Factors Influencing the Performance of German Food SME Formal Networks

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ABSTRACT

The food sector in Europe can be characterized as a complex, global and dynamically changing network of trade streams, food supply network relations and related product flows which offers a big spectrum for economic output and employment. Innovation is important for the competitiveness of the food industry that is to a large extent comprised of small and medium sized enterprises (SMEs). For them, innovation has grown extremely subordinate to interaction in networks. Network initiatives that could provide appropriate support involve social interaction and knowledge exchange, learning and competence development, and coordination (organization) and management of implementation. This paper is designed to assess the factors that affect the performance of German food SME formal networks. It also addresses the consequences at the network and macro level. The analysis was explored by using the laddering technique based on the means-end chain theory. The findings will help to build up a “network learning toolbox” that is adapted to the particular requirements of the different target groups such as of SMEs, network managers and policy makers. The “network learning toolbox” should improve network learning, which is a driver for improvements in innovation, economic growth and sustainable competitive advantage for food SMEs.

Keywords: SMEs, performance, networks, food

1 Introduction

The food sector in Europe can be characterized as a “complex, global and dynamically changing network of trade streams, food supply network relations and related product flows” (Fritz and Schiefer, 2008) and offers a big spectrum for economic output and employment (Menrad, 2004 a). In this context, innovation becomes important for maintaining and improving competitiveness (Grunert et al., 1997). This is especially true for the competitiveness of small and medium sized companies which represent the majority of enterprises in the sector (Deiters and Schiefer, 2012). In general, but specifically for small and medium sized enterprises, innovation ability is being supported by networking activities (Netgrow DoW, 2010). Networking initiatives that could provide appropriate support involve social interaction and knowledge exchange, learning and competence development, as well as the coordination (organization) and management of implementation (Deiters and Schiefer, 2012).

This paper is based on research within the European project NetGrow and on the analysis of the suitability of a toolbox for analyzing network performance in an industry environment that was developed within the project. The toolbox is at the center of the project’s objectives which are being stated as (Netgrow DoW, 2010) “… to effectively enhance the capacity of food SMEs, network organisations and policy makers in managing their network activities strategically, by
• gaining insights in the success factors and barriers of network learning and the optimal design of networks based on segmentation of food SMEs reflecting their preferences for networking,
• investigating how the insights can be translated into a practically applicable toolbox that can be used by SMEs, network managers and policy makers, and
• developing and testing of a toolbox which is tailored to the specific needs of the different segments of the target group of SMEs, network managers and policy makers. “

The paper is designed to assess the factors that affect the performance of German food SME formal networks. It also addresses the determinants and consequences of high network performance at the network and macro level. The analysis was explored by using the laddering technique based on the means-end chain theory, which will be explained in chapter 3.

The findings will help to build a “NetGrow Network Learning Toolbox” that is adapted to the particular requirements of the target groups (network stakeholders) involving SMEs, network managers and policy makers. The “NetGrow Network Learning Toolbox” should improve network learning as a driver for improvements in innovation, economic growth and sustainable competitive advantage for food SMEs. The toolbox incorporates several tools which are tailored to the specific needs of the stakeholders and which are supposed to support all stakeholders of formal networks as well as SMEs searching for networking opportunities. SMEs can strongly benefit from the services networks provide, especially when it comes to innovation. Through knowledge exchange and the learning and communication infrastructure within the network, SMEs can be enabled to successfully conduct the innovation process and gain competitiveness within the sector.

The paper introduces into the subject by first presenting the theoretical background in chapter 2. Chapter 3 describes the methodology that was used to analyze the factors influencing the performance of German food SME formal networks. Chapter 4 provides an overview on the data collection. First observations are presented in Chapter 5, while a summary of results and suggestions for future research concludes the paper.

2 Theoretical Background
A network can be defined as a set of interconnected exchange relationships between enterprises (Bernal et al., 2002). Formal networks are based on voluntary arrangements between enterprises with the objective to provide a competitive advantage for its members (Coviello and Munro, 1995; Fuller-Love and Thomas, 2004; Deiters et al., 2010). Engagements in formal networks support the development of relationships and communication between actors, while the intensity of the exchange can be controlled by the members themselves (Hollendsen, 1998). The creation of a network may facilitate the entrance into complex markets due to savings in time and costs (Deiters et al. 2010, Fuller-Love and Thomas, 2004). Furthermore, it may have a positive impact on the general performance of enterprises (Deiters et al., 2010; Hakansson and Snehota, 1989).

