Local business co-operation and the dilemmas of collective action: rural micro-business networks in the north of England

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Abstract

Case study research in two rural market towns in the north of England investigates the local connectivity of microbusinesses and notions of co-operative behaviour with a view to informing a debate on the extent to which external (state) agencies can support the formation of local business networks. The research identifies that co-operation is often associated with symbolic activities to express local identities with formal collective action based on local co-operation being an exception rather than the rule. The case studies highlight an inherent danger of external state intervention in the facilitation of small business networks, in that, by disturbing established local norms and networks, such interventions may jeopardise the latent structures of social capital which they seek to exploit.

In the UK, the upsurge of academic and political interest in small firms during the 1980s rested principally on individualistic conceptualisations of entrepreneurship. This stance largely ignored other perspectives that emphasised the socially embedded nature of the firm (Oughton et al. 2003). However, recent years have witnessed a shift in the policy and research discourse towards embracing more complex models of business performance and developing an understanding of the co-operating capabilities of businesses. Several policy initiatives have emerged that seek to strengthen the inter-relationships between local businesses by creating new or bolstering existing business associations or networks with a view to their potential role as intermediaries for public sector initiated schemes for local economic development (Gibb 2002). These policy approaches are based on an academic discourse that has considered notions of networking and business co-operation within specific local contexts (Curran et al. 2000; Blundel 2002) and attempts to conceptualise embeddedness (Granovetter 1985; Uzzi 1996). In understanding small business behaviour it is argued that it is necessary to consider the social structures and the social, familial or geographical networks and relationships (what we term connectivities) within which small firms and their owners are embedded (Granovetter 1985; Halinen and Törnroos 1998; Steyaert and Katz 2004).
However, experiences with such policy approaches are mixed (Huggins 1998a). This leads us to the problem of better understanding the construction of business networks in local contexts which may have limited past experience and success in developing strong local business co-operation, the role of external (state) agencies within such a process and the meaning of local business co-operation to the actor's involved. These issues are illustrated by empirical research that considers the relationships between micro-businesses in two rural market town case studies in the North of England. A particular aim of the paper is to consider how small business owners perceive local business relations with a view to further understanding the nature and development of local micro-business connectivities.

The paper begins by reviewing the development of economic and sociological conceptualisations of business co-operation. This is followed by consideration of the methodology adopted and then subsequently by an analysis of forms of local inter-firm connectivity in the two case study localities, dilemmas of collective action and experiences of external intervention in network formation. Conclusions are drawn regarding the possible implications for state intervention to promote or exploit business networks in order to achieve broader rural development goals.

**Conceptualising Business Co-operation**

While a rich body of literature has developed that seeks to explain the nature of business co-operation, two broad streams of economic analysis can be distinguished that have been of particular importance. The first applies neo-classical microeconomic theory to human behaviour (Becker 1976). Starting from the premise of methodological individualism, that the individual actor is the relevant unit for analysis, Becker assumes that individuals make rational choices according to their self-interest, although their rationality can be bounded due to lack of information. On this basis co-operation is exceptional rather than routine except in certain circumstances where individuals are trapped in action situations (prisoner dilemmas) where self-interest would lead to unfavourable outcomes for all involved actors. The question in such a situation is how and under what conditions is co-operation initiated and sustained? In response to this question, Olson (1971) argues that for voluntary organisations to be sustainable they must overcome the problem of free riding. For Olson this is more easily achieved by small groups, and the problem can be partly reduced by offering exclusive benefits that stem from membership. An application of this approach, with regard to business co-operation, has been provided by Bennett (1998).

Neo-classical economists have usually argued that voluntary co-operation for the management of common property resources is infeasible and that either privatisation or external intervention is necessary. Ostrom (1990), however, drawing on several case studies of successful institutions of local self-governance, challenged this conclusion by arguing that if we understand institution building as an incremental process, rational actors may be capable of overcoming the problem of free riding. She identified how the characteristics of the problem to be solved and the nature of the local community may explain why some forms of local co-operation are successful and others not. Going further she defined a set of design principles for systems of local self-governance which have inspired several empirical studies (see, for example, Agrawal and Ostrom 2001).

Second, in contrast to the neo-classical conceptualisation, Williamson (1985; 1991) focuses on transaction costs, giving rise to what is often referred to as ‘new institutional economics.’ For Williamson, the core problem for all participants in an economic system is to ensure that the contracts laid down between two actors will be fulfilled. Depending on the frequency and uncertainty of the transactions involved, and the specificity of investments to be made, different governance structures appear efficient. According to this school, co-operation can be understood as a form of hybrid organisation between markets and hierarchies.
(enterprises and bureaucracies). The choice of co-ordinating mechanism is conditional on the institutional environment in which it is located so that changes in the latter (property rights, contract laws, the credibility of the judiciary, norms, customs etc.) induce changes in the comparative costs of markets, hierarchies and hybrid organisations (Williamson 1998). As each potential mode of governance possesses distinctive strengths and weaknesses, the challenge is “to align different kinds of transactions with discrete modes of governance in an economizing way” (Williamson 2002: p.6).

