extensive literature on entrepreneur networks [...], as analogous to social networks conceives of organisational form as existing beyond the boundaries of the individual firm, and that resource interdependency (including knowledge as a resource) and processes of governance (trust and reciprocity) are mechanisms of competitive advantage.”

Another central argument is placed around the issue of labour division. According to Swell and McCarthy (2001), an industrial network allows firms to focus their production on areas of the value chain where they find they have a core competency. As the degree of specialisation rises, the network participants rely more and more on their partners in a number of areas such as knowledge acquisition and R&D. Finally, Eggs and Englert (1999) built a framework for case study analysis based on three different impacts of networking: on the competitiveness of SMEs; as a means of exploiting the potential of information and communication technology for the realisation of organisational networking and as a non-technological obstacle to competitive advantages. Since achieving competitiveness is one of the ultimate goals of policy, the authors presented five competitiveness-related advantages arising from networking: (1) cost leadership; (2) differentiation; (3) flexibility; (4) increased revenue and (5) geographical proximity as a way to avoid a decrease of competitive ability. According to Conway (2000) informal networks are also important since they are seen as an essential device for promoting communication, integration, flexibility and novelty within and between organisations. They are also viewed as structures that supplement, complement and add value to the formal organisation. This is against the traditional position that firms were working in isolation (Blundel and Smith, 2001). The hypothesis of business co-operation as a way to promote higher competitiveness explains the pertinence of this work – networks and co-operative relations are worthwhile to study because they are, ultimately sources of competitive advantage and economic growth, and they can also serve as a facilitator to promote innovation.

The grounds in which entrepreneurial transactions take place goes beyond the professional dimension of business and the assumption of economic rationality. There is an undeniable role for informal/private relationships and for the social dimension in business. Although there is increased difficulty in researching informality in business co-operation, a large amount of the literature recognises its importance in the context of co-operative networks. Specifically the literature on strong/weak ties provides a good basis for analysing such a dimension. To that extent, this research considers both formal and informal co-operation with a special emphasis on the role of private life in business.

The recognition of network forms of organisation as a driver to economic growth is relatively new to much economic theory. For a long period economic theory agreed that firms followed profit maximization behaviour, leading to competition in terms of price and quantity under certain assumptions. However, in recent years a shift has been taking place within economic theory. In fact, firms do compete but also co-operate. As a result, a vast amount of literature was devoted to this issue, becoming central to economics and sociology, and also introducing some more of the real world into scientific research. However, despite the recent boom in academic production on the issue, the recent devotion of academics to the study of co-operation as a mean of inter-firm interaction still leaves a large amount of research opportunities. Moreover, it is not clear that co-operation and informal business relationships operate similarly across different countries, and hence empirical research is still pertinent when applied to countries in which we still know little about business co-operation mechanisms.

The selection of the conditions and environments in which the research was going to take place considered a number of factors. This particular research was based on the importance of SMEs; their higher degree of informality; the emergent stage of qualitative and co-operation related research in Portugal; and on the specificities of the selected industries.

Since the informal aspects of business are of particular importance in the context of SMEs, researching informality in business transactions has a special significance. The dominance of SMEs in most economies (and in particular in Portugal) and their role in regional development justifies the decision of selecting small-scale firms to conduct this research. Moreover, SMEs must be seen as more sensitive to adverse conditions: Kautonen and Welter (2003) argue that they are more likely than large enterprises to face the difficulty of choosing between (a) taking a substantial risk that involves trust and (b) waiving the business opportunity and the associated benefits. Besides that, choosing SMEs has a

special meaning in the context of the Portuguese economy. For the period 1999 - 2003, SMEs represented 80.2% in terms of number of employees (against 65.0% for EU15) and 71.1% in terms of turnover (against 56.2% for EU15), according to DPP (2004). The particular importance of informal relationships in Portuguese business along with (or due to) the particular role in SMEs, explains why Portugal was chosen as the source of empirical evidence.

Given the characteristics of SMEs, it is easily accepted that small scale organisation may find increase difficulties to innovate, or, at least, they feel more insecure towards entering processes of innovation. One mechanism that can be used to overcome this 'fear' can be co-operation with similar (or not) firms, in order to jointly organise innovative activities. This is the core argument of this paper. In order to understand the processes on joint-innovation, this study draws mainly upon the collaborative relationships that may be used to foster innovation. In addition, a key aspect of both co-operative relationships and innovation is knowledge, know-how, and know-who. Therefore, a core analysis in this paper is the role of both the context and the individual on shaping attitudes towards co-operation, learning and sharing knowledge processes, and the type of ties different entrepreneurs predominantly use in their entrepreneurial actions.

In addition, the organisational culture and business strategy of SMEs typically corresponds to that of the entrepreneur, which often means that the entrepreneur's network of contacts is by far the most relevant, adding a particular specificity to any corresponding inter-firm co-operative relationships that may emerge.<sup>1</sup> Since, in most cases, the enterprise coincides closely with the entrepreneur –the latter being the principal, if not the only, decision-maker within the organisation – small firms are more likely to be organised around the social network of the entrepreneur. This is particularly important in researching the effects of personal social networks in business and the overlap between professional and private lives.

Although co-operative activities and informal relationships are common in the context of Portuguese business, researching this subject is still limited with little knowledge of the national specificities of the phenomenon. Most academic studies examine formal forms of co-operation<sup>2</sup> (due to easier access to information about co-operative relations) or innovation-related collaborative relationships (due to the popularity and importance of the phenomenon).

Moreover, the relatively recent shift in economic analysis (incorporating psychological/ anthropological views) is still in an emergent stage in Portuguese research. A limited number of studies use a qualitative research approach (especially in economics) and most of them ignore the role of informal relationships to business. This fact reinforces the pertinence of this work to understand Portuguese business mechanisms, especially the case of co-operative relationships.

