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**The economics of food quality:
Food enterprise networks,
process and governance**

Seamus O'REILLY
University College
Department of Food Business & Development,
Cork, Ireland
University of Wales
Michael Haines, The Welsh Institute of Rural Studies
Aberystwyth, Wales

Email : S.Oreilly@ucc.ie

Abstract

This research adopted a case study methodology to probe into the reasons why small and medium sized speciality food firms establish/join networks, how and why these networks evolve and how they perform and respond to internal and external factors. Therefore, an organisational perspective is adopted and the research framework developed draws on both entrepreneurship and small medium-sized enterprise (SME) literature and commercial network (in particular industrial marketing) literature. The former provides an insight into the factors that influence small enterprise competitiveness and the latter provides a theoretical framework that facilitates an investigation of inter-organisational interaction. To date, much research in this field has investigated dyadic relationships along the value or supply chain. This study investigated three speciality food SME marketing networks that are primarily composed enterprises at a similar stage of the value chain and aimed to promote high quality regional produce. For these cases the networking process was influenced by member goal congruence, the level and type/content of interaction and in particular the relevance of network services to members' needs and expectations. These findings support the 'relational network theory'; there was an interesting interplay between the 'institutional' and 'social/local' influences resulting in a complex set of procedural and 'relational' mechanisms. Dependency on other producers was also found to influence governance mechanisms and the networking process.

THE CONTEXT

In an era of globalisation and associated large firm activity the existence of small firms often challenges concepts such as economies of scale and barriers to entry. Indeed in some respects the very existence of small and medium-sized firms (SMEs) runs contrary to trends such as increasingly globalised markets dominated by major brands and consolidated retailers. Yet these small enterprises not only exist, but have proven to be rather resilient and in many sectors have increased in number. In fact it is the ability of large firms to compete in an ever-changing environment that has been challenged over the last two to three decades and much of the growth in SMEs has been credited to down-sizing and outsourcing by large firms. Therefore, large firms with many small sub-contacting firms 'in orbit' have become a common feature on the commercial landscape. Much can be learned from the organisation and management of such inter-firm activity and, furthermore, such configurations challenge traditional approaches to firm boundaries and resource allocation and use. Indeed these large firms increasingly specialise in key areas of competence as they deconstruct their old hierarchies and outsource many activities. Therefore, networks of firms have often been put forward as an organisational response to such changing and often contradictory demands, for example fragmenting market segments and globalisation of the market; increased efficiency and flexibility; increased coordination and decentralisation.

This networking activity has attracted much attention over the last two decades. In particular, researchers, policy-makers and entrepreneurs have been most interested in their competitiveness and the broader role of SMEs in the economy. A question arising is; if these reinvigorated SMEs are indeed linked more to the demise of large hierarchical firms than to any innate ability for SMEs to survive on their own, what about the small firms that have carved out their own markets independent of large firms? The speciality food sector is but one example of the latter. Here we find many small enterprises busily carving out niches in a marketplace that is increasingly dominated by large firms. Their ability to carve out very specialized market niches that are either unattractive or inaccessible to large companies is one reason that is often put forward for their success. In addition many of these small firms have benefited from networking with other small firms. Therefore, another type of network appears on the landscape, this one is not a 'hub and spoke type', but rather a group of independent enterprises interacting within their own dynamic, and often highly charged, network.

The speciality food sector

The 'industrialisation' of agri-food systems has inevitably led to large scale organisations dominating most if not all stages of the supply chain. Much of this development was driven by technical advances resulting in improved productivity and ever increasing levels of output. This development in post WWII Western Europe is well documented (CEC, 1991; Harvey, 1997; Keane and Lucey, 1997; Errington, *et al*, 1996). Since the mid-1980s numerous factors have combined to challenge the EU "productivist" model, such as the overproduction of many agricultural products, growing CAP budget deficit, declining farm incomes, concerns for animal welfare, environmental and food quality issues. Over the past two decades, trends in 'Developed Market Economies' have

increasingly valued quality over quantity (e.g. by introducing production quotas and initiatives to increase food safety and quality).

