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A NETWORK-BASED BUSINESS PARTNERSHIP MODEL FOR SMEs MANAGEMENT

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Abstract. This paper presents a network-based business partnership model designed in order to achieve an extremely effective and lightweight management in the context of consultancy firms. The approach has been developed through over twenty years of operation and several trials and errors cycles, but only now has been formalized. The presented paper suggests new approach towards managerial design of company, indicates context and differences from conventional organizational structures. Start-ups, SME's working in complex environment and participating in technology transfer process could benefit from provided insights and suggestions. The presented paper, we believe, contributes to development of theoretical foundations contemporary management.

Keywords: network, clusters, technology transfer, innovations, management, SMEs

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JEL Classifications: D21, D22

1. Introduction

One of the major problems in making business up-scale-able while retaining both the quality and the effectiveness of the single individual professional firm approach and yet increasing efficiency on a much larger scale, largely depends on the ability to develop and grow the human capital. The latter represents - along with knowledge, skills and experience - the primary asset of the freelancer professional.

2. Background

Designing a successful organizational structure for your small business involves analyzing the work that needs to be done and setting up a hierarchy that ensures work flows smoothly from one process to the next. An effective organizational structure allows you to control business processes, assign accountability, enable rapid responses to opportunities and threats, deliver on promises, empower employees to make decisions and beat out the

competition.

When you have a complex business, create an organizational structure divided into multiple departments or functions. If your industry requires a great deal of formality, design your organization with a clear hierarchy. If your employees have extensive experience, enable them to participate in influencing decisions. To establish successful communication, allow personnel at every level to flow information through the organization. Create a functional, divisional or other reporting structure based on your type of environment.

In a functional structure, each separate department is led by an executive who reports to the chief executive officer. If you operate in a stable business environment that won't change quickly, this model works well. Additionally, if your company produces a small number of similar products, this division makes work more efficient. To be most successful, leaders in this type of structure need to balance the needs of each function. Otherwise, one function may dominate the other functions, causing tension and conflict.

Companies using a divisional organization consist of multiple divisions, each led by a manager who reports to the chief executive officer. Each division is accountable for its own performance. Within each division, business is structured into functional units. This may result in redundant departments and result in inefficiency. For example, each division may have its own training function and conduct the same professional skills classes. Small businesses may start with a simple structure but adopt a divisional structure to be more successful when the business grows too large for the CEO to make all the decisions.

In a matrix structure, employees report to more than one manager. This combines both functional and divisional structures. This promotes efficient sharing of resources but is often difficult to manage and maintain. Matrix management tends to work successfully in collaborative and cooperative companies that require flexibility in responding to customer demands.

In a network structure, a central core leader operates the main strategic business and outsources the functional work, such as manufacturing, marketing and distribution. This decreases control but typically increases cost effectiveness. Use these alternative reporting structures if they meet your company's needs.

Here we want stress, that classic management structures are gradually transformed into *ad hoc* structures, which ultimately only remotely remind pure classical structures indicated above. The main phenomenon, which causes such transformation is networking, which obtains various forms and takes place in variety of activities. The mostly discussed phenomenon is clustering, which as a rule leads to more efficient functioning to all parties involved into network (e.g. Ignatavičius et al. 2015; Tvaronavičienė et al. 2015a; 2015b; Tvaronavičienė, Černevičiūtė 2015; Branten, Purju 2015). Management is one of major factors affecting company's efficiency (Bistrova et al. 2014); and what is peculiar, it itself can be built on networking or even clustering principles. That novel approach can be compared to innovation freeing individual initiatives, creativity, leadership and creating new opportunities for employment internationally (Rezk at al. 2015; Oganisjana, Surikova, Laizāns 2015; Lace at al. 2015; Długoborskytė, Norvilaitė, Petraitė, 2015; Dalati 2015; Caurkubule,; Rubanovskis 2014; Smaliukiene, Korsakiene, Tvaronavičienė 2014).

3. Methodology

The analysis of several effective organizational structures combined with a thorough analysis of the work-flow of successful firms and the top quality practices adopted in project management were combined with motivational theory to define an operational model that would retain the benefits of both the "*freelancer*" and the "*corporate*" approaches to business management.