In a similar manner, the choice of the sectors was also taken considering the novelty of this research. The recent development of the events organisation industry results in a complete lack of data and research about its specificities. Incorporating the events industry in the research aimed at adding originality to this study. However, a trade-off between data availability and the originality of the findings was found. In addition to the potential of original contribution, the emergent stage of the events organisation industry provides a great opportunity for studying its evolution from an early stage. It will also be possible to identify new forms of co-operation as the industry becomes more mature, and relate them to the maturity stage of other industries. Moreover, the choice of the furniture industry was done on the basis of contrasting sectors and in order to highlight the major differences arising from the nature of the sector and its specificities.

The advantages brought to economic performance from networking activities explains why such an approach becomes more and more popular and thus of greater interest among academics, policy makers and entrepreneurs. This constitutes the main reason why a study on this issue becomes so relevant. In first place because the issue is of such importance it deserves increased attention. Secondly because there was an absence of studies of Portuguese entrepreneurial culture, it is expected that better understanding of co-operative relationships, could help policy makers to create policies that better fit reality, in particular SMEs innovative activities. Finally it was desirable to establish what explains differences in terms of networks, according to a number of factors.

## **2. The Role of Individuals' Cognitive Representations in Co-operative Relationships**

The way entrepreneurs approach co-operative relationships is (also) a matter of the characteristics of the individual. The argument developed in this section is that there are three perspectives under which individual entrepreneurial behaviour needs to be organised relating to: institutions; information, and networks. There is an institution perspective, in which individual behaviour is a result of the institutions he/she has been exposed to. The information perspective argues that individual behaviour is a result of the information they possess. Finally, the network perspective relates the entrepreneurial approach to co-operative relationships with the co-operative networks the entrepreneur is involved in.

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<sup>1</sup> This is particularly important in the context of this research. In all firms interviewed, the entrepreneur was the only decision maker in the firm. This is the case of a vast majority of SMEs in Portugal.

<sup>2</sup> Based on written contracts

This approach marks a break with the methodological individualism perspective, in which individuals are seen as exogenous, rational and equilibrium orientated as in orthodox economic theory (Hodgson, 1991). To that extent, heterodox economics acknowledge that there are particularities inherent to the individual that need to be taken into account, as it can be seen in Viskovatoff (2002: p65-66):

“Runde and Faulkner give many examples of the background: the improvisational skills of the Jazz musician; cultural differences of workers which can create problems for the management; the tendency of gamblers to set up a ‘mental account’ for their wins and losses on a given day [...] three principal reasons why (their) notion of the background is appealing: (1) it makes clear that human behaviour involves many different practices in addition to exhibiting a general tendency to optimise or act in one’s own best interest; (2) I brings out the tacit aspects of this these practices as well as of much of our knowledge; (3) it brings out the social nature of these practices and knowledge.”

The institutional perspective draws upon the argument that institutions influence human behaviour through the creation of a set of rules, norms, habits, conventions and routines that will end up influencing the behaviour and cognitive process of entrepreneurs. Here, the individual is a result of the institutions he/she has been exposed to. This argument leads to several important conclusions.

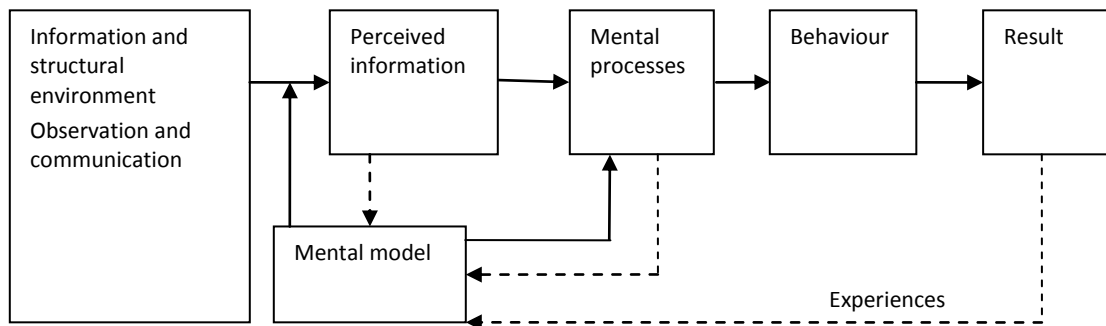
The first one is related to the uniqueness of each entrepreneur based on the background and experience. Two individuals would behave exactly the same only if they have been exposed to the same institutions. Hence, they had to share the same work history, education, social networks, etc. Moreover, it is highly unlikely that two individuals would react and display the same attitudes towards life.

The second outcome of this perspective is that within the same local productive system (within certain geographical proximity) entrepreneurs are more likely to display similar behaviour as they are more likely to have been exposed to the same institutions.

This perspective also points to the existence of generational differences in business attitudes. Different generations have lived through different phases in the historical development of institutions (assuming an institution evolutionary perspective) and hence the way co-operation is perceived is likely to be different too.

In line with this perspective, individual behaviour, and in particular that related to co-operative relationships, depends on the institutions that have affected each individual. Hence, the more institutions individuals have in common, the more convergent their behaviour is expected to be.

The second perspective considers that each agent’s behaviour is a matter of information (no matter whether it refers to local cultural and social institutions, general knowledge or personal contacts). Furthermore there are other factors that determine agents’ actions. Fornhal (2003) describes the process of decision making in the next figure: (See Figure 1)



**Figure 1: Structure of information processing and individual decision making**

Source: Fornhal (2003)

The decisions agents take are far from being optimal, from a theoretical point of view. This is mainly because they do not possess all the information available thus the decisions are based on the information that the agent has access to. The author describes the process (See Figure ) as follows. The cognitive representation that an agent holds has an impact on his perception of information coming from the environment and interpretation of the world. As a result, two different agents have the same behaviour if they would have to share, not only the same cultural settings, social institutions, network of contacts, information but also mental processes. This is why individuals are unique and different behaviours are to be expected, even though in, virtually, the same circumstances. Loasby (2000: p298) supports this perspective, but also combines it with the institutions view, as can be seen in the quotation:

*“Because our cognitive capacities cannot match the complexities of our situation, we must act on the basis of representations which are often of dubious adequacy and procedures which are of uncertain value. Moreover, we do not have the time or ability to formulate more than a very small proportion of the representations and*

*procedures for ourselves, and therefore often rely on those which appear to be used by other people. Thus the rules and conventions that we call 'institutions; are first of all aids in solving individual problems"*

▪ The network perspective describes human action in light of the social (business) networks the individual belongs to. Despite the existence of a regional set of values that influence networks and its qualities (like shaping trust and power relations) there is also an individual specific feature in each network actor.