The exchange of activities and resources and the development of relationships provide the basis for cooperation and at best innovation (Fuller-Love and Thomas, 2004). To be more specific, networks can provide assistance for social and knowledge exchange, learning, competence development, coordination, and management (Deiters and Schiefer, 2013). SME’s smart under a lack of adaptability and influence on their environment (MacGregor, 2004) that can be compensated by the support of networks and reversed into competitive advantage, especially against larger enterprises. Furthermore, the pooling of resources and the exchange of expertise can unharvest resources and expertise only large enterprises have at their disposal (Donckels and Lambrecht, 1995; MacGregor, 2004).

Developing interpersonal contacts and advancing innovation capacity through networks may lead to competitive advantages of various kind:
• **Better information.** Information is of competitive relevance to SMEs, which are in a disadvantaged position concerning the gathering of important technical information, due to their lack of financial resources and the complexity of information.
• **Better tacit knowledge.** Tacit knowledge is essential to aggravate innovation (Senker, 1995). It is characterized by the fact, that it is not possible to transfer it through written documents and is accumulated in the knowledge of technical and scientific employees. The facilitation of acquaintances through networks with the objective to exchange and locate information especially on complex technological issues enhances the enterprises’ success (Malecki and Tootle, 1996).
• **Better utilization of financial resources.** The realization of innovations depends strongly on the financial resources of an enterprise, as the outcomes are uncertain throughout the tedious innovation process. This makes the engagement in innovation activities especially risky for SMEs. Through the support of formal networks SMEs may be able to reduce their costs while benefitting from new knowledge, provided by the network.

For identifying the influence of networking on the growth and success of SMEs and their innovativeness it is crucial to specify the factors that determine the success of SME networks (Sherer, 2003). The growth of SMEs is influenced by traditional and non-traditional factors (Bordt et al. 2004). Engagements in research and development, participation in business networks and alliances, competence in funding, intellectual property protection and the focus on a market niche are traditional factors. Non-traditional factors are business advisers, formal organization and planning, innovation and adaptability. Since SMEs suffer from limitations in resources the achievement of goals is difficult to realize by enterprise activities alone. Joining a network might be a possibility for SMEs to receive the resources which are crucial for their existence and success and for achieving their objectives (Baïrd et al., 1993; Birley, 1985; Premaratne, 2001).

In this context, a “high performance” network describes a network, which fulfils the expectations of its members (its customers; Netgrow, 2013b). Important determinants of high network performance are the intentional handling of governance mechanisms and the established relationship management mechanisms which are crucial for its success. They include

- a) the maintenance of international links which is often a precondition for successful collaborations inside and beyond the network and the success of its members and
- b) the quality of the network manager and/or the management team and its commitment to the network which is crucial for the satisfaction and trust of network members, and in consequence responsible for the high performance of a formal network (Netgrow Project, 2013b).

### 3 Methodology

The means-end chain theory propounds a hierarchical organization of consumer perceptions and product knowledge (Young and Feigin, 1975; Gutman, 1982). It was introduced by Gutman to marketing and consumer research and suggests that values are the drivers of peoples’ behavior in all aspects of their lives (DeBoer and McCarthy, 2005). The methodology links attributes with consequences of consumption which in turn are linked to personal values. It seeks to understand the purchase behavior of consumers as an instrument for satisfying their needs (Wansink, 2003). This approach merges various techniques utilized in interviewing consumers about their product choices. In data analysis the focus is on the interpretation of consumers’ responses and the identification of links between the outcomes (Reynolds and Olson, 2001, p. 3; Bieke, 2011).

On this basis, the consumer is supported in choosing a product because of its attributes or means, that help him to achieve the desired consequences and fulfilling his values or ends (Reynolds and Jonathan Gutman, 1988; Bieke, 2011). The links between the different techniques form a chain (see figure 1).