This movement has been categorised as the "post-productivist transition" and is characterised by a reduction in food output, a dedication to increasing quality, the progressive withdrawal of agricultural subsidies, the production of internationally competitive foods, increasing environmental regulation of agriculture and the creation of a more sustainable agricultural system (Ilbery and Kneafsey, 1998:329). Marketers, among others, have classified this era as 'post-modern'. These markets are characterised by variety seeking behaviour as consumers seek diversity, plurality, uniqueness and reject generalisations, absolute truths and the notion of universal behaviour (Brown 1993; Firat and Venkatesh, 1995). Thus, market segments are increasingly fragmenting as consumers seek 'individual' treatment. This presents an opportunity for speciality food producers because high value-added foods represent consumers' desires to differentiate themselves from others (McCarthy, *et al*, 2001; Wilson and Fearn, 1999; Tregear, *et al* 1998).

An OECD study (1995) identified a number of factors that influence the success of small rural enterprises that target niche markets. While numerous factors have influenced the development of the speciality food sector, two main factors emerge – market access and product differentiation. Both are as a result of the small scale of operation. While small scale can inhibit access to markets (especially outside their locality) it also enhances product differentiation, since consumers associate speciality product characteristics ('quality not quantity', exclusive/uniqueness, naturalness/ known origin) with small scale. One approach to address both factors has been to work together collectively within an identifiable region and on this basis try to develop a competitive advantage. This study set out to identify and investigate the reasons why small speciality food enterprises establish/join networks, the process by which these networks operate and how they perform.

THEORETICAL BACKGROUND - NETWORKS

Networks have often been put forward as an organisational response to a dynamic and competitive environment (Champy and Nitin, 1996; Thompson, 1991). Numerous forms of networks have been identified such as (i) 'hub networks' that emerge due to sub-contracting, (ii) 'value-adding partnerships' in which firms specialise in one function along the value-added chain, and (iii) 'network clusters', often comprising many SMEs that may compete at the same stage of the supply chain (Johnston and Lawrence, 1991; Galizzi, G. and Venturini, L., 1999). All these networks require close co-ordination of activities among firms and challenge traditional notions of firm boundaries. 'Value-adding partnerships' have been suggested as a viable competitive strategy for SMEs in agri-food chains (Fearn, A, 1996; Wierenga, 1996; Fearn, A. and Hughes, D., 1998). A number of researchers have adopted the resource-based approach to investigate small firm participation in networks (Ostgaard and Birley, 1994; Sandberg and Logan, 1997). These studies concluded that strict reliance on theories of economic exchange inadequately explain the processes by which resources are marshalled, since this is also a social endeavour – especially in the earlier stages of development. Similarly there have been numerous studies of so-called industrial districts or SME clusters. These studies highlighted the role of trust and reciprocity, the balance between conflict and participation, and the role of local institutions (Brusco, 1996; Enright, 1998; Kristensen, 1992; Pyke, 1992). These clusters have sought to develop competitive advantage on the basis of collective resources and expertise.

The Interaction Approach (Ford, 1990; Ford *et al*, 1998) has made a major contribution to the study of inter-firm networking, especially dyadic relationships. This approach, which draws on both inter-organisational theory and new institutional economic theory, investigates the dynamic relationships between actors, resources and activities (Håkansson and Snehota, 1995). Activities are performed by actors and these in turn influence how resources are allocated – i.e. how resources are combined, developed, exchanged or created by the use of other resources. Håkansson (1987) identifies two categories of activities – *transformation and transaction*. Transformation activities are carried out within the control of an actor, and are characterised by the improvement of one resource through the use of other resources. Transaction activities link transformation activities, forming chains of activities and creating relationships with other actors. Håkansson and Snehota (1995) argued that an understanding of relationships between network member firms was fundamental to an understanding of the network process. They identified two key characteristics of business relationships – structural characteristics and process characteristics.

The main structural characteristics are continuity, complexity, symmetry and informality. The process characteristics identified were adaptations, co-operation and conflict, social integration and 'routinization'. These structural and process characteristics reflect those factors put forward by industrial district/SME network researchers.