When a firm start-up occurs within a network, the firm shares from the very beginning the network identity given most of its behaviour (of processes, strategy, etc.) has been learnt within the network. Furthermore, this fact might be important on the explanation of network dynamics. Alongside the fact that the network increasingly contributes to the actor's behaviour in line with the density of the network, the density of the network also increases as the more similar is the participants' behaviour.

This analysis becomes more complex when one assumes that the same firm belongs to different and distinct networks at the same time. In this case the degree of involvement with each network is very relevant. This perspective is also shared by Dobbin (2005: p28):

"Network theory builds on Simmel's and Durkheim ideas about how the individual position in a social milieu shapes both his behaviour and his underlying identity. For Durkheim, social networks shape the actions of individuals not merely in a negative sense, of undermining anti-social behaviour, but in a positive sense, of establishing accepted behaviour patterns."

Although most of the analysis conducted in this section highlighted the contextual factors interfering in co-operative relationships, these factors, ultimately, result in the development of unique individual characteristics. These characteristics become central to the study of innovation processes and inter-relationships as these will depend on the participants' behaviour and beliefs.

### **3. The "Strength of Weak Ties" and Structural Holes**

The aim of this section is to characterise the ties occurring in co-operative relationships. In this respect, it considers ties of both a professional (business) and private (social) nature and the strong link between them. It also addresses the outcomes of the different ties to the individuals involved in a co-operative relationship. The argument underlying this section is that both weak and strong ties contribute to processes of innovation, although in a different manner.

According to Granovetter (1985), economic behaviour is clearly embedded in interpersonal relations. These ties established between individuals are of major importance in the context of a firm and hence within the industry and the economy. Private life relationships often produce important outcomes in business. Furthermore, professional relations sometimes become private, strengthening business linkages. These interactions constitute the basis for business itself, as according to Elfring and Hulsink (2003: p411): "*Economic transactions between firms do not take place in a vacuum but rather, are often based upon a history of past dealings and ongoing social relations*".

This strand of the literature (known as relational embeddedness) has produced a rich set of writings in recent decades, emphasising the strategic role played by personal relationships in economic relations. These writings have two important strategic outcomes: (a) ties are embedded within social relationships that influence the economic action of the firm; and (b) ties are mostly governed through mechanisms of trust and relational contacting than through traditional market governance (Hite, 2003)

Relationships assume different natures, with different levels of commitment, periodicity, and trust. These characteristics are important in determining the outcome of such relationships. According to Uzzi (1999) relationships may range between arm's length and embedded. Arm's length ties are lean and sporadic transactions and function without any prolonged human or social contact between parties who need not enter into recurrent or continuing relations as a result of which they would get to know each other well. In contrast ties embedded in economic exchange and social attachments can create both unique value and motive exchange, encouraging partners to share the value for mutual benefit. Embedded ties promote these outcomes through the transfer of private resources and self-enforcing governance.

Moreover, any relationship may also be characterised by the type of ties established between two individuals. Granovetter (1983) in "The strength of weak ties" defines two types of ties:

▪ Strong Ties are those that rely on family or private life links and that are very important in the first stages of the firm. These ties rely on high levels of social relationship or personal interaction and they demonstrate high frequency and reciprocity. They are associated with the exchange of tacit knowledge and fine-grained information. There is a trust-based governance and resource acquisition.

▪ Weak ties are usually based on less close contacts but are more beneficial in providing access to novel information (thus new opportunities) as they offer linkages to new contacts within and outside the network. These ties entail less frequency and less reciprocity.

It is the mix of strong and weak ties that provide critical advantages to firms. According to Elfring and Hulsink (2003), this mix allows firms to discover new opportunities, to secure resources and to gain legitimacy. Both types of ties have

different impacts on innovation. Strong ties are more conducive to incremental innovation while weak ties create a better environment for radical innovations<sup>3</sup>. Simsek *et al.* (2003) enumerate the reasons why weak ties enhance radical entrepreneurial behaviour (including innovation) and strong ties promote incremental innovation. According to them, weak reciprocity enhances radical behaviour because (i) the penetration of novel information from different parts of the industry is easier; (ii) these relationships are less likely to constrain the ability of firms to undertake radical change and; (iii) a reciprocally coupled network might interfere with radical entrepreneurial behaviour because the incentive to engage in this type of behaviour will be “low-powered” or “flat” in such a social context. On the other hand, strong ties become more valuable to the firm in terms of incremental innovation because they promote the development of inter-firm knowledge-sharing routines and endow individuals with adaptive capabilities. Moreover, relation-specific investments<sup>4</sup> also play a role because they allow firms to focus and exploit their existing capabilities. If the perspective of the firms in a co-operative relationship is to gain innovation-related advantages, it is clear that this mix is also central to co-operative networks. Moreover, a network is a set of relationships that can be characterised as either strong or weak. From a different perspective, an important part of co-operative relationships regards information exchange, where the same features of innovation are present. Even in an involuntary way, close interaction and co-operative relationships embody information transfer and gains to firms depend on the innovativeness of information.