**Figure 1.** Structure of Means-End Chain model (Source: Gutman, 1982)

The laddering technique builds upon the means-end chain theory and can be useful for revealing insights into why consumers decide for a purchase and its equity (Reynolds and Gutman, 1988; Gutman, 1982; Wansink, 2000; Wansink, 2003). The methodology focusses on how attributes are linked to values for the consumer (Wansink, 2003). It is a one to one interviewing technique that helps to understand how consumers see the attributes of products for reaching certain values (DeBoer and McCarthy, 2005). Emotional associations of a person are an important component of a brand’s equity (Keller, 1996) because they have a deeper and more profound impact on the relationship with a person’s purchases (Bannister and Mair, 1968).
The utilization of progressive questions gives insights on how the attributes of a product, the consequences of using it and the personal values are linked together in a person’s mind (Wansink, 2003). Nevertheless, the attributes are crucial for moving closer to the values of consumers’ purchases. This is accomplished by asking probing questions, which help to examine consequences the consumer associates with the attributes. To reveal more about the abstract and emotional qualities the customer associates with a product it is essential to ask the question “why?”. This approach supports thoughtful and personal reflections that help to investigate personal values of a purchase such as core reasons the consumer is not even aware of (Rokeach, 1973; Wansink, 2003). Consequences specify the way a value is linked to an attribute of the product (Reynolds and Gengler, 1991).

Laddering includes an interviewing format, which uses primarily a series of probes through questions of the type “Why is that important to you?”. The interview follows an approach based on sequentially asking questions which are always follow-ups on previous responses. This allows the interviewer to “climb the ladder” and gain knowledge about the real reason for a purchase decision (Wansink, 2003). As a result, a means-end chain, an A-C-V (Attributes-Consequences-Values) sample or a ladder can be created. The aim is to determine linkages between attributes (concrete or abstract product characteristics), consequences (functional or social results) and values that drive the consumers’ decisions (DeBoer and McCarthy, 2005). To apply this method and gain significant results one has to invest approximately 30 to 40 minutes per interview (Wansink, 2003).

A hierarchical value map (HVM) built on attributes, consequences and values is used to visualize the results of laddering studies (Grunert et al. 1995; Wansink, 2003). The HVM is a graphical description of a laddering interview and is used to recognize the relationships between attributes, consequences and values. The laddering technique was applied for the first time in organizational research, aiming at the identification of consequences of organizational alternatives in the context of performance metrics.

In this research, the methodology is used for investigating the factors that affect high network performance in SME networks in Germany and to identify the consequences at the network and macro level. The means-end theory framework is beneficial to this research because of the following arguments:

1. The laddering technique could assist to identify additional performance metrics (which could assist in refining and improving upon the prototype assessment tool).
2. The production of hierarchical value maps (HVMs) for different stakeholders could reveal the extent of (mis)alignment in the stakeholder expectations. This could provide indications of the suitability of network level and/or stakeholder-centric performance metrics.
3. The basis for communication strategies for increasing SME/stakeholder participation in networks can be identified with the assistance of the laddering technique. Since this technique has been used traditionally in the marketing communication and advertising domain it could potentially be the fundament for a tool in the NetGrow toolbox (Netgrow Project, 2013a).

In the context of our research, results from interviews following the technique were included into the hierarchical value map (HVM). The HVM allowed to identifying the strength and direction of relationships between attributes, consequences and values of network performance. This facilitates the delineation of stakeholders who experience positive consequences from high network performance.

4 Overview on Data Collection

In total, sixteen individual interviews were carried out with four types of network stakeholders. All interviews were held in Germany in the period from January till April 2013. Potential respondents were identified with the assistance of local experts and network organizations as important contributors to networks. The networks were from the food sector and could be classified as formal networks. An interview guide developed by TEAg (Teagasc Food Research Centre, Ireland) provided support in analyzing the consequences of four dimensions of high performance as presented in table 1.
Table 1. Overview of the conducted interviews

<table>
<thead>
<tr>
<th></th>
<th>SMEs</th>
<th>Network Organisation</th>
<th>Policymakers</th>
<th>Knowledge Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. respondents</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Length of network experience (yrs)</td>
<td>10yrs+</td>
<td>10yrs+</td>
<td>10yrs+</td>
<td>10yrs+</td>
</tr>
<tr>
<td>Level of network experience (n)</td>
<td>1-10</td>
<td>3-20</td>
<td>10-20</td>
<td>30</td>
</tr>
<tr>
<td>Breadth of network experience</td>
<td>Representative associations</td>
<td>Regional and/or national food sector networks, umbrella and trade associations</td>
<td>Trade and representative associations (food and non-food)</td>
<td>Producer groups, associations, foundations</td>
</tr>
<tr>
<td>Extent of involvement in networks</td>
<td>Participating members</td>
<td>Participation on committees, representation role, manage activities</td>
<td>Participation on committees, passive or active overseer in network</td>
<td>Network member, participation in committees</td>
</tr>
</tbody>
</table>