The firm's dependence on resources controlled by other firms is a basic assumption underlying our understanding of networks (Johanson and Mattsson, 1987). Therefore, 'mutual orientation' is central to their understanding of the normative basis of a network. Johanson and Mattsson (1987) identify various kinds of bonds such as technical, planning, knowledge, socio-economic and legal. Lorenz (1991) argues that mutual dependency arises, since each firm's actions influences the others. Hence intricate systems of mutual relationships evolve. Hu and Korneliussen (1997) highlighted the effects of personal ties and reciprocity on the performance of small firms in horizontal strategic alliances. They find that personal ties are strengthened by shared values and beliefs, and reciprocity by the pursuit of common interests, goals and mutual benefits. While they find that personal ties have a positive impact on reciprocity, they caution that there is also a need for what Sharpiro (1987:168-169) termed "social control imposed by an institution of impersonal trust", such as procedural norms and structural constraints. Bradach and Eccles (1991) also highlight the importance of trust in governing inter-firm relations. They acknowledge the role of 'non-contractual relations in business', or what Macauley (1963:58) referred to as "a man's word and common honesty and decency". They also draw on Macneil's (1978) work on relational contracts – highlighting the conflict-solving and relational investment dimensions. Powell (1991) also finds that network members tend to address problems through 'discussion' and only as a last resort opt for 'an exit strategy' – due to the investment 'sunk' in the current network and that required to establish or join and develop an alternative one. Thus networks are typically established to facilitate exchange and the level of interaction may be a measure of network activity and success.

In sum, networks create their own inherent asset specificity, since there are high costs associated with exit. They are characterised by mutuality and implicitly depend on trust as the 'medium' of exchange. Much research to date has focused on dyadic exchange relationships along the supply chain (e.g. business to business marketing or sub-contractor to hub firm). However, less attention has been given to the development and governance of networks of many SMEs operating at the same stage of the supply chain. In particular, little attention has been given to the governance or co-ordination mechanisms that promote collective investment and development of resources.

Foss (1999) finds that research into sources of competitive advantage at the meso level has been more useful than the traditional approach of focusing on either the micro or the macro level; for example clusters (Porter, 1990), 'technology districts' (Stroper, 1992) and 'industrial districts' (Pyke and Sengenberger, 1992). Foss linked the 'Interaction Approach' with the resource-based perspective, thus blending sociological exchange theory with more standard economics. He has influenced the theoretical framework adopted for this research, which draws on both industrial district/SME clusters and the 'Interaction Approach' network literatures.

CONCEPTUAL FRAMEWORK

Beije and Groenewegen (1992:96-103) used Håkansson's model to structure their analysis of various 'themes', identified by researchers of the European networks. They identified six main themes/elements underlying network analysis – transactions, transformations, government roles, 'latent' relations, regional aspect and multidisciplinary. They applied four aspects network identified by Håkansson and Johanson (1984:9) to a subcontracting network example. The four network aspects are: the functional network, power network, knowledge network, and social network (referred to as time related structure by Håkansson and Johanson). This example provides a useful basis for network analysis according to: level, resources, activities, actors, relations, strategy (which also indicates position) and environmental impact.

Figure 1 below presents the various network themes or key elements identified by network researchers. This is the conceptual framework highlights the relational nature of inter-firm networks, centred on transactional and transformational activities, influenced by relational characteristics and context (inter-personal/inter-firm;

'informal/formal), and embedded within the broader environment. Three dimensions of networking are considered: conditions, process and governance. On this basis three overall propositions were forwarded.

Proposition 1: Food SME networks respond to resource related conditions

Networks will only emerge if a set of conditions combine that influence firms to establish or join networks. Buyer-seller network theory suggests that where there is a high degree of functional interdependency (usually along a supply chain) then networks and network activity chains may develop. Therefore, it was hypothesised that networks of food SMEs will emerge where such networks can perform activities better than individual enterprises and this is particularly the case where there is a need to co-operate due to economies of scale.