Granovetter (1985), in his seminal paper, criticised these economic conceptualisations of co-operation as ahistoric, arguing that ‘standard economic theory neglects the identity and past relations of individual transactors’ (p. 491). Instead economic action should be conceptualised as being ‘embedded’ in ongoing networks of personal relationships (Granovetter and Swedberg 2001). For Granovetter, an understanding of embeddedness requires detailed attention to be paid to the mechanisms and processes of the social construction of institutions. This notion of embeddedness has generated a substantial body of empirical research into business networks which has differed wildly in focus. Some have focused purely on how firms are linked through multiple relations of economic interdependence, what Gimeno and Woo (1996) refer to as ‘economic multiplexity’, which has been criticised for failing to recognise how economic organisation is also culturally embedded (Zukin and DiMaggio 1990). A broader view is taken by Halinen and Törnroos (1998), who describe six types of business embeddedness: temporal, spatial, social, political, market and technological. Johannisson et al. (2002) identify four tiers of embeddedness: first order, referring to local business networks and dyadic relations; second order, covering membership by business owners in local economic and social institutions; third order, embracing occasions where institutional membership serves to link otherwise un-connected business owners; and fourth order, referring to the ‘cultural layer’ of business activity, embracing rules governing exchange and information diffusion between firms, informal institutions and local business culture. Johannisson et al. extend the notion of embeddedness far beyond that of economic interdependencies to embrace all kinds of social and cultural relationships and institutions. It is considered that a ‘unique feature of localised networks of firms is their embeddedness in a setting that also accommodates economic and social institutions’ (Johannisson et al. 2002: 300). Such institutions are seen to play an important role in encouraging local entrepreneurial capabilities in circumstances where there may be a lack of a critical mass of small businesses, such as is often the case in a rural context. By facilitating entrepreneurial activity this form of embeddedness is seen as representing an important dimension of social capital (Coleman 1988). Johannisson et al. (2002: 301) argue, however, that the ‘integration of firms and institutions may also cause tensions between both firms themselves and between them and institutions … [and that] … different values and action rationales of firms and institutions may erode not only their co-operation but also the spontaneous networking between the firms themselves.’

Several commentators have argued that there is a growing need to understand how and under what circumstances social structures assist or impede local economic performance (Uzzi 1996; Rowley et al. 2000). Uzzi (1996) argues that although networks may operate with an ‘embedded logic of exchange’ that reaps positive gains of trust, resource or information sharing, risk management and co-operation, they can also seal off firms from wider information sources, resources and opportunities. Here the structural dimension of embeddedness - referring to the type of network and the quality and structure of relational ties between firms, as well as the positioning of firms within wider networks - is considered critical in determining the nature of, and access to, information and opportunities (Uzzi 1996). Uzzi found that individual firms organise themselves according to varying combinations of ‘arm’s length’ and embedded relations. The ‘embedded group’, which was able to draw on information exchange, trust, joint problem solving or other network resources, was considered
to be subject to a lower risk of business failure. Despite this, a balance of embedded and arm’s length ties was considered optimum given that an over-reliance on strongly embedded networks (‘over-embeddedness’) could lead to a firm becoming insular or failing to adopt market and technological strategies that lie outside of its immediate environment (Uzzi 1997). These notions have been subject to further elaboration in line with Woolcock’s (1998) argument that social capital is not only the ability to draw on intra-community resources, but also related to the existence of linkages to extra-community networks. A similar idea was proposed by Lowe et al. (1995) with regard to neo-endogenous rural development which posits that peripheral regions may not be able to generate development purely from within.

According to Sornn-Friese (1998) there is a danger that embeddedness, and the lack of it, becomes a ‘concept symbol,’ that is used to describe a multitude of outcomes while failing to adequately understand the behaviour of actors. As such, many studies of business networks incorporate Emirbayer and Goodwin’s (1994) criticisms of network theory, who argue that "cultural and social structures do not … by themselves bring about or somehow "cause" historical change. Rather, it is the actions of historical subjects that actually 'reconfigure' ... existing, long-term structures of action, both cultural and societal" (ibid, 1445). Therefore, this paper tries to explore the role of entrepreneurs and external agencies as social actors in the process of formation and development of business networks.

Methodology

The research underpinning this paper aims to address these themes through a qualitative analysis of business relations within two rural service centres in the north of England. Rural market towns or service centres have been seen to be at the heart of life in rural England, acting as focal points for commercial and social activity. However, in recent decades many of the traditional functions of market towns have been undermined and policy initiatives to regenerate them have focused on developing indigenous businesses and clusters of local actors to bring forth bottom-up development solutions. However such initiatives have often lacked an understanding of the perceptions of small business owners concerning their willingness to engage in local co-operative activities (Huggins 1998b).

The paper aims to complement more quantitative explorations of embeddedness which, according to Chell and Baines (2000: 196) only offer ‘partial insight into networking behaviour, which is dynamic, fluid and extremely difficult to capture by counting instances of contact’. A qualitative case study approach was adopted in order to further consider the nature of business dynamics and associations within specific localities (Yin 1994), an approach also advocated by Curran and Blackburn (2001) for the exploration of small business motivations and social interactions.

Two towns (Northmoor and Southmoor²) were selected, to replicate the research process in two locations with broadly similar structural characteristics referring to population size, sector distribution and industrial context. Northmoor and Southmoor are both rural service centres in the North of England. The market town of Northmoor has a population of just over 2,400. The town’s economy is service industry based and the business profile is dominated by micro-businesses, many of which rely on tourism. Southmoor is slightly smaller with a population of around 1,600 people; again dominated by micro-business service firms. In both towns attempts have been made to strengthen linkages and relationships between local firms.