1 Number of networks the stakeholders are linked to (through cooperation or membership)

The interviews were conducted mainly at the interviewee’s place of work. The interviews were recorded where possible, and lasted approximately 45 to 60 minutes. A supplementary questionnaire was outlined to respondents at the end of each study to gather background information on their network/networking experience.

Following each interview, all available recordings were content analyzed to extract the relevant means-end chain data, which were then transcribed and pre-coded in order to generate a set of terms that characterized and defined each attribute, consequence and value associated with the four dimensions of network performance. The analysis followed a four step approach:

Step 1: Identification of attributes

Based on results of earlier investigations within the NetGrow project two attributes of high performance, their consequences, and their values were dealt with: (1) goal attainment and (2) collaboration. The selected attributes were used by the interviewer as a basis to probe further up the ladder to elicit all consequences and values associated with each particular attribute.

Step 2: Coding of interviews

Coding of interviews followed the analysis of the laddering technique. Therefore we developed a set of codes able to comprehend all the concepts included in these attributes, consequences and values.

The authors of this paper coded the interview data and revised all 330 elements to 42 codes in total. Afterwards all interviews’ transcripts were revised based on the coded data.

Step 3: Analysis of laddering data

All attributes, consequences, and values were entered into a Laddermap (provided by a laddering analysis system; http://www.ladderux.org/) with their appropriate code. The analysis of laddering data starts with a standard content analysis procedure in which a summary is made of the product attributes, consequences and values obtained. This is followed by a summary table which was constructed for representing the number of connections between these elements (i.e. the implication matrix). Connections were then graphically represented in a Hierarchical Value Map (HVM). In a HVM the thickness of the lines connecting the attributes, consequences and values represents the frequency of association. In order to obtain a balance between quantitative validity and aesthetic of the map, we decided to use a cut-off level 3. This cut-off level produced a hierarchical value map representing the ‘most important’ links between elements that are at least listed three times.
5 Results

Separate Hierarchical Value Maps (HVM) were elaborated for each stakeholder of the network. The main results for the SME food manufacturers are highlighted in figure 2. It shows that from the SMEs’ point of view especially the value elements facilitating and enabling sustainable business as well as efficient business is crucial for judging formal networks as of high performance. Four respondents generated 44 ladders, each representing a sequence from attribute to consequence to value. The attribute goal attainment is closely linked to the functional consequence exchange of information. It is crucial for network members to get information about political developments, research results and to learn through benchmarking and the experiences of other companies. The exchange of information is linked to the psycho-social consequence shared perspective which leads to a stronger position of the network members and therefore to bearable solutions evolving from political decisions for the network members.

The most important value for SME food manufacturers concerning the high performance of a network organisation is the preservation and facilitation of a sustainable business for the members companies. The consequence shared perspective contributes not only to this value but also to another important value for the SME, namely efficiency. The reduction of costs through bearable solutions for the sector derived by political decisions in favour of the members’ goals is crucial for being competitive in the long run. For SME food manufacturers the internal collaboration, meaning the collaboration within the network, is the most important consequence for finding a shared perspective and generate sustainability and efficiency within their businesses. In addition they expect as consequence active and miscellaneous support provided by the network to attain their goals, which is as well dependant on being informed and able to react on important issues at the right time, even though this consequence does not lead to a value.

![Figure 2. Extract of Hierarchical Value Map “SMEs”](image)

The key results for the network management in figure 3 highlight that for the network as a whole the values trust, maintaining traditions, and customer satisfaction are crucial for its high performance. The detailed HVM for the network managers is presented in appendix 1. In total 65 ladders were generated by 4 respondents. From the figure it is clearly recognisable that goal attainment is the most important and most frequently mentioned attribute. The network has to represent the network members to public bodies and especially solve problems successfully. A very strong link exists between the consequences achieve goals for network members and support of network members, which leads to the most significant value customer satisfaction.
Additionally, the consequences *increase the political influence* and *shared perspective* are linked to the values *build and increase trust* and *keep traditions* to strengthen their position and achieve the goals set by the network members. From the networks management point of view the efficiency, meaning reduction of time through collaborative projects done within the network organisation is another important value.