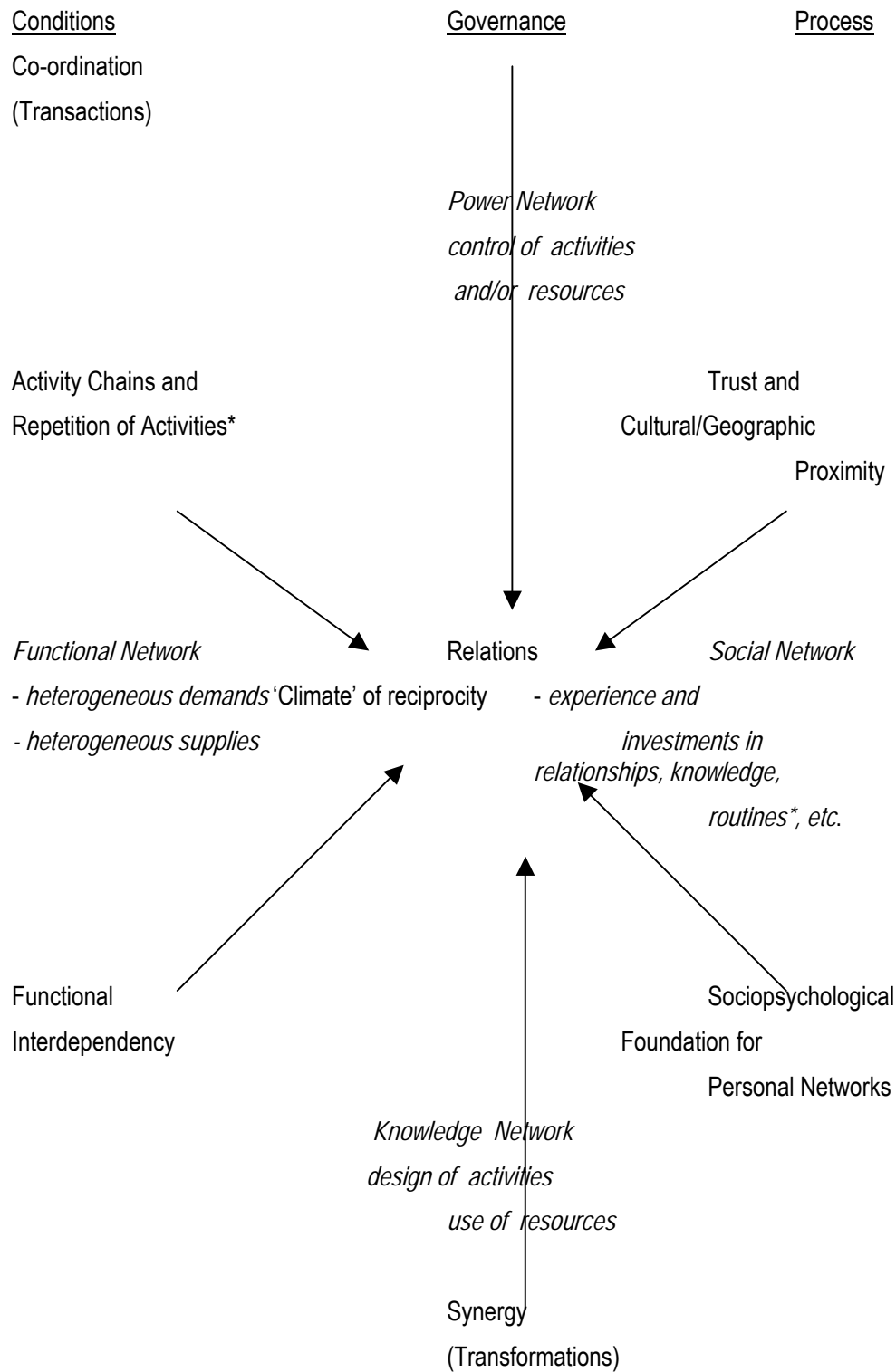
Proposition 2. Food SME network structure and process is influenced by internal and external factors.

Network form is influenced by: the degree of differentiation between units (domain similarity; motivation and objectives); the intensity and complexity of interaction (frequency and type of interaction) and environmental embeddedness (socio-economic and policy context). Therefore, it was hypothesised that inter-personal and social context, both within the network and the broader network environment, will influence network structure and process.

Proposition 3. Food SME networks create and co-ordinate transaction-transformation activity chains.

It is expected that business networks will facilitate transactions and these in turn create synergistic transformations. It was hypothesised that networks will devise mechanisms to govern such activity and further that relational mechanisms are central to network activity due to the reciprocal nature of network activity.

Figure 1: Summary of key elements of the European Network Approach



METHODOLOGY

The main objective of this research was to gain a better understanding of the networking process between small and medium-sized speciality food enterprises. A case study methodology was adopted. This method is designed to identify and gather both qualitative and quantitative data and is particularly well suited to network analysis, since boundary specification must be clearly defined when using the case study method (Yin, 1994). This research adopted a two-stage approach. The aim of the first stage was to build a profile of the case study based on a review of available secondary data and feedback from informed respondents. The main fieldwork and analysis was carried out during the second stage. Data was collected from three sources of information – depth interviews, member survey and documents. Case study profile data informed both structural (meso level and the extent of population including depth interviewees) and historical (bounded by events associated with the establishment and development of the network) boundaries. The case study profile also furthered the selection of themes, particularly with regard to depth interviews. This research followed an ‘embedded case study design’, since a survey of network members collected detailed qualitative and quantitative data (Yin, 1994). The qualitative data analysis package N-Vivo was used to enhance data management, control for researcher bias and to create hierarchical structured coding schemes (Huberman and Miles, 1994). A range of tactics was used to support conclusion drawing and verification, including comparison/contrast, noting patterns and themes, and confirmatory tactics - triangulation and returning drafts to depth interview respondents for review and comment.