In more details, a desk research based on literature has been performed pertaining to motivation theories, organizational structures (focusing in particular on those described as successful), organization “*scale-up*” barriers, quality assurance methods and work-flow (once again focusing on the one of successful firm as per available case studies). The results of this research have then been completed with the analysis of secondary data available on the same areas of knowledge mostly referring to case studies. Finally a search on registered trademark or patent in the area has been carried out.

4. Proposed model

The proposed model foresees a layered (onion-like) approach with a minimal “*core*” nucleus of business partners bond together by a formal partnership agreement. They would be contributing the initial funding, the strategy and the crucial human and intellectual capital of the entire system. The “*Core*” is surrounded by a first layer of collaborator labeled as “*Partners / 1st Order Partners*”. These professionals are highly skilled and trusted (as per what appertains to the relation with the Core Partners). Also in this case there are agreements in place between the Core Partners and the Partners / 1st Order Partners. This is a simple contract that scaffolds a cooperation approach based on the mutual strengths and abilities. These will be presented and offered as belonging to the Consultancy irrespective of the fact that are in possession of a Core or 1st Order Partner; for the customers these are all assets of the consultancy. This helps build the image of a fully-fledged consultancy able to address and cater for any need of the customer. The approach offers therefore flexibility as what is not in the reach of the Core Partners will be sourced by the 1st Order Partners or nth Order Partner depending on the location of such skill or capacity. The deployment of the service/product to the customer is ruled by a specific contract reporting clear terms and conditions (to ensure accountability and increase trust) and monitored by the Core Partners (Figure 1).

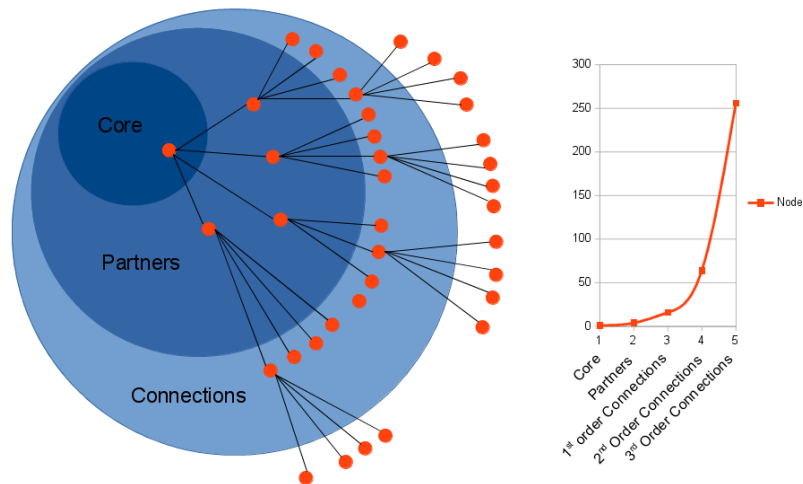


Figure 1. The layered model and a projection of nodes growth based on only 4 connections per partner on average

In this respect the system is operating like a law firm with a set of core lawyers and a number of associates. The main difference is that in our case each associate is still free to operate as a freelancer for all that is not concerned with the activities conducted under the framework of the system (this latter aspect is clearly detailed, specified and ruled in the partnership agreements terms and conditions which are inclusive of an ethical code and detailed instructions on how to avoid - or in case disclose - potential or actual conflicts of interest).