![Hierarchical Value Map](image)

**Figure 3. Extract of Hierarchical Value Map “Network Managers”**

Figure 4 represents the most important ladder of the HVM of the **knowledge providers**. The whole overview of the HVM is given in appendix 2. In total 96 ladders were generated by 4 respondents. The attribute *collaboration* is more important than the attribute *goal attainment* and is linked very strongly to the consequences *external collaboration*. The *external collaboration* is in turn closely related to the consequence *representation of network members to the public bodies* which leads to the consequence *enhance industry capabilities*. Furthermore one important ladder of consequences is clearly recognisable from the consequence *achieve goals for network members to support of network members, shared perspective and satisfy network members*. It means that these consequences are very often mentioned as important determinants for the success of the network’s performance.

In total six terms are recognised as values from the knowledge provider’s perspective (see appendix 2). One can especially name *build and increase trust, productivity, and sustainable business*. For knowledge providers it is crucial that networks are able to balance the demands of the industry and the consumer and find a consensus as well as their role in the process in creating legislation due to their representation of their members interests.
Figure 4. Extract of Hierarchical Value Map “Knowledge Providers”

Figure 5 shows an extraction of the HVM derived from the policy makers’ point of view. The visualization of all ladders within the HVM can be taken from appendix 3. In total 45 ladders were generated in 4 interviews. The most important attribute for policy makers is goal attainment. The link between the attribute goal attainment and the functional consequence representation of network members to public bodies is very strong and leads to sustainable food production which strongly depends on the exchange of information. If information is exchanged and the network members receive important information concerning political developments, the network does strengthen the position through a shared perspective of its members and therefore the political influence can be increased. The customer satisfaction is the key value of this ladder. A shared perspective, meaning bundling the interests of the networks members, is crucial to meet the members’ goals and achieve the value customer satisfaction. In addition, it can provide a competitive advantage for the SMEs resulting in the terminal value of high performing networks build and increase trust.

Figure 5. Extract of Hierarchical Value Map “Policy Makers”
6 Conclusions

From the ladder interviews and the means-end chain analysis of the research some conclusions can be drawn. The high levels of collaboration and goal attainment in formal networks are associated with bringing politics and industry together for facilitating the exchange and communication between network members and the public authorities. The combined interests and information of members is strengthening the members’ position and helps the network to achieve the members’ goals. In addition, communication and exchange of the network with public authorities is the key for improving the members’ image and helps to show the industries real work and problems.

Representation and advocacy of the members’ interests and opinions towards the public authorities gives the industry the chance to be heard. The network raises awareness for the network members and sensitizes as well the public for the industries work and challenges. Even if not often mentioned directly another important consequence for the high level of performance is the members trust in the networks work.

These consequences are linked to specific values that drive the high performance of network organisations such as the facilitation of the members’ work. For the members of a network organisation it is crucial that the performance of the network organisation reduces costs and time in their everyday work. In addition a network organisation should help to maintain a positive image of the sector they are representing and that the traditions of a sector are kept alive through knowledge transfer to the public and within a sector. Therefore the production of high quality food should be fostered by enabling the SMEs to realise the wishes of the consumer in a sustainable and productive manner.

The laddering technique is a helpful instrument to expose key determinants influencing the performance of networks in their work with the SME food manufacturers. The results of the HVMs show clear values in the work of formal networks for the different stakeholders. It is interesting, that each stakeholder shows different values or rather balance them differently. Especially the SMEs perspective can be helpful for the management of formal networks, so their activities can be optimised in favour of their customers. As an example, activities which have no value can be questioned and if necessary abandoned. Therefore the insights gained within this investigation provide a helpful contribution to successful network organization and management.

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References


Appendixes

Appendix 1: Hierarchical Value Map “Network managers”

Appendix 2: Hierarchical Value Map “Knowledge providers”
Appendix 3: Hierarchical Value Map “Policy Makers”