A network is defined by reference to three dimensions: purpose, interdependence and membership criteria (Human and Provan, 1997). The following working definition of SME networks was adopted for this study; “networks of independently owned small to medium sized speciality food companies, which may include non-profit public/private support agencies, within a geographically defined area, interacting horizontally at one stage of the food chain to promote synergistic use of resources through transactional and transformational activities”.

Three networks that fit Human and Provan’s three dimensions were identified during stage one ‘preliminary research’ (described in section 6.3 below):

- West Cork Fuchsia Brands, Ireland
- Saveurs des Pyrénées, France & Spain
- Parma Ham Consortium, Italy

The purpose of each network was to provide members with direct business services, rather than just engage in lobbying. These networks also promoted reciprocal interaction between members and established a ‘coordination office’. Each network aimed to develop core competencies based within a geographic area. This largely involved the provision of marketing related services and the development of brand/image based on the geographic area. Table 1 identifies the key characteristics of each case study.

The objective of this research was **not** to identify ‘successful’ or model speciality food SME networks; rather it was to identify a suitable variety of networks in order to investigate the conditions and factors influencing structure and performance relative to network objectives. Thus it was hoped that the case studies chosen would give some guidance as to the characteristics of both the internal structures and the external environment that influenced network evolution.

Table 1: Case Studies – Key characteristics

	Fuchsia Brands	Saveur des Pyrénées	Parma Ham
Purpose	Promotion and branding	Promotion Sales	Branding & Promotion; Quality Control (previously)
Co-ordination	Company Coordinating office	Association Sales and Promotion Office	Consortium head office
Core competency	Development of collective brand image	Collective promotion and sales-force	Brand identity

The literature reviewed and preliminary investigative work¹ (stage one) identified key characteristics of networks relevant to this research, as follows:

- small and medium sized enterprises and 'membership mix'
- adding value to agricultural output - producing speciality foods
- network coordinator
- marketing services provided by the network.

All three networks studied satisfied these criteria, however they also allowed for a diversity of contexts (Sherrat and Midmore, 1999:7). Each network has a unique historical background. The Parma Ham consortium is based in an Italian region renowned for its industrial districts; indeed, Arfini and Mora (1997) described the Parma area as an Agro Industrial District. While the Saveurs des Pyrénées network was started within the confines of the French Pyrénées, because it was established under the French 'mountainous regions policy' initiated in the 1970s, it later spread across the border into Spain. A move which was also influenced by policy, but in this case EU policy. Fuchsia Brands was also 'rooted' within a policy framework, in this case the EU LEADER Programme, and is in an area described as a 'natural area of development'. While each case satisfies the criterion of SMEs producing speciality food² they differ with regard to the type of product mix, type of interaction and level of activity along the supply chain. Similarly the type of member enterprise varies in terms of size, legal status, product mix and age. In each case there was a range of enterprise sizes; however, these networks were all established by (or to assist) SMEs and were dominated by micro and small enterprises³. Table 2 below summarises key differences between the cases studies.

Thus all three cases present their own idiosyncrasies. They are unique in their own right and present a rich basis for comparison and contrast. Given the diversity of collective marketing and development initiatives found throughout Western Europe, the number of cases required to ensure adequate representation of all was outside the scope of this study. However, the three cases chosen do represent a number of key characteristics of such networks and as such were deemed of interest and worthy of investigation. They were established to promote regional produce and have developed within complex economic, social and political environment

Table 2: Case study selection – differences between cases

	Fuchsia Brands	Saveur des Pyrénées	Parma Ham
Location	Part of a county in South West Ireland	Pyrenean Mountain Range	Part of Parma County in Emilia Romagna region, northern Italy
Year established	1998	1984	1963
Members	38	17	100
Product mix	Wide product range	Wide product range	One product
Strong role of development agencies	Yes	Yes	No
Mix of services provided by the network	Develop collective brand	Sales-force and promotional activity	Promote and protect a PDO brand

¹ In particular, membership of the European LEADER Observatory provided an excellent vantage point from which to view various developments within the speciality food sector throughout the EU. The Observatory included a permanent staff (AEIDL) located in Brussels and 30 'experts' in specific areas related to rural development who were 'on contract'. This researcher worked within the 'expert group' responsible for speciality foods. The EU LEADER Programme aimed to promote rural development; the LEADER II Programme operated from 1994 to 1999 and supported over 800 Local Development Groups throughout the EU. Therefore, this researcher had access to a wide-ranging database on development initiatives for small and medium sized food companies. In total 45 innovative food enterprise development initiatives were documented and published in the LEADER Observatory Innovation Folder (1994;1996). Furthermore, work with the Observatory necessitated interaction with other development programmes and contact with various development agencies, e.g. the European BIC (Business Incubation Centre) Programme.