In fact, both ties are advantageous to a firm, although bringing different gains. According to Simsek, *et al.* (2003) perspective focus the strength of weak ties on finding new information which leads to the discovery of new entrepreneurial activities, while the perspective on the strength of strong ties emphasise the facilitation of exchanges of high quality information, knowledge and resources between organisations and also helps the members to discover new ways to exploit opportunities that are already known or already exist within the network. Thus, although strong ties rarely bring new information, they are quite useful in helping to interpret external opportunities and threats.

	Strong Ties	Weak ties
New information	(-)	(+)
Discussing and evaluating feasibility and opportunity	(+)	(-)
Radical innovations	(-)	(+)
Incremental innovations	(+)	(-)

**Table 1: Impacts of strong and weak ties**

Source: Elaborated by the author

Another important relevant perspective is the concept of structural holes. Despite being central to the network phenomenon, this concept also provides interesting insights into co-operative relationships. In line with Burt’s work (1992; 1999; and 2000), structural holes are commonly present in sparse networks. These relate to accessing contacts in a network in which one does not participate but contacts from one’s network do. In this way, structural holes are a driver of entrepreneurial contacts and most likely of innovative information. Although it also acknowledges that dense networks are also important in promoting cohesion within the network. Burt’s definition of structural holes is a “separation between non redundant contacts” implying the lack of direct contacts between two network participants but in a manner that is still able to generate advantages. In summary, networks richer in the number of structural holes should experience higher levels of entrepreneurial behaviour (Burt, 1992).

#### 4. A Methodological Note

Understanding what motivations lead entrepreneurs to co-operate towards innovation is of major importance and is the aim of this work, in a very broad way. It is assumed that differences in various aspects, related to the business, do have an effect on the way that co-operation works. This briefly explains the decision of selecting two polar cases for the study, in order to allow comparisons. The aim of this section is to take a look into the techniques that are used in the context of this work. It raises the more fundamental questions and addresses ways to undertake the research and to answer the theoretical demands. In a way, it justifies the choices that were made regarding the existent limitations in terms of research.

In short, the whole process started from the willingness to study entrepreneurial action, in order to understand why do firms (SME’s since most of the time the entrepreneur is the only decision making inside the firm and for all the aspects of the business) co-operate. Some ideas (in the form of propositions) already existed, however, they needed to be tested and a deeper analysis was still needed. In order to pursue this task, a population selection had to be done. It was decided

<sup>3</sup> **Radical innovations** are those that disrupt the existent conditions and require a change in the business context. They are based on exploration and competence destruction and a higher degree of uncertainty is faced. **Incremental innovations** are less disruptive and are based on exploitation and competence-enhancement measures.

<sup>4</sup> Investments are considered as relation-specific when they have little or no other purpose other than to the specific relation. These investments typically involve maintenance costs thus firms need to assess the economic returns from these investments and to be confident that their partners will not behave opportunistically.

then to choose two polar examples verifying certain circumstances. The sectors that fulfil this criterion were the furniture industry and the event organizers industry.

Some previous pilot interviews were taken in order to have the first real contact with the industries and also to have a first test to the pre-conceived ideas about this issue. It was also necessary to understand what methodology was feasible and to collect some more information that would allow the reshaping of the existing propositions. This process also allowed realization of what variables would be more appropriate to study along with the choice of qualitative vs. quantitative data to collect.

After all the field work complete, the data analysis was done using qualitative research software which permitted to create distinctive categories and to find out about their properties. The interviews were conducted in Portuguese, as much as the data analysis and only the final results were translated.

The data used to reach the presented conclusions was collected via 29 face-to face interviews grouped by three different types or organisations: Furniture firms; events organisation firms and supporting institutions (including relevant national and local business associations and local government bodies). The interviews were done according to four different stages:

In the first stage pilot interviews were taken in order to construct an interview guide more adequate to the business reality;

For the second stage, firms were interviewed using the first resulting interview guide;

Once the interviews in the second stage were analysed and compared to theory another upgraded interview guide was used in order to provide a deeper understanding of the issues considered as more relevant;

Finally, two case studies were selected (from the data collected in the previous stages) and interviews were done with these firms. Some other relevant institutions were also interviewed during this stage.

Although the number of interviews could seem rather weak, the fact is that the maturity of information was achieved. In the later stages of data collection, no new data was coming in, and therefore the research aims could be considered as met. Nonetheless, a number of strategies were used in order to validate the findings. The main data was collected from firms' interviews. However, in addition to the purposes referred to earlier of the interviews with business associations, they were also used to validate the data collected from firms. Business association informants, despite having good knowledge of the sector, also have different expectations and thus, in the case of data being biased, it was expected to be biased differently. In that sense, data could be used to validate the data from entrepreneurs. Moreover, these informants were mainly economists, with a good theoretical perspective on the subject, hence providing a different perspective on business co-operation, as for them information was understood from a theoretical perspective too. Some observation-based research was also conducted. Participation in sectoral exhibitions provided the opportunity to observe in locus the validity of data and to look at entrepreneurial interaction. Finally, two in-depth firm case studies also permitted the validation of the data collected previously, as 'dubious' findings could be researched again and approached in a different manner. This remains one of the main advantages of interactive processes of research, as data is collected in different time periods, offering the possibility of correcting incomplete or inadequate data collection.

The use of a qualitative approach has proved very efficient in discovering the 'real' motivations of entrepreneurial action. This is also derived from the complexity of the problem. The initial idea of using questionnaires to study the phenomenon was abandoned because it could not inform properly on the particularities of the co-operation practices. However, it must be recognised that such research tools provide the opportunity to gain more generalised results, by accessing to a wider selection of participants. In that respect, once the specifics of co-operation were identified via qualitative research, the applicability of such motivations can be tested in other research conditions (with the use of questionnaires). Therefore, in order to increase the level of generality of the research, a combined research, using both interviews and surveys could be used.