The case study approach involved interviews with individual businesses, including participants and non-members of formal business networks. In all, 27 and 15 semi-structured interviews were conducted with business owners in Northmoor and Southmoor respectively. Data collection occurred in two phases. First, an initial set of businesses, stratified by sector, were chosen randomly from a comprehensive list of firms compiled from several sources including business support agencies, local directories, internet pages and ‘business-spotting’
within the localities. The stratification by sector sought to ensure that a broad spectrum of micro-businesses was included in the research process. In the second phase, a snowball approach was adopted, following up leads and recommended contacts from the first phase. This was intended to ensure that key actors, identified at the local level, were incorporated into the research. The semi-structured interviews lasted between half an hour and 2 hours. The interviews addressed a range of issues concerning the business and its development, relationships with customers, suppliers and competitors, engagement in and impressions of business networks, experience of business co-operation and views on the business community and its propensity to co-operate.

**Local Perspectives of Co-operation**

To understand the nature and development of local business networks it is important to explore how small business owners themselves perceive local business relations and notions of co-operation. Local actors described a variety of forms of informal connectivity that frame the development of a number of local business networks in the towns. These perspectives can be grouped under the headings of community connectivity and intra and inter sector co-operation.

*Community connectivity*

Business owners often found the idea of co-operation hard to identify or define precisely. Many felt that the business community co-operated, but were less clear about what this actually entailed in concrete terms. Interpretations and experiences of local co-operation were commonly associated with a strong sense of being embedded within a small community where ‘everybody knows everybody else’ and where ‘everyone knows everyone else’s businesses’, and was seen as being based on long established friendships or contact. One manufacturer, for example, asked whether businesses co-operated or helped each other out, explained ‘Ah, I think so. Because, most people you know very well with living here for such a long time. Oh definitely yes’. Another manufacturing business highlighted that businesses knew one another because they went into each other’s shops, ‘that’s where most contact is made when you pass somebody in the street or you visit their shop for something’. A retail owner noted that ‘We have a good relationship with all the local businesses. We can pass the time of day and have a good old chit chat if we have the opportunity’. A garage owner explained: ‘Ah, yes. You see them in the pub. There’s a lot of friendship, talk, getting to know what’s happening around the different pubs’. Co-operation was often associated with shopping locally, as one baker explained:

“We try and buy locally as much as we can. We buy all of our meat from the local butcher … I mean you know you have got to try and co-operate, you can’t isolate yourself. Because the people who work in the shops will come here, our girls will go and buy things or we all go and buy things from other shops, it’s just co-operation really” (Retail business owner, male, Northmoor)

This sense of local ‘community connectivity’ influenced business behaviour and attitudes in a number of ways. In such a context, for example, it was seen to be particularly important to protect the business’s reputation and to maintain good personal relationships with customers, who were often themselves business owners. This was often closely associated with a rural location. Running a business in a small rural community could also mean operating under the close scrutiny of peers and family:

“You can’t hide behind anything in a community like this because everybody in the community knows who your parents were, who your grandparents were and sometimes you don’t even know yourself. ... A
lot of my peers who are still working, and some of them who aren’t working, thought ‘he is doing well for himself’, but in actual fact I was really, really struggling. But they thought that because I had my own house and business I was [financially] loaded” (Local services firm, male, Northmoor)

The community ‘grapevine’ featured prominently in the attitudes and perspectives of business owners. This fulfilled an economic function in determining how businesses behaved in relation to their customer base and in the mechanisms for recruiting new members of staff. Thus, the majority of non-family employees were employed from the immediate local labour market and the predominant form of recruitment was informal. Operating a business in a small rural community demanded a particularly sensitive approach to local recruitment:

“It is difficult to advertise in a village really, because you don’t want to offend anybody by turning them down. You might advertise and get ten people and none of them are suitable and you have offended them all and you haven’t even employed anybody. So we try and keep our eyes open for anybody who is coming up” (Retail business owner, female, Southmoor)

The sense of being local or an incomer to the community underpinned the perceptions of several business owners regarding their level of social integration, prospects for business co-operation and influenced their participation in networks. A garage owner in Northmoor, for example, considered it would be difficult for anybody to come into the community to set up a business because it was so close-knit. One retail business owner in Southmoor had sensed resentment or suspicion when he moved into the town, feeling that other business owners weren’t coming into the shop or speaking. Another business owner explained:

“We are outsiders. We’ll never be part of Northmoor. Most of the people I deal with, no problem. They are as good as gold, but its still there. There is a certain amount of resentment there and they don’t like people coming in and changing things. I know I’ll never be accepted if I stay here” (Local services firm owner, male, Northmoor)

**Inter and intra sector co-operation**

Business owners described various examples and varying levels of *inter-sector* co-operation. Typically this referred to minor co-operative activity such as looking after keys or accepting deliveries for a neighbouring business. One shoe shop owner sold computer consumables on behalf of a home-based local computer business. A local milkman in Northmoor distributed leaflets for other local firms. Some business owners turned to peers for advice or support about business. Asked where he would go for support in relation to a business problem the following micro-business owner in Northmoor explained:

“Probably to somebody else in business in the village. Kenny Wharton at the bakery, he has got a good head on his shoulders and I know for a fact that I can talk to him about absolutely anything and it goes nowhere. … I have known Kenny all of my life. I used to knock about with his son and daughter when I was a little lad” (Local service business owner, male, Northmoor)

Several businesses referred to passing on custom among local businesses as a typical form of co-operation:

“I’ll go into John’s and have a chat when we buy things. We all know each other and would say we are mostly friendly, other than the occasional personal antagonisms. No, the little reserves we have are in the back of our minds, not up front. …. We will take goods for each other. I will even take them for people that I don’t get on with. It is just part of what you do to sort of help the community. If you haven’t got what a customer wants you will say well go across to them or next door” (Retail business owner, male, Southmoor)
Many instances of *intra-sector* co-operation among potential competitors were recounted. A local plumber described how he would often share stock with local competitors, how he regularly passed on business and how he often met them socially. The local baker in Northmoor borrowed ingredients from a neighbouring baker, pointing out that ‘the place wasn’t big enough to be enemies or have price wars’. Co-operation extended to minor forms of collaboration as described in the following example of neighbouring milk deliverers:

“We have worked very closely together for a long time. We have to buy our milk from the Co-op. … If your order was above a certain amount you got more discount. So we pooled the order, called ourselves Northmoor Milk, and got more discount. … All of the fridges in the lock up have locks on. I have a key for Daisy’s lock up and she has a key for mine and if I am short of anything I just borrow it out of Daisy’s and she borrows from me. I always put it back. We don’t need to ask each other we just do it. It works very, very well” (Local services business owner, male, Northmoor)

A local pub owner in Northmoor described a close relationship with other landlords in the town. The pubs were frequently engaged in co-operative activities, including helping each other out if they were short of gas or beer and passing on accommodation or food business. The landlords had a detailed awareness of each other’s businesses and connectivity represented a mechanism for information sourcing and market positioning:

“Well, they’ve been in here and I’ve been in their places. … Bill comes in a lot from the Trent; he comes in here quite often. And the Mason’s Arms, Simon is the manager there, he sometimes comes in. … They are our competition … We’re all right, we’re pals. … You don’t tell them the whole truth about takings etc. I think they always pretend they are better than they actually are. We can’t compete with them in certain aspects of the business and it would be silly to even try to. So what we look for is to see what we can do that nobody else is doing” (Local services business owner, male, Northmoor)

Co-operation can be guarded and undertaken within controlled bounds as explained by a bed and breakfast owner in Northmoor:

“To a certain extent, we co-operate. I don’t ever feel that I want to drop all the bridges to ‘lets be all one big happy family’. I mean I’m involved in the Tourism Association. … So there’s involvement with that, but that to a certain extent. I don’t want to sort of think, ‘oh, let’s all do this together’. I think there’s talk at the moment about bulk buying. I’m a bit ‘iffy’ about that. … Well, I don’t want to be uniform with everybody else. You know I’ve got my own individual plans of where I want things, when I do things. So you know there is sort of a ‘break-off’ point. They are competitors. … I wouldn’t tell them who my customers were” (Tourism business owner, female, Northmoor)

Unwritten rules of competition and informal agreements were cited by several businesses in both Northmoor and Southmoor and signified an important form of connectivity and co-operation. Many businesses described acceptable forms of competitive behaviour towards other firms within the community. Several professed to avoiding ‘stepping on each others’ toes’ or to challenging existing market segmentation:

“I share a lock up with Daisy and Mike, but they don’t deliver milk in Northmoor, I have a gentleman’s agreement. Daisy does West Town, East Town, right up the Northmoor Valley and Mike does Green Town, Red Town and East Wood. What I said to Daisy, because I was the first one there, ‘now then, to make this easy you don’t deliver milk in Northmoor and I don’t deliver milk outside Northmoor. You don’t tread on my toes and I won’t tread on your toes. If somebody in West Town comes to me and wants milk I take their details and I give them to you and I expect the same of you’. She said you can’t be any fairer than that. … [With Mike] there is only one of him and if he misbehaves we could form a circle round him and close in very, very quickly” (Local services business owner, male, Northmoor)

Indeed, where businesses do challenge the status quo this was commonly a basis for tension:
“You can’t turn round and say you can’t sell it. It’s up to them. But I think throughout the village there has been a general feeling over the years, you sell yours, we sell ours. We’ll try not to overlap. More or less an informal agreement. But since then, of course, one business has started, seemed to increase their stock of different things. I think there is a little bit of agro with one of the other outlets” (Retail business owner, male, Southmoor)

“The businesses try not to step on other people’s toes, they realise it is a small community and don’t blatantly go after other people’s business. … Yes, there are a few newcomers in who may be don’t know the ‘rules’, if that’s the right word” (Retail business owner, male, Southmoor)

In contrast to the above examples, other businesses described little contact with firms within the local community. A builder in Southmoor explained how he was very independent: ‘I’m my own man and make my own decisions’. A pharmacist pointed out that he had exchanged goods with a neighbouring pharmacy half a dozen times in the last nineteen years. Some owners were ‘absentee’, commuting into the community from outside, and they considered this affected their level of local connectivity. Others explained that they were more active within extra-local networks and network building. Another business owner, in explaining his non-involvement in a local development group, was concerned about a potential loss of control:

“Local businesses I don’t think wanted to be pulled into something where they didn’t have control over their own destiny. Once you go into a big group you become a cog in the wheel rather than being your own master … There was a feeling that if we got too involved, are we going to lose our identity and our own destiny?” (Retail business owner, male, Southmoor)

Other business owners described minimal levels of contact with other firms:

“Retailers, you walk along the street and have a chat with them. They’ve had a good week, they’ve had a lousy week. And so on. But there is very little formal contact, and where it does occur this is also very guarded” (Professional business owner, male, Northmoor)

“They are supportive of each other. If you run out of pound coins and the bank shuts you can go into one and say have you got a surplus of coins and that is about the sum total of helping out. I wouldn’t go any further than that. … As far as the other businesses go I just might - if I am passing the shoe shop - peer in and say ‘have you been busy today, I have made a fortune you know!’ Just general jolly, nice relationship with people” (Retail business owner, male, Southmoor)

It is difficult to generalise from the research about the typical characteristics of less or more locally connected businesses. What is clear is that there are many forms, levels and meanings of co-operation within the two business communities. There is a tendency, which is to be expected, for firms engaged within local supply chains and supplying local markets – firms dominating local service economies - to be more connected locally, compared to more ‘export oriented’ businesses. It cannot be assumed, however, that businesses with mainly extra-local economic linkages are not embedded locally in other ways. A business owner in Northmoor, for example, highlights the complexity that can characterise the make-up of small firm networks. The owner owns two firms. The first is dependent wholly upon inputs and sales beyond the region. The same owner, however, also owns a separate, long established retail outlet in the town, is a key individual within the local business club and is active in several local community organisations.