² 'Speciality Food' is defined as a food product differentiated from 'industrial' or mass-produced products by one or more of the following factors raw material, process, know-how, availability and consumer perception.

³ The EU SME definition was used (i.e. <250 employees), however in terms of number of enterprises micro enterprises (<10 employees) dominate the manufacturing sectors, including food and also dominated the networks studied. Small enterprise was defined as 10–99 employees and medium scale from 100 to 249 employees. However, other criteria must also be taken into account such as turnover and sectoral characteristics, for example in 1990 while micro enterprises accounted for 82.7% of food manufacturing enterprises and provided 19.8% of employment they only contributed 7% of sector turnover. In total micro and small food enterprises accounted for 98.3% of enterprises, 48.7% of employment and 32.4% of turnover, while the combined SME group accounted for 99.7% of enterprises, 71% of employment and 59.6% of turnover. This distribution largely reflects that of 'all manufacturing enterprises' in the EU (Traill, 1998).

FINDINGS

This presentation focuses on the networking process and governance and in particular the influences of functional, social, power and knowledge network. However, firstly the main findings for each of the propositions are briefly reported.

Research propositions

The findings across all three cases studies support the propositions. Regarding proposition one, there was strong evidence that SMEs joined marketing networks because of resource constraints, thus gaining from collective economies of scale and scope within the network. There was some evidence that SMEs joined networks to help them deal with market uncertainty. In particular, access to new markets and market information were very important across all three networks. This may reflect the lack of capacity among SMEs to access markets beyond their immediate region.

The second overall proposition was also supported. The influence of member similarity on the networking process was supported in-so-far-as goal congruence was important across all three networks. The impact of enterprise strategy, which in turn influences propensity to network, was the main finding in this regard. However, it is the process by which goal congruence was reached that is of most interest and this in turn influenced network structure and governance mechanisms – this is discussed further below. The frequency and, in particular, type of interaction proved to be a more important factor influencing the network structure and process, since such interactions influenced the level of dependency on the network. Networks were also found to be embedded in their broader socio-economic and political environments and while these conditions influenced the network structure and process they also influenced enterprise propensity to network and the governance mechanisms adopted.

The third overall proposition that networks create and coordinate transaction-transformation chains was supported across all three cases studies and all three were also found to enhance member credibility or 'legitimacy' and create a synergistic use of resources. Synergy was mainly a result of the collective use of resources, in particular the collective creation of new resources or assets. This transformation type activity was fundamental to the networking process and, in some cases, was an important source of network competitive advantage. The collective/network creation and ownership of these resources/assets further support and expand the 'economies of scale' proposition in that not only did enterprises join networks to benefit from enhanced economies of scale, but they remained within the network in order to continue to benefit and this had a reinforcing effect. Thus continued presence within a proactive network usually leads to further transformations and hence even greater dependence on the network. This dependence is of particular interest where the creation/maintenance of the collective resource increases member dependence on the actions and integrity of other members – this is most obvious in the case of a collective brand.

Networking process and governance

The key network characteristics are presented below in Figure 2. This figure uses the conceptual framework, as presented above (figure 1), to summarise the key findings. The network characteristics identified in these case studies support the key elements identified in the conceptual framework and highlight some distinctive differences between SME networks and buyer-seller network theory.

