

Offline Networking Between Small and Medium-sized Enterprises as a Competitive Advantage – A Case Study from the Czech Republic

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Abstract: Despite the immense development of online technologies, offline networking still remains an integral part of the marketing activities of small and medium-sized companies. In business relationships, it is not yet fully possible to replace personal meetings. Personal meetings with business partners create trust, which is the cornerstone of business relationships and a launching pad for referrals. Each company creates and maintains its business network of contacts. The business network includes customer, supplier and business partner contacts, respectively. The facilitator of offline networking is most often the business owner or a senior manager with decision-making responsibilities. Developing and utilising offline contacts is typically an internal business matter and forms a part of the company's know-how. Authors researching this topic agree that data pertaining this area is so far insufficient and that the topic is worth further research to obtain more data. The article is based on a case study of small and medium-sized enterprises, whose owners are connected within the business community and routinely maintain and develop their strategic contact network in order to increase profits, obtain information and knowledge to innovate and grow their business and receive referrals for their future partners. The article focuses on the impact of offline networking activities on the competitiveness and competitive advantage of the company.

Keywords: offline networking, SME, business network, business contact

JEL Classification: D21, D22, D71, D85, D91

1. Introduction

Networking, business networking and interaction between market players are very often connected with social media and navigating the virtual world. The concept of network is also frequently used in computer science. With respect to the personal level of creating relationships, virtual tools have not yet succeeded in replacing all the five senses that the human being has available, so it is still not possible to fully replace personal contact. Personal face-to-face communication still plays an essential role when it comes to interactions between small and medium-sized enterprises on the market. "Despite the progress in virtual interactions in recent years, there still exists the need for personal contact when it comes to innovations" (Hardwick et al. 2012). In companies falling into the SME category, the main role in networking is played by the owner-manager, who creates local networks (Kubberød et al. 2019).

Offline networking as a discipline of management, marketing and enterprise economy is rarely mentioned in available literature. Many enterprises carry out networking as an internal company matter and consider this skill as their know-how. Czech law, for example, does not allow the provision of this data to third parties without appropriate consents. Available data are, according to the authors to date, very limited and insufficient. Russian and Finnish authors state that no enterprise is an island, therefore, the relationships of the enterprise are of utmost importance. Relationships affect success or failure of the enterprise. The relationships occur in dyads, which then form networks (Ivanova-Gongne et al. 2018).

Actors in the relationships naturally seek to develop the networks (develop the interaction process) or change their structures. "A successful networking between actors in any relationship depends on their effective networking in other relationships. Networks are diverse and unique. Each

actor follows his or her direction according to a unique and specific network image. The business network is not a market. The business network is an arena where mutually dependent actors connect in a unique manner, and the network adapts to diverse practices and structures within and among actors. All business actors will likely seek to control their interaction with others but none of them has the resources, knowledge or skills to manage it completely. The practice of creating business networks however remains a relatively unexplored area" (Ford et al. 2013). It is interesting that each enterprise (business) and its representatives are aware that contacts and activities aimed to maintain relationships which provide information, knowledge, skills and business opportunities are an important and integral part of competitiveness, profitability, performance and competitive advantage of the enterprise. "Managers and owners of newly established medium-sized enterprises must strengthen their ties with financial institutions, business partners and government officials in order to gain access to valuable resources and knowledge that lead to innovation, which in turn helps to increase the performance of the enterprise." Enterprises which are dissolved (50%) lack sufficient knowledge and resources, which is a problem that can be eliminated through creating a network of contacts.

Attending on globalisation, current companies are addressing entry into other markets. There is a proven dependence between expansion success and network relationships. Research shows that networking affects the decision as to which foreign markets the company enters. "Expansion into international markets is related to the entrepreneur's interconnected networks, and the subsequent internationalisation of the company is related to the development of its network." The entrepreneur is here described as an analytical unit. Business networks on the individual level often overlap with the networks of their enterprises on the organisational level. Partnership brings more opportunities for all the actors involved (Galkina, and Chetty 2015).

2. Methodology

This study is based on the provision of data and consents to the processing of this data for the purposes of this research by a company which deals with offline networking events in the Czech Republic and is the largest community bringing together small and medium entrepreneurs. The available data comprise data collected in 2014, 2015, 2016, 2017 and two quarters of 2018 by this company. The data consists of a set of more than 10 thousand interactions between small and medium-sized entrepreneurs connected in the business community across the Czech Republic. To evaluate this data, the statistical method of correlation was used, which determined the relationships between individual interactions between subjects. The data was further compared and variously analysed.

This study also includes personal interviews with SME owners who are active in networking; these interviews helped to provide more detailed information concerning some of the results of mathematical statistical methods. The data collected by the company as part of the interactions are displayed in figure 1. This concerns data directly related to obtaining contacts, referrals and potential customers through events organised by the company for its clients. This data was sorted and adjusted and used for further research to find out about the competitive advantage of the SMEs which are active in pursuing offline networking activities as part of their marketing strategy.