**Collective Action Dilemmas in the Formation of Formal Business Networks**

Awareness or experience of local business groups represented a more tangible form of co-operation for many of the interviewees. In both Northmoor and Southmoor small groups of businesses have attempted to develop formal networks. In Northmoor, a local business club,
representing a cross section of businesses, was established in 1999. The club was initiated locally and met more or less monthly until its collapse early in 2001. Its activities focused mainly on marketing the town and lobbying local authorities for improvements in Northmoor’s amenities. The club was initiated informally by a newcomer to the community and a handful of other local business people who perceived a common need for greater interaction among local firms in order to address collective business issues in the town.

“That was me and the newsagent and the lass who was running the café. I was getting a coffee and she said ‘you know we need to get together over something’. I think it was the parking in the village. She said, ‘you know, if we were all one voice and we rang up and said ‘listen this is no bloody good’. But if I just ring up … they will not take a lot of notice’. Actually getting that one voice is a different matter, but it is worth giving it a shot. So I had a word with the greengrocer, then I had a word with the butcher and I had a word with the man who has the fish shop. And it snowballed from there. Then we got the TEC involved and things happened very, very quickly after that” (Local service firm owner, male, Northmoor)

The occasional meetings of the Northmoor business club became more formal, regular and public following a chance contact with a local business adviser and, in turn their affiliation in 2000 to a regional network of local business clubs facilitated by the local Training and Enterprise Council (TEC). Later that year a decision was taken to sharpen the club’s role and internal procedures, with the appointment of a chairperson, treasurer and executive committee. At this point the club’s publicity boasted of having around 60 members. In practice attendance at club meetings fluctuated and there had been a steady decline in active membership, from an average of around 20-25 people to below ten.

Southmoor Chamber of Trade, representing local retail interests, was set up during the 1960s in response to the local authority's intentions to remove the town's car park. Subsequently the Chamber of Trade has tended to act as a philanthropic organisation, involved in a range of community activities including support for the local football team, providing funds for Christmas tree lights, offering donations to raffles, helping with flower displays in the village and supporting local charities. In the past it also organised social events such as trade dinners, barbecues and quizzes. In the late 1990s the group was responsible for setting up a web page and was engaged in local advertising of the town. There are 22 business subscribers to the Chamber, each paying an annual subscription of £20 (approximately 29 euro). A small core of business owners and a chairperson, responsible for calling meetings, identifying an agenda and discussing finances, directs the Chamber. The group originally met on a monthly basis, though its future existence was in doubt at the time of the research. Several business owners described themselves as lapsed members and meetings were infrequent with attendance varying between six and ten individuals.

As interest in the local Chamber of Trade has tailed off in Southmoor, a new initiative has gained momentum, culminating in the establishment of Southmoor Development Trust. Development Trusts are increasingly promoted by development agencies as an instrument for local development in the UK. They bring together governmental, quasi and non-governmental institutions and interests with a view to securing funds from various external sources for broad based community-led development purposes (Development Trusts Association 2004). Development Trusts are usually constituted as companies limited by guarantee with charitable status, guided by a Board of Directors. Many trusts are established with the help of external support. All must generate income through grant sources, trading activity or an asset base to cover activities and running costs, though any generated surpluses must be reinvested in the community.

Southmoor Development Trust aims to facilitate the social, environmental and economic regeneration of Southmoor and its hinterland. Its management committee meets monthly and involves up to 20 individuals, including six elected by the 55 subscribing general members, six co-opted by the management committee and the remainder appointed by a list of
nominating bodies. All the members of the management committee either live or work locally or represent organisations active in the area. There is not a Chamber of Trade representative on the committee, however several directors do own retail businesses within the town. The Trust has been active in bringing funding to the area for its activities and to support its part-time co-ordinator. One of the key actions to date has been the development of a Tourist Information Centre in the town.

In both Northmoor and Southmoor, therefore, formal networks have been developed to deal with various pressing issues that required a collective business response. In both localities the networks were built upon pre-existing informal relations among a small number of individual business owners. It is apparent, however, from the case study findings that there were a number of central dilemmas associated with the development of the networks. These issues are discussed under three main themes: the balancing of collective and individual business motivations, the handling of underlying connectivities and social differentiation, and the implications of external state intervention.

Motivations for collective action

A prominent issue within local business networks relates to the extent to which they are providing specific, individual membership benefits, as opposed to a collective function for the business community as a whole. Motivations and rationales for business owners to partake in local business networks can vary significantly (Curran et al. 2000) and this was strikingly apparent in both communities. Networks can provide a mechanism for socialising or social support among often isolated business owners. They can be a forum through which business owners can learn from and discuss the day to day experience of peers or seek information in relation to business issues. There may also be personal commercial motives to participate, such as the opportunity to gain additional business from other network participants or to collaborate on joint marketing initiatives.