The Functional Network

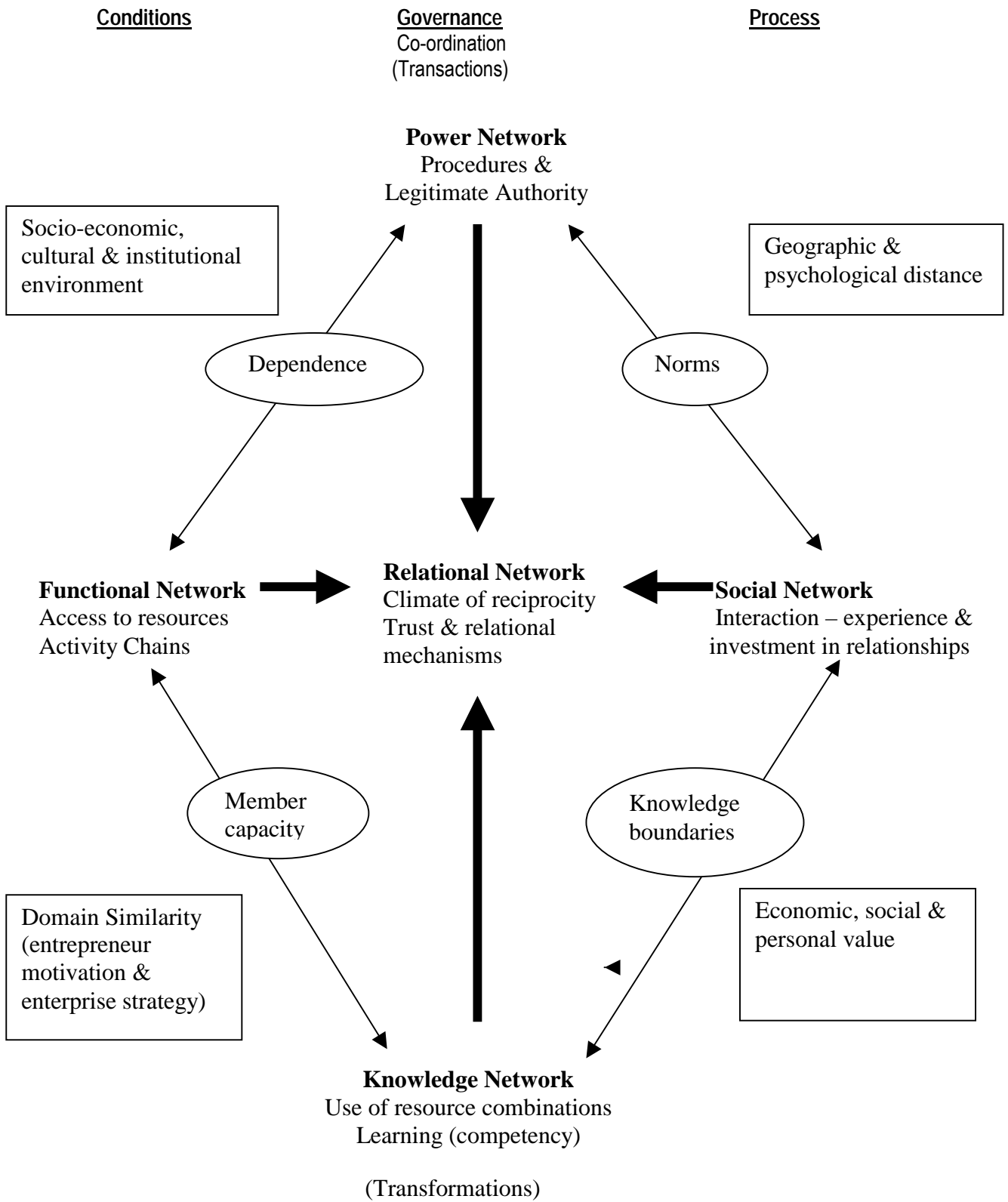
The food SME networks studied differed from buyer-seller networks in that they displayed functional interdependencies related to the network marketing activities and services rather than heterogeneous demand and/or heterogeneous supplies evident in the buyer-seller networks. Activity chains emerged from these interdependencies and initiated transaction/transformation chains that reflected SME/member objectives and requirements. However, the propensity of the enterprise to network was not only influenced by entrepreneur motivation and enterprise strategy, but was also conditioned by the broader socio-economic, cultural and institutional environment.

The Social Network

The social network emerges as an important network form across all three case studies. This created strong trust and relational governance mechanisms supported by procedural systems. This 'plural form' of governance supports Bradach and Eccles (1991) assertion that mixed control mechanisms may be used by organisations and Hu and Korneliusen's (1997) reference to the need to supplement personal ties and social control by an 'institution of impersonal trust' such as procedural norms or structural constraints⁴. A high level of investment in the networking process is evident; this surpasses purely economic objectives, since the network is also of social and personal value. It is the amalgam of the economic, social and personal value that has created a strong interactive network at a number of levels – this was particularly evident in the Saveur des Pyrénées case and to a lesser extent in the Parma Ham case. Member motivation and 'wide knowledge boundaries' support this level of interaction. Therefore, while the social network plays a strong co-ordination role, all three cases had also developed a strong knowledge-based network, particularly in terms of transactions and transformation chains; this has resulted in the dissemination/exchange of knowledge and continual learning processes (Foss, 1999; Haugland and Reve, 1994; Ring and Van de Ven, 1992; Bradach and Eccles, 1991).