It is worth pointing out that the proposed approach is possible only thanks to the level of mutual trust and respect existing between the core partners in first instance and then in between each layer of connections. Furthermore, this approach requires the applicability of the Transitive Property reported hereafter.

$$\begin{array}{ll}
 A \in \{\text{Core Partners}\} & A \xleftrightarrow{\text{trust}} B \wedge B \xleftrightarrow{\text{trust}} C \\
 B \in \{1\text{st Order Partners}\} & A \xrightarrow{\text{trust}} B \Leftrightarrow A \xrightarrow{\text{trust}} C \\
 C \in \{2\text{nd Order Partners}\} & C \xrightarrow{\text{trust}} B \Leftrightarrow C \xrightarrow{\text{trust}} A
 \end{array}$$

The same has to apply to any set of three levels, or in other words:

$$\begin{array}{ll}
 A \in \{N\text{th Order Partners}\} & A \xleftrightarrow{\text{trust}} B \wedge B \xleftrightarrow{\text{trust}} C \\
 B \in \{N+1\text{ Order Partners}\} & A \xrightarrow{\text{trust}} B \Leftrightarrow A \xrightarrow{\text{trust}} C \\
 C \in \{N+2\text{ Order Partners}\} & C \xrightarrow{\text{trust}} B \Leftrightarrow C \xrightarrow{\text{trust}} A
 \end{array}$$

It is expected that whenever required and beneficial a Partner may pass from an external level to an inner one. This is not necessarily to occur one level at the time, but is based on the benefit that the passage brings to the system and the level of trust acquired. This applies also to the passage to Core Partner although in this case it is necessary to have a further condition met, which is the growth of the business (in other words the need for a stable up-scaling of the system core).

The second level of the partnership (reported in Figure 1 as “*Connections*”) represents the trusted human capital of the 1st Order Partners (in the same fashion as for the relation between the 1st Order Partners and the Core ones). Exactly the same approach applies to all further layers although it is recommended, based on the experience gained so far, to limit the layers to two (beyond the core) as the larger the number of layers, the weaker is the trust relationship between the core partners and the members of the outer layer.

5. Related benefits

The major benefit of the proposed approach lays in the fact that it allows accessing to the right resources at the time of need. This is achieved via a “*ad-hoc project-based*” contracts that are internal to the system while for the customer, the service/product is provided solely by the contacted consultancy by some of its associates (that are bound to act for the project as employees or core partners of the consultancy) in a well-regulated and accountable fashion.

The proposed approach exhibits an exponential growth in respect of the number of available trusted experts whenever any of the system layer acquires new members, thus making it feasible to provide the best possible fit to the customer’s needs.

The adopted contractual approach presently in place ensures focus and commitment as the “*temporary*” established cluster of resources (planned to last for the duration of the related activity) is designed and built on the basis of mutual trust and commitment. The team has the required set of optimal expertise and skills and there is also a certain degree of redundancy ensuring the possibility to accommodate temporary unavailability of any resource. This arrangement allows avoiding to establish a fixed structure of employed personnel (at least while the dimension of the business is still in its initial phases). The fact that the system is founded on a basis of personal trust (in terms based on professional ability, transparency, accountability, reputation and commitment although in a context of full independence and freedom of action) ensures that each participant has a personal interest in making this system work smoothly. The better each team member performs, the more the system is rewarding as it will offer either the possibility to engage in another activity or to take up a personal assignment independently from the system if no other job is scheduled. This allows to maximize both own business (each associate partners’ business schedule and load) as well as the overall system performance, providing “*image*”, “*reputation*” and “*income*” (thus catering for both extrinsic and intrinsic motivations) thanks to quality and performance.

The key factor in motivating each member of the system to operate according to the ethos of this system can be considered the need for retaining the received trust. Just like in the Antwerp diamond market the given word is fully equivalent to a written contract, also in this approach each participant has the interest in performing as well as introducing the right people (i.e. trusted). Each participant can transit at any time from one outer layer to an inner one (based on achievements and performance), while any none performing partner will be dropped if proven not trust-worthy. This latter case will also induce a certain level of disrepute that will quickly propagate in the network thus acting as a deterrent for personal and professional misbehavior. The system ability to scale is ensured by the adopted structure and cooperation mechanism as apparent also in Figure 2. The flexibility is offered by the adopted contractual approach for bonding participants to each other and as a team when dealing with the customer. The possibility to operate as part of a team or as a freelancer depending on the needs and opportunities is attractive to those skilled professional that enjoy working with trusted partners but at the same time may have the opportunity to be running their own activities autonomously.