A whole spectrum of expectations relating to the role and purpose of a local business network is seen in both Northmoor and Southmoor. One member of the Northmoor club, for example, stressed the importance of the club’s social support function arguing that the club provided ‘someone to bounce her groans off’. Several members of the networks highlighted their importance in providing a collective voice for the business community:

“I saw the Chamber of Trade as a way of bringing the businesses together in order to promote this village as a place to shop. Not for any individual businesses to be top of the ladder or whatever. To me it should be a group thing, so we did some group advertising about three years ago in the newspaper, … saying it was free to park and stuff like that” (Retail business owner, female, Southmoor)

The motivation to establish a local business network is therefore often issue based, where a group forms to get something done in response to a particular problem. This in itself presents a common collective action dilemma of being able to maintain an impetus for a network over time:

“What happens with any organisation in any small place, is that very often they become active about a particular thing or issue. People work like mad to make that issue happen. When that issue is resolved or dies there is a vacuum that nothing moves into. Once that inertia establishes it requires outside influence to bring in a new issue that everybody gets worked up about” (Retail business owner, male, Southmoor)

The balance between individual and collective benefits is considered essential in determining the durability of local business networks. It has been argued that businesses primarily make their decision as to whether to participate in networks of this kind on a basis of the availability and utility of specific benefits (Bennett 1996). Participants frequently identified interwoven
individual and collective incentives for participation. There was also evidence of a perceived divergence between the personal pecuniary and collective functions of the networks, which is leading to a level of dissatisfaction among members. A business owner in Southmoor for example explained how she had engaged in the Chamber of Trade to develop her own business, however these expectations had not been met. Instead she saw the group as being more oriented to providing a beneficial role for the community as a whole through fund raising activities and criticised it for lacking a clear purpose and objectives. Similarly, among some of the non-Chamber businesses within Southmoor there was a sense that the Chamber would not provide sufficient individual benefits to warrant active participation:

“That’s not to say that I wouldn’t be more interested in the Chamber of Trade if I thought there was something that was worthwhile in it. … Time is valuable to us unfortunately at the end of the day to be involved in it, … I’m not saying that I would only do it if there was something in it for us worthwhile … But I think that if it was going to provide an incentive to us, it would be more up my street lets say” (Business owner, male, Southmoor)

The Chairperson of the Southmoor Chamber of Trade noted a similar dilemma:

“With such a diverse group some businesses are doing very nicely and don’t want to bother about the Chamber of Trade. They don’t see the Chamber of Trade able to do anything for them. ‘What can it do to help me and my business?’ … I think the main lesson is co-operation up to a certain level and then you start having difficulties. Partly a problem of conflict of interests and partly a problem of ‘why are we doing something for somebody else and its not going to benefit us’”

Connectivity and differentiation

A significant challenge facing formal network development is in relation to the network’s ability to positively harness, interface with or represent the various informal networks that already exist within a local business community. This challenge relates to a key structural dilemma as to whether networks should attempt to incorporate a narrow or broad range of interests and the extent to which there is an internal commonality of interest. Huggins (2000), referring to Olson’s logic of collective action (Olson 1971), suggests this is a key element of network sustainability and that it relates to the size of membership, the extent to which network members have common backgrounds and whether they have generated levels of social capital with which to sustain collective action. Such factors are considered to be more likely when a network is focused within a specific sector or locality.

Various network sustainability dilemmas of this kind were exposed through the case study findings and illustrate the way in which embeddedness can operate as both a disabler as well as an enabler of network development. A particular issue concerned the ability of the networks to represent different business sectors. Not only do the local networks in the study embrace only a small proportion of the total business population within their respective areas, but their existing membership bases are somewhat skewed, and are perceived to represent only a certain group of business sectors. Within the Southmoor Chamber of Trade there is a strong emphasis on retail businesses. Bed and breakfast and accommodation providers are also members though see themselves as being less well represented within meetings and decision making. However, even within this relatively narrow range of sectors there can be difficulties in meeting divergent priorities and demands:

“You get in something like the Chamber of Trade a very wide mix of businesses, the bed and breakfast people, the trades people and the retailers and they all have different requirements. We would often say ‘what about putting this retail advert in the newspaper’ and the bed and breakfasts would say ‘what is in it for us’” (Retail business owner, male, Southmoor)
In both Northmoor and Southmoor, non-members often perceived a narrow membership base to the networks. For Southmoor this relates to the emphasis on retail businesses and in Northmoor the focus of the business club’s activity on tourism related promotion. Despite the criticism in Northmoor that the club placed too much emphasis on tourism, a parallel network was established in the town specifically for accommodation businesses who felt that their interests were being ignored within the ‘general’ discussions of the club.

The challenge of network sustainability also relates to the social differentiation of micro-business owners. This was particularly true in Northmoor where membership of the club was for some associated with incomers to the community rather than ‘indigenous’ business owners (Laschewski et al. 2002). The club does appear to incorporate a significant number of incomers. There may be greater value for such business owners to join a network of this kind in order to establish contacts and support within a new locality. Where business owners already have well developed family linkages and support systems available to them locally this may equally influence their incentives to participate in formal networks.