⁴ In the Parma Ham case it is unclear which came first, at the time of fieldwork the procedural mechanisms were dominant but supported by social/relational mechanisms.

Figure 10.21: Conceptual Framework - Summary of Key Findings



The Knowledge Network

This behaviour is consistent with Johanson and Mattsson's (1987) finding that network relationships provide an important source of knowledge and their conclusion that various kinds of bonds may strengthen network relations. In this case socio-economic and knowledge bonds are the most important. The role of learning is implicit throughout these networks. The learning process, in addition to building member capability, also facilitates adaptation of attitudes and improved knowledge of other members. Therefore, key competencies (learning) and governance (co-ordination) have co-evolved and have served to strengthen network relations (Coriat and Dosi, 1998). Structural characteristics associated with network relations evident in these cases include continuity and informality, whereas process characteristics such as concern for co-operation, value creation and social interaction highlight the importance of personal bonds and conviction. Therefore, the emergence of 'trust' as an important factor influencing relations, and ultimately network performance, is consistent with Hakansson and Snehota's (1995) findings.

The Power Network

The use of power is particularly interesting, since power in buyer-seller networks is typically linked to the control of resources and dependency on resources controlled by others and this prompts exchange and relationship development. However, in the SME networks studied no one SME controlled key resources required by others, rather access to certain resources that were beyond their individual control depended on their collective activity. This activity creates network power rather than member power and presents a governance challenge, since the more successful the network the more dependent members become on their collective activity. For example, all three networks studied were found to have legitimate power to regulate member activity vis-à-vis network rules and procedures, this was particularly evident in the Parma Ham case.

Relational Networks and Governance

A mix of functional, social, knowledge and power influences were found within each network. For example, the functional network emerges due to the need for access to resources which necessitates collective (social) activity which in turn leads to knowledge or other valuable transformations that are jointly controlled. Therefore, the findings suggest that various network forms combine to provide appropriate governance mechanisms and influence network culture. In particular, these case studies support the notion of a relational network; they highlight the relational nature of inter-firm networks, centred on transaction and transformation activities, influenced by context at firm level (e.g. inter-personal/inter-firm and informal/formal) and embedded within the broader environment (i.e. economic, social, cultural, political). The conditions necessary for network establishment were not only resource based but also included aspects embedded within the broader socio-economic/institutional environment. The networking process was influenced by domain similarity, in particular entrepreneur motivation and enterprise strategy, the complexity and intensity of inter-firm interaction⁵, and environmental context. Finally, network performance was based on transaction-transformation chains designed to enhance member capacity and create synergy. These activity chains continue to reinforce the relational nature of the network based on reciprocity.

Thus while the general principles proposed hold across all three cases studies, the establishment and evolution of individual networks is influenced by their environment, for example economic/market conditions, policy, culture/history and people or champions to take the initiative.

⁵ Although inter-firm interaction was not so strong in the Parma Ham case.

CONCLUSIONS

These findings support the 'relational network theory'. Dependency on other producers was also found to influence governance mechanisms and the networking process. This behaviour reflects the regional clusters concept proposed by Enright (1998), since many important resources and capabilities are found not within a single firm nor are they available from another 'member firm'⁶, but involve network activities that are shared across firms within the network. Therefore, individual members gain scale and competitive advantage from collective activities – in this sense these resources are 'external' to each individual member firm (Foss, 1999). The activities linking actors and resources also reflect Håkansson's (1987) network concept. It is likely that small speciality food enterprise competitiveness will increasingly depend on their ability to build such key competencies, not internally but in association with other actors.

⁶ This is an important difference between these case studies and most empirical network studies – the latter are typically value chain or industrial marketing networks and are based on the view that a firm is dependent on resources controlled by other firms, thus following resource dependence theory (Pfeffer and Salanick, 1978). For example, Johanson and Mattsson (1987) claim that this is a basic assumption underlying our understanding of networks. While this study adopted this view, it also forwarded the overall proposition that SMEs in networks are further dependent on each other due to the collective investment and development of resources. Therefore, this is rather more complex than bilateral interdependence and dyadic relationships.

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