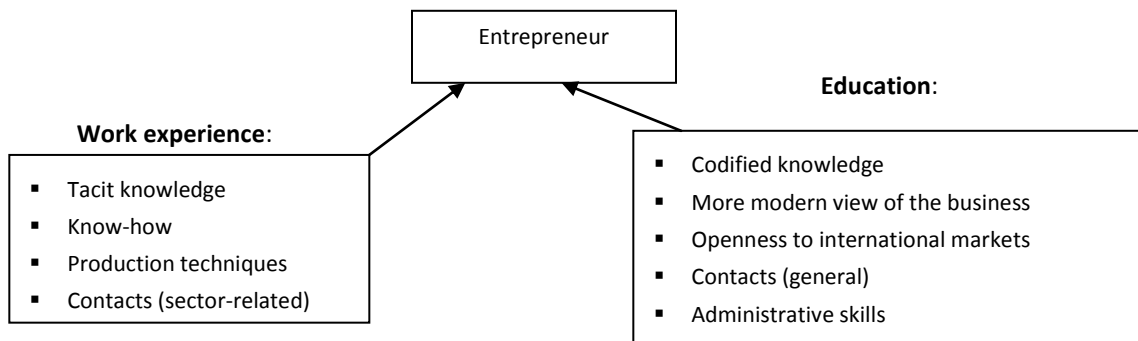
## **5. Results and discussion**

This section provides an analysis of the potential contribution of both formal education and work experience in shaping entrepreneurs' attitudes towards business co-operation, in particular relating innovation activities. Both factors provide the entrepreneur with information and knowledge, thus this section analyses the processes of information and knowledge acquisition involving co-operative relationships. The issue of knowledge and learning is analysed in this section in a dualistic perspective. On one hand, knowledge acquired through both formal education and work (life) experiences influence the entrepreneur's mental processes and thus the way information is perceived, leading to unique entrepreneurial behaviour. Here the quality and type of information may be important in determining the mechanisms and propensity to co-operate. On the other hand, business interaction is often aimed at exchanging knowledge (both conscious and unconsciously). The underlying concept of exchange in information sharing is to be seen as part of the spectrum of co-operative relationships.

For the purpose of this section, education and work experience will be analysed from three perspectives: tacit and codified knowledge; formal and informal learning; and strong and weak ties.

Work experience provides individuals with tacit knowledge and professional contacts that may bring important industry-specific information. Formal education fits into the category of codified knowledge but it also provides non-business related personal contacts. Tacit knowledge is subconsciously understood and applied, difficult to articulate, developed from direct experience and action, and usually shared through highly interactive conversation, story-telling and shared experience. Codified knowledge, in contrast, can be more precisely and formally articulated. Therefore, although more abstract, it can be more easily codified, documented, transferred or shared.

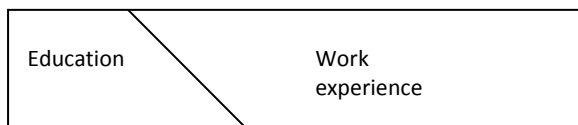
Morone and Taylor (2006) look at the process of knowledge acquisition from a different perspective. According to the authors, acquiring knowledge can be both formal and informal. Formal learning occurs in certain environments which are specific for learning such as schools, workplaces or training groups. Informal learning comes from the process of interaction with ‘peers’, and occurs spontaneously. This perspective is important in supporting the argument that contacts are important vehicles for tacit knowledge acquisition. The access to interaction with ‘peers’ is crucial to foster learning and information, gatekeepers can be found both in previous jobs and in the process of acquiring formal education (although the information provided is different in nature). While information gathered from contacts in previous jobs is industry specific, informal learning occurring with ‘peers’, accessed through formal education may be of general nature. Finally, strong and weak ties provide information which is different in its nature. The types of knowledge acquisition in both formal education and work experience, as emerged from the data, are displayed in the figure below:



**Figure 1: Effects of work experience and Education**  
Source: Elaborated by the author

In terms of prior experience, there is a big difference between the furniture entrepreneurs and the events organisers. The furniture entrepreneur normally comes from a competing firm, i.e. the typical furniture producer started to work in a furniture firm when he was very young. Contrastingly, the ‘common’ events organiser invested much of their life in acquiring formal knowledge and started the firm both at a later stage of life and with less work experience in the sector. Although less commonly, event organisers with low levels of formal education and educated furniture entrepreneurs were also found in the sectors.

The difference between the two types of entrepreneurs reflects the relative balance between experience and education. In a schematic way, this can be shown in Figure 2, which shows that furniture (1<sup>st</sup> generation) entrepreneurs are generally more endowed with work experience and less with formal education, while event organisers and furniture (2<sup>nd</sup> generation) entrepreneurs rely more on formal education rather than in the knowledge acquired in previous work experience (as their work history is shorter). Therefore, the former type of entrepreneur is provided with more tacit knowledge, while the latter is more endowed with codified knowledge.



Furniture (1<sup>st</sup> generation) entrepreneur



Events and furniture (2<sup>nd</sup> generation) entrepreneur

**Figure 2: Balance of education and work experience in both sectors' entrepreneurs**  
Source: Elaborated by the author

The fact that most first generation furniture entrepreneurs entered the business so early provided them with extra experience in terms of business experience, know-how, and contacts. On the other hand these entrepreneurs had to leave school early, are less educated and display a bigger gap in terms of formal knowledge, as can be seen in the following quotation:

*“My father left school, at those times there were great economic difficulties, and he wanted to carry on studying but his parents did not allow him to, and he started working on a furniture firm”***[PP:30]**

With regard to events organisers, the picture is slightly different. Most of them have had some previous work experience in related industries but rarely in events organisation. Thus, the main advantage they are provided with from previous experience is not so much in terms of know how, but more in terms of contacts and knowledge about the market. As shown in the previous chapter, in some cases the entrepreneur’s previous job was to contract (outsource) event organisation firms for the firm he/she was working for. However, entrepreneurs coming from very different backgrounds were also found, such as lawyers, and sport teachers. In these cases, entrepreneurs entered the business due to an unemployment situation. Nonetheless, these entrepreneurs have also started the firm by organising events informally, in their private lives.