A further challenge arises from the dynamics of personal relationships locally. Some business owners drew attention to cliques within the community:

“The old boy network that exists in a long established community has broken down. That can easily end up with things developing into cliques. It is lurking a little bit in Southmoor at the moment. You are not getting major power blocks forming. I think it is families, long standing connections as much as anything” (Retail business owner, male, Southmoor)

Tensions and frictions between different personalities and network participants can influence the extent and internal cohesion of business networks:

“There are people who are natural leaders and those people that aren’t. And there are too many people trying to be natural leaders. It was like all Chiefs and no Indians. There are some people trying to be awkward with other people… It did put me off a little bit” (Local services firm owner, male, Northmoor)

Finally, the lack of a critical mass of businesses appears to be a pivotal issue in the strength of local business networks. This is linked closely to a perceived lack of sufficiently motivated or key individuals to drive networks forward in sparsely populated areas. Critical mass becomes a particular dilemma where there may be several networks or groups within a local community, each potentially competing for the involvement of those individuals with sufficient time, motivation and drive. This appears to be true in Southmoor with the emergence of the Development Trust. Several respondents referred to the Trust in considering whether the Chamber of Trade could be revived. Some business owners even associated the emergence of the Trust with the demise of the Chamber of Trade itself:

“The main people in the Development Trust are Mary and John Smith. … They were in the Chamber of Trade and the only ones who got anything done because they were prepared to put in the time. Most of the members of the Chamber of Trade, including myself, were very happy to go along on a night, have this good old chat and a few drinks…. Well actually Mary and John did write letters and got things done, albeit in a small way under the guise of the Chamber of Trade. Now they are doing exactly the same in the Development Trust, only more successfully because they have got more financial power. When they handed in their resignations from the Chamber of Trade because they were going to the Development Trust, I suppose that was one of the reasons that the Chamber of Trade tended to fold” (Retail business owner, male, Southmoor)

The implications of external intervention for rural development

The case studies also explored the nature and impact of intervention by external agencies in the facilitation and support of local business networks. It transpired that different approaches to external intervention were apparent in each locality. In Northmoor, external intervention
followed a service and facilitation model, whereby the business club was assimilated within a TEC organised regional network of business clubs with the TEC offering certain services to the local club including administrative support, guidance, information, mentoring and mediation between different business interests and networks. An annual membership fee of £25 per business (about 37 Euro) was introduced to pay for these services. In this manner both the Northmoor business club and TEC did not engage in any trading activities of their own but sought to act as facilitators in linking local businesses.

This service-based model for external intervention encountered three main problems. First, by basing its appeal as a facilitator, the club suffered from differences in what services individual businesses wanted and how this should be financed. With the introduction of the membership fee, members became increasingly sensitive as to whether they were getting value for money and sufficient individual benefit, and whether they were maintaining autonomy over their own destiny.

Second, following involvement of the TEC there was an incremental formalisation of procedures within the business club which had varied appeal to different members. There was particular unease among some of the network ‘originators’ who had built the business club up from a very informal foundation. In this sense external intervention partially destabilised and eroded the basis of the network (see also Laschewski et al. 2002).

Finally, unease was heightened by a disparity between the rationale for the state provision of business services (economic growth and rural regeneration), which was incorporated into the TEC’s strategy, and the traditional focus of the club on civic issues. A divergence emerged between the expectations of network members and the agency, or different ‘action rationales’ using the terminology of Johannisson et al. (2002). External intervention thus brought a different, partly conflicting meaning to core issues such as the development objectives, perceived needs and promoted solutions.

In Southmoor external intervention has gone further and has been based on a proactive, interventionist model for business development involving the establishment of a local development trust. The Southmoor Development Trust incorporates a broad approach whereby business is only one of several development concerns and where membership involves individuals from numerous non-business related groups. The aim of the Trust is to be ‘community led’. Nevertheless, like Northmoor business club and its relationship to the TEC, the Trust also caused local turbulence within the business community. Its own business activities, involving plans for the tourist information centre to introduce some minor retail activity, proved to be particularly sensitive. A number of businesses expressed concern:

“[The Development Trust] has done really very well but I would go so far to say that the business community in Southmoor are disenfranchised from it. Generally the business community do not feel that it can achieve anything for them. We are actually in conflict with them at the moment because they started retailing goods which other shops sell. Their need for funds puts them into the retail area which puts them in conflict with the other traders. We are very sensitive about this…. I fundamentally object to what they are doing” (Retail business owner, male, Southmoor)

Friction within the Southmoor business community in relation to the retail activities of the Development Trust is clearly linked to what is seen to be a transgression of the ‘appropriate’ forms of business to business behaviour outlined earlier in the paper and reveals the challenge of introducing formal networks in embedded contexts. Indeed, the question of the retail area in the Tourism Information Centre has stimulated and revealed much of the underlying connectivity among the businesses. In highlighting these connectivities there is also evidence of peer pressure at work within the business community, as the following owner explained in his deliberations over signing a local petition opposing the development:
“There was a letter just recently sent off …where they were objecting to the Tourist Information Office being a retail outlet. …They felt it was wrong for a public subscribed outlet to be competing with existing businesses and I agreed. But the amount that the Tourist Information Centre is doing it is very, very small. It was pointed out to me when they were persuading me to sign this letter, along with all the other shopkeepers, that it might be just the thin end of the wedge. …[The letter] went round everybody. … It originated from Trish, one of the new shop-keepers actually … Trish came to see me and I said I wasn’t going to. Spoke nicely, said I wasn’t going to sign it and she said, “well how would you phrase it?” and at the end of the day we toned the letter down. I said well alright, that letter you can put my name on. Then I had second thoughts and I went along and said no and the next day I said “Trish I am coming off that letter I don't like it” and she said “alright but all I can say is that you will be notable by your absence. I think shopkeepers should stick together”. I couldn’t argue with that so I did my usual bit of dibbling and waffling and I said alright put it on again.”