The proposed approach allows to level the workload exploiting team work within joint projects and operate independently when there are gaps. The individual flexibility requires that in case of commitments/needs clashes - or conflicts of interest - a member has to refer a suitable replacement so as to ensure continuity in operation and smoothness of service/product deployment for the customers. Overall this approach allows to maximize management efficiency, quality of delivered products/services, work load allocation flexibility, resilience to change in customers’ needs or market evolution as well as deployment scalability. With this approach it is possible to implement with minimal overhead costs and infrastructure both small as well as large projects with high quality, efficiency and effectiveness and all is based on the connection criteria adopted (i.e. Professionalism and Trust).

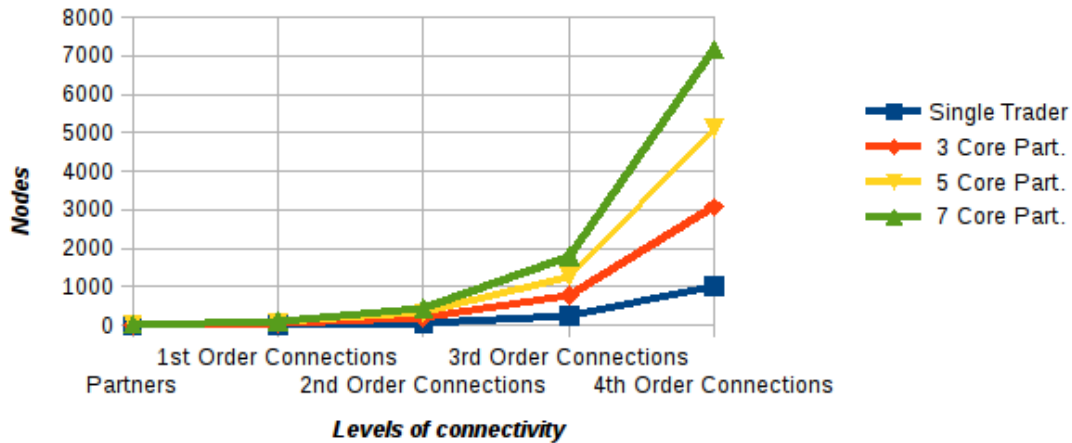


Figure 2. Projection of nodes growth based on only 4 connections per partner on average mapped while the core partnership moves from a single trader to a group of seven (7) partners

6. Presently achieved results

The proposed approach has been tested in the context of consultancy services focusing on project management, project rescuing, problem solving, software development and research & development (inclusive of the related fund raising). The results have been very positive as the system has been able to lead to the successful rescue of twelve international RTD project (for over 30 million Euro), the successful management and completion of over 98 international, national and corporate projects (for over 300 million Euro). Furthermore, this approach has been crucial in the acquisition of over 21 projects (for over 62 million Euro) and can count on a strong connection with industry and academia (over 100 industrial partners/customers and 50 universities/research centers). With a single trader social network of over two thousands (2000) 1st order contacts.

7. Future Work

The proposed approach has performed well, yet it exhibits some clear weaknesses, namely, if the trust relations are not strong enough or if the partners do not fully endorse the ethos of the system, the proposed approach is keen to create problems and frictions both inside the network and with the customers.

The next step in this work is related to a careful study of the law-firm approach to contractual obligations and rights that rule the internal functioning of the firm and achieve the related generalization required to ensure the desired level of allowed autonomy within a well regulated and conflict of interest free environment. This latter point is perceived necessary so as to ensure that trust / performance or quality issues may occur either with very low probability of occurrence or at all.

Conclusions

The proposed approach to a network-based business partnership model for an extremely effective and lightweight management has been initially trailed in the context of international cooperation projects and then migrated to a consultancy environment. The preliminary results of this approach are very promising and it is expected that it will be possible to apply for Trademark registration. The preliminary achieved results are extremely encouraging as it is apparent that in the implemented settings (with the involved partners having on

average several hundreds of contacts) the dimension of the available network of expertise quickly reaches the level of millions at the third level even in the case of the single trader seed. The exponential growth in connection nodes and the trust based approach used for the connectivity is at the very core of the strength of the proposed approach.

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