Once again the information gathered by event organisers (provided by contacts from previous job experience) is less likely to be redundant than in the furniture industry as these contacts are from different sectors. This is based on an analogy of the effects created by weak and strong ties. The fact that furniture entrepreneurs’ contacts come mainly from other furniture firms may provide less innovative information (as these contacts often share the same environment), although useful information may also come from them. When contacts are established with people from very similar backgrounds the information they possess is more likely to overlap, as is noted agreed in the theory (e.g. Granovetter, 1985 and 1983; Burt, 2000). Hence the gains from information- based interrelations in the event organisation industry are expected to be higher as ties are established with people from different sectors (thus less overlapping of knowledge) but sectors with some sort of link (which means that the loss in terms of communication is less relevant).

Previous work experience provides entrepreneurs with both know-how and contacts. Furthermore, it also provides important knowledge about the sector and the economic conditions (if previous work experience was in the same or related industry). The fact that the entrepreneurs’ previous business experiences influence their ability to conduct business is clear, through a process of knowledge and know-how acquisition. In this section an emphasis is also put on the sources of information, i.e., the acquisition of useful contacts and other information, and on understanding the differences occurring between sectors.

A number of similarities have been found between second generation furniture entrepreneurs and event organisation entrepreneurs (e.g. the shift of concern from the production to the marketing activities). This leads to the conclusion that one of the possible causes for this shift is the impact of formal education on the entrepreneurs’ approach to business.

The hypothesis that educated entrepreneurs are expected to better respond to global changes in business and move from the concept of mass production based business into the service based approach, may be a consequence of these entrepreneurs being more informed (with better access to information) and that they successfully take advantage of existing support programmes (as shown in the previous chapter). Despite the lack of business support programmes for the events organisation industry, entrepreneurs seem to actively seek information about the whole range of programmes that they can possibly benefit from, thus taking full advantage of available opportunities. Moreover, in the furniture industry, it was suggested that firms participating in support programmes were led to do it by the second generation (with the approval of the first generation).

Although it cannot be claimed that only education contributes to the different approaches to business, it seems that it plays a significant role. With regard to the furniture industry, two main issues distinguish first from second generation entrepreneurs: education and work experience. The fact that the second generation have hardly worked in production lessen its importance to the team in the general context of business. However, formal education (and usually in a business related subject) seems to be very important in understanding business according to new concepts. The following box provides evidence to support this argument.

Within the furniture industry, three of the firms interviewed were involved in an attempt to create a network (within a support programme fostered by the local business association and created by a national business association). In all the three cases, the process of network participation, although accepted by the father, was established by second generation entrepreneurs, who were representing the firm in that specific programme. Second generation entrepreneurs were responsible for managing the firm’s participation in the programme. This demonstrates the higher willingness of the younger generation to enter co-operative relationships, with higher levels of formal education.

Box 1: The influence of formal education in the willingness to co-operate

The generation gap in terms of formal education can largely be explained by the evolution of the Portuguese education system and by the economic conditions of the country over the last few decades. While it is very difficult to find a first generation furniture entrepreneur with a university degree, it is very common to find it in the events organisation and in the second generation of the furniture entrepreneurs.

Access to education is also limited by the inexistence of unemployment. The traditional region of furniture production – Paços de Ferreira and Paredes, was known (until a number of years ago) for the regular use of child labour. Not only because child labour and early school leavers were accepted locally until very recently, but as children soon realise an opportunity to get financially independent, they were willing to leave school and get a job. Hence, the inexistence of unemployment pushing children into the labour market very early contributes to the low levels of education in the region. Until a decade ago, compulsory education was only for six years, leaving children with no obligation to attend school beyond the age of 12. If less educated people are less aware of the advantages of formal education, then the region gets locked into low education standards, creating a harmful cycle of uneducated workers and entrepreneurs.

The quotation used previously (PP: 30) referring to the barrier created towards education is also useful in illustrating this argument. In fact, some people still consider education as a waste of time, as possibilities of monetary gain in the short term are very visible. Guichard and Larre (2006), although not making a distinction in terms education levels recognise that in Portugal there is relatively low appreciation of schooling by large groups of the population. However, data suggests that as less educated people become entrepreneurs, they begin to realise the effects of the lack of education and hence the entrepreneurs are usually willing to provide their children with the opportunity to get a university degree. These entrepreneurs recognise the importance of skilled workforce in their firms as their children are expected to take over the firm at some point. This also may be explained in terms of economic conditions with the furniture entrepreneurs seeing further education for their children as an investment.

While educated entrepreneurs can access tacit knowledge, as time goes on it seems to become more difficult for entrepreneurs with low levels of education to return to schools and thus combine their tacit knowledge with codified knowledge. From this perspective, second generation entrepreneurs seem to be in a relatively advantageous position, as with time they will gain experience (and tacit knowledge) and achieve a situation of being endowed with both codified and tacit knowledge. This is mainly explained in terms of the cost of opportunity of gaining codified and tacit knowledge. While codified knowledge implies a high opportunity cost (as it involved returning to schools), tacit knowledge can be acquired at a lower opportunity cost (while working in the industry).

Analysing the behaviour towards co-operation of three different groups of entrepreneurs (furniture, first and second generation and events organisation entrepreneurs) a relationship between the degree of formal education and the features of co-operation can be suggested. However, some entrepreneurs with lower levels of education may approach business in a way similar to entrepreneurs with higher education. In the previous chapter it was shown that furniture first generation entrepreneurs are more inclined towards some co-operation mechanisms, whereas events organisation and 2<sup>nd</sup> generation entrepreneurs usually prefer others. As the stock of formal education and work experience are different between younger and older generations, it seems possible to establish a relationship between both variables and co-operation. The evolution of the Portuguese education system and the availability of employment are highlighted as the causes for the differences in accessing formal education and ultimately contribute to explain the shifting attitude of Portuguese entrepreneurs towards co-operation.