The same owner implied a level of social coercion in influencing his decision to participate within the Southmoor Chamber of Trade:

“I certainly went along to the Chamber of Trade because it would have appeared rather churlish not to go along. The existing members … said to me a number of times ‘why don’t you come along’…. I said ‘no I don’t want to’. …But in a community like this after a while if you keep saying no you are not doing yourself any favours at all, so it was more or less thrust upon you. I enjoyed it, we only met once a month and it was a Monday night where you had a good old chin wag” (Retail business owner, male, Southmoor)

Conclusions

A central theme in the paper has been to understand notions of local business co-operation and the formation of rural business networks. The paper has drawn on two streams of literature (new institutional economics and the concept of embeddedness which is integral to the new economic sociology of Granovetter). While both literatures yield valuable insights, two additional aspects are highlighted from this research: the relevance of understanding the meaning of co-operation in everyday language and the importance of overcoming the implicit assumption of the "neutral state" in the process of network formation. These two issues are discussed below.

Closer consideration of the social meaning of co-operation in the particular local contexts studied, illustrates that local actors may have quite different interpretations in mind about the content, objectives as well as forms of co-operation. Co-operation is often associated with symbolic activities to express local identities such as supporting one another's business through shopping locally rather than being involved in joint projects. The local business community is generally regarded as a source of feedback and information, in the sense of simply ‘talking things through’. Other forms of local connectivity relate to the observance of social norms and recognition of appropriate forms of business behaviour in particular to reduce local competition. The overall impression is that informal local network structures appear to form the foundation for, rather than being identical to, forms of formal co-operation, business networks and collective action. Collective action based on local co-operation itself seems to be the exception rather than the rule. Local networks therefore appear as latent structures that incorporate the potential for collective action and which are partly manifested in local organisations of civil society.

Preconditions for collective action appear to be the existence of initiators and a pressing collective problem to solve. In both case studies some businesses have attempted to develop formal business associations to co-ordinate collective actions. Their incentives for participation can be both personal gain and collective in character. The local business communities in both Northmoor and Southmoor have however only sporadically functioned as platforms for collective action and this has typically been where common property issues have been at stake (such as parking and creating a pleasant shopping environment). This
supports the observation of Halinen and Törnroos (1998: 189) that business networks, at least when viewed as formal structures, are often structures which "emerge, evolve and dissolve over time in a continuous and interactive process".

In moving beyond temporary networks on single common property issues towards more sustained forms of co-operation, initiatives have faced significant barriers to participation. In understanding these barriers, the economic literature, because of the priority it gives to individual actors, can add some value to the embeddedness approach. Most participation barriers can be conceptualised in terms of the costs and benefits of co-operation such as individual time constraints or the perception of few personal benefits. These costs expand as the number of participants and the heterogeneity of their preferences concerning network functions and organisation grows. However, at the same time a minimum number of participants is required to gain legitimacy and fulfil the required functions of the network. These barriers pose an ongoing challenge for network development and imply that it is important to understand whether different network structures are more or less likely to overcome such problems. It may be due to such cost-benefit trade-offs that local collective action between micro-businesses often emerges as a defensive strategy, as in the cases evaluated here, where common property resources are threatened and where there are clear linkages with private accumulation. In other words, these are situations where the expected benefits of collective action exceed the potential costs of co-operation.

The implication for political intervention in facilitating the formation of small business networks is that external actors have to consider the nature of the transaction costs involved. If the benefits are unclear or uncertain, co-operation is unlikely. This also presents limits to the possibility of using existing network structures as a means for local development or to provide public services. The potential of existing formal structures may easily be overstretched. Furthermore, the distinction between social capital as a latent structure for collective action and collective action itself indicates that major investments may be involved when the endowment of social capital is weak. If this observation is correct, it appears that it is just as important to understand the origin of social capital and the way in which it is generated as to understand the process whereby these latent structures are turned into collective action.

To date researchers have tended to treat external state intervention in network formation as a neutral actor. However, the field research leads to a different picture. In Northmoor, the intervention of the external agency with its own agenda brought a different, partly conflicting meaning to what the local business club should do and how it should be organised and paid for. This was a destabilising factor and some members perceived that external intervention had proved counterproductive in its attempt to strengthen the connectivities between local businesses. The research suggests that a service based model for external support may struggle to establish legitimacy where there is a lack of consensus over what services should be provided. The introduction of membership fees is also likely to heighten the belief that members should receive specific individual benefits and lead to a marginalisation of civic objectives.

The Southmoor Development Trust has avoided some of the co-ordination problems apparent in Northmoor as rather than seeking to provide services to businesses on a voluntary, consensual basis it has been a proactive agent. Its remit has however given it greater potential to disturb existing relationships and accepted forms of business to business behaviour within the community (the fourth tier, ‘cultural layer’ of embeddedness described by Johannisson et al. 2002). It challenged existing local norms, in particular those which regulated local competition. Direct business stimulation led to some resentment by existing businesses that faced new competition and the development of 'reactionary alliances'. The case study highlights that disturbances by external intervention can produce additional transaction costs
in the form of conflict resolution, which, if ignored, may also jeopardise the latent structures for future collective action that they seek to exploit.

The theoretical conclusions from the latter observation seem to be twofold. On the one hand it is important to conceptualise support agencies as influential but not neutral actors. On the other the observations remind us that the wider local context, in particular civil society, plays an important role in understanding how micro-businesses collectively respond to external intervention. Although this appears to be common ground in studies on business cooperation, to date it has been rarely conceptualised in empirical work.

Notes

1 Micro-businesses dominate the rural business profile. They are defined as independently owned firms employing fewer than 10 full-time equivalent staff.
2 The fictitious names of Northmoor and Southmoor are adopted to preserve the anonymity of respondents.
3 The role and impact of state intervention in network facilitation in the Northmoor case study is discussed in greater depth elsewhere (Laschewski et al. 2002).
4 Training and Enterprise Councils were replaced by Learning and Skills Councils in 2002.

References