In conclusion, different business approaches to networking and collaboration are caused by the different amounts of know-how and formal knowledge. Tacit and codified knowledge provide inputs to the entrepreneur leading to different behaviours. Moreover, education and work experience have a positive impact on the amount of information needed to conduct a business. However, the unbalanced stock of formal knowledge and work experience (creating unbalanced levels of tacit and codified knowledge) may also contribute to explaining different attitudes towards business co-operation. It has also been shown that entrepreneurs with different levels of education generally display different attitudes towards co-operation. Therefore, an analysis of the entrepreneurs' education level becomes central characterising co-operative relationships.

## **6. Differences in approaching Innovation and collaboration**

Making a clear distinction also provides some insights in terms of the influence of urban and rural contexts in the way businesses are conducted as the type of entrepreneurs are categorised accordingly. For the purpose of this analysis, one should consider furniture first generation entrepreneurs as settled in a rural context, events organisers in an urban context and furniture second generation furniture entrepreneurs as semi-rural entrepreneurs. Despite these differences have, to some extent, reduced over recent decades, significant differences from first generation entrepreneurs still remain. Although these entrepreneurs have witnessed structural sociological changes, at the core of their behaviour, rural institutional values remain as the main source of entrepreneurial action. This means that although not behaving in the same way as three or four decades ago, some of the embedded cultural values (such as trust or honesty) remain

unchanged. For example, a second generation entrepreneur explains the extent to which first generation entrepreneurs display low appreciation of business associations, since “in their time they could survive without business associations” [LB: 15]. Second generation entrepreneurs in the furniture industry are considered to operate in a hybrid type of urban-rural environment for two reasons:

- i) These entrepreneurs, although brought-up and educated with rural values have, generally spent time in urban areas getting their University degrees; and
- ii) The second generation is composed of individuals who were born at a time of easier access to urban areas (due to the recent development of transport infrastructures), and are more exposed to globalisation brought about by increased communication such as the internet which makes their contact with the external world easier, and where information is diffused more rapidly and easily.

Although this is the common ‘picture’ of the second generation furniture entrepreneurs, among the interviewees, entrepreneurs without university degree were also found. In addition, certain entrepreneur went to university in very near cities, and therefore, their attachment to the local productive system was also very strong. These entrepreneurs seem to display entrepreneurial attitudes similar to those who never left the region.

A limitation of this study is however the lack of information collected from first generation furniture entrepreneurs. The data collected reflects mainly the opinion of second generation entrepreneurs and members of business associations and it is likely that different insights would have been provided if more first generation actors had been interviewed. Another important limitation of this analysis is that it is not possible to delineate clear and homogeneous groups of entrepreneurs. For example, entrepreneurs based in rural areas with entrepreneurial attitudes similar to those in urban areas can be found. In light of this, the analysis here aims at defining a set of commonly found characteristics for first and second generation entrepreneurs based in urban and in rural areas, in a general manner. These findings should not be read as narrowly defined characteristics for each group of entrepreneurs, but rather as a means to highlight the most significant differences found in urban and rural entrepreneurship, and how these differences have evolved with the societal transition in Portugal. On this basis the table below (see Table ) displays the predominant categories for each type of entrepreneur.

Entrepreneur	Education	Urban/Rural context	Type of ties	Core business activity	Type of co-operation	Co-operation protection
Furniture generation) (1 <sup>st</sup> )	Low	Rural	Strong	Production	Informal	Trust relationship
Furniture generation) (2 <sup>nd</sup> )	High	Rural + Urban	Weak and Strong	Marketing	Formal / Informal	Contract
Events organisation	High	Urban	Weak	Marketing	Formal	Contract

**Table 2: Differences in co-operative entrepreneurial behaviour in terms of urban/rural context**

Source: Elaborated by the author

In the furniture industry business development seems to be highly constrained by family evolution. Thus, the firm’s development usually depends on the second generation’s ability to take over the management of the firm and to introduce new management skills. In the interviews the differences between the two generations were sought, as a way to understand in what way the entrepreneurs’ age and education affect the way they see business. During the process of data collection, important similarities were found between furniture second generation and the events organisation entrepreneurs. This fact is very important in supporting the argument that age and educational level may be important factors in the explanation of the different approaches to co-operation.

The differences between the two generations within the furniture industry shown in the previous chapter are as follows:

- The second generation is usually more innovation and design driven and more open to R&D;
- Although there seems to be evidence of informal co-operation in the first generation, the second generation is more inclined towards the formalisation of co-operation and is more willing to enter co-operation supporting programs;
- A bigger emphasis is placed on market and firm image by second generation management, while the first generation is more concerned with production aspects;
- The second generation is more open to business associations taking an active role in business and is more willing to use the services they provide.

Including the second generation of entrepreneurs in this analysis is necessary as these entrepreneurs greatly influence the decisions in the firm and some of them are even at the top management level of the firm, despite the differences referred previously. Moreover, this analysis permits a more accurate view of the potential co-operation characteristics between the furniture firms.

Possible conflicts may arise when management changes from one generation to another and both of them are working in the firm. When this happens, it is usually the second generation that is constrained by the first one. The first generation is in a powerful position, which reflects power asymmetries inside the family. In any case, the second generation

recognises that it still needs to be backed-up by the knowledge of the first generation (regarding production and the ‘tricks’ of the business), as well as the network of contacts built up over the time. It seems clear that despite the generational conflict in family firms (often quoted in the literature), there are also advantages arising from the co-existence of both generations in the firm management as can be seen in this quotation from a furniture second generation entrepreneur:

*“...in the firms in the succession stage, the second generation entrepreneurs want to change, but in a way they are limited by the conflict between the generations. New firms, created by entrepreneurs of my generation (lacking the support of the first generation) gamble heavily on more modern management, but most of times it goes all wrong, the market is very tricky [...] in terms of competition one needs to be aware of all the tricks [...] that come from the experience of the first generation [...] but it is also in firms in succession (compared to those still relying only on first generation management) where modernisation has happened and there is a higher importance on the firm image, marketing, quality of service, etc....”* [LB: 325]

It seems that in the case of family based firms, the firm becomes a repository of knowledge and information and hence more adapted to market changes, along with enjoying the advantages of first generation experience. However, it must be noted that conflicting positions also act against firms in succession. In that sense, second generation furniture entrepreneurs are in a better position than the event organisers and take advantage of both formal and informal collaboration as the pool of contacts seems to be wider.

Table establishes some relationships of causality between the different factors affecting co-operation. It suggests relations based on the strongest trends emerging from the data although exceptions to the present categorisation are commonly found.

		Education	Context	Type of ties	Core business activity	Type of Co-operation	Co-operation protection
Education	High				Marketing	Formal	Contract
	Low				Production	Informal	Trust
Context	Urban				Weak	Formal	Contract
	Rural				Strong	Informal	Trust
Type of ties	Weak				Formal	Contract	
	Strong				Informal	Trust	
Core business activity	Production				Trust		
	Marketing				Contract		
Type of co-operation	Informal						
	Formal						
Co-operation protection	Trust						
	Contract						

**Table3: Causal factors affecting co-operative relations features**

Source: Elaborated by the author

The data contained in the table is informative about two different homogeneous groups of entrepreneurs, which also correspond to the furniture and the events organisation entrepreneurs. These two “entrepreneurial types” are described separately below, along with possible explanations for the behaviour they assume. Again, it should be noted that the following two stereotyped individuals are characterised in an oversimplistic way in order to highlight the differences in terms of the entrepreneurs’ position towards co-operation. In reality, these two types overlap considerably, as each entrepreneur is a mix of two types. In the same way, each characteristic of the entrepreneur should not be seen as a consequence of a single factor. For example, the preference for formal co-operation cannot be explained solely on the basis of the entrepreneur’s level of education, but rather has to be seen as a consequence of a set of factors, such as the context in which the entrepreneur is embedded and the type of ties he/she relies on.

## 7. Conclusions

This paper has analysed different approaches to co-operation and information exchange in the Portuguese entrepreneurship. Co-operation is highly related to innovation because it is often a condition to achieve innovation activities, and most Portuguese firms face high barriers to engage in innovation processes alone. On the other hand, the main ‘raw material’ for innovation is information. It has been shown that different information exchange mechanisms can be found in firms with different characteristics. Furthermore, the type of information exchanged is also dependent upon these characteristics. Two main approaches to co-operation resulted from this research: contract (formal) and trust (informal) –based, as described below.

### **Trust-based and informal relationships:**

Informal co-operation seems to be preferred by those with a low level of formal education and embedded in rural values. These entrepreneurs relied mostly on strong ties and acquired their knowledge tacitly through informal learning. Over the years, these entrepreneurs had the opportunity to verify that information transferred informally was reliable and that trust relationships could be a good source of information. Information exchange is a sort of co-operation and thus these entrepreneurs tend to rely on informal collaborative relationships. On the other hand, rural areas are apparently less competitive, having honest and genuine relationships at the core of the social values. For example an event organisation entrepreneur based in Lisbon (where more urbanised social values are displayed) admits that usually he prefers to engage in business relationships with firms from the north of Portugal, where people have more “honest attitudes” towards life (IN: 7), suggesting that urbanisation acts against trust and that some values are region-specific.

In a way, it can be said that these entrepreneurs rely more on community-based relationships rather than on the national justice system as a way to ensure that co-operative relationships are not subjected to dishonest behaviour. This is why low education entrepreneurs and those based in a rural context, prefer co-operation to be backed-up by a trust relationship rather than by a contract. The fact that these entrepreneurs rely mostly on strong ties helps in supporting the argument that informal co-operation is preferred over contractual. The outcome is that there are savings in terms of contract costs and still the incentives to co-operate are out-weighted by the incentives to abuse co-operation.

The same argument can be used to explain why co-operation mainly takes place in productive activities for first generation entrepreneurs. Apart from the fact that for first generation entrepreneurs, production is seen as the core business activity and thus they are open to collaborative relationships in production, these entrepreneurs have also experimented with informal learning in production (through work experience) recognising an opportunity for co-operation. The sort of co-operation which often occurs regards outsourcing of activities, at times when the firm does not have the capacity to fully undertake production. In these cases the entrepreneur outsources parts of the production to other entrepreneurs he/she trusts and to which collaborative relationships are often established.

Moreover, the lack of formal knowledge (which could provide them with a more competitive-driven view of the business) may also explain why marketing strategies are not considered. For these entrepreneurs, marketing channels are established via personal contacts and historical relationships. Hence, marketing is not a strategic concern for these entrepreneurs and thus they tend not to rely on collaborative relationships to get a marketing advantage.

### **Formal relations and contract-based co-operation**

At the other extreme of the analysis lies the events organisation entrepreneurs with very important differences in terms of the factors presented in this section. The ‘typical’ event organisation entrepreneurs belong to a younger generation, have acquired higher levels of codified knowledge and are set up in an urban area. The fact that this entrepreneur usually has more formal education provides him or her with more awareness of legal issues, and thus he trusts more in the legal system. Moreover, because the entrepreneur is embedded in an urban society, the role of family is of less importance (when compared to rural entrepreneurs). Hence, strong ties are limited in quantity and the entrepreneur is more aware of the novelty of information that weak ties can provide. The relative lower importance of trust and strong ties may be related to the explanation of why co-operation within the events organisation industry is mostly based on a contract rather than just on a trust relationship. Therefore the type of co-operation which takes place within this industry is mostly formal.

To sum up, it is not only the generation the entrepreneur belongs to that explains the co-operation differences, but there is a set of factors (also associated with the generation) that together explain them. At this stage, one cannot claim the existence of a single factor that fully explains all the differences referred to, thus a linear causality relation between any two factors cannot be established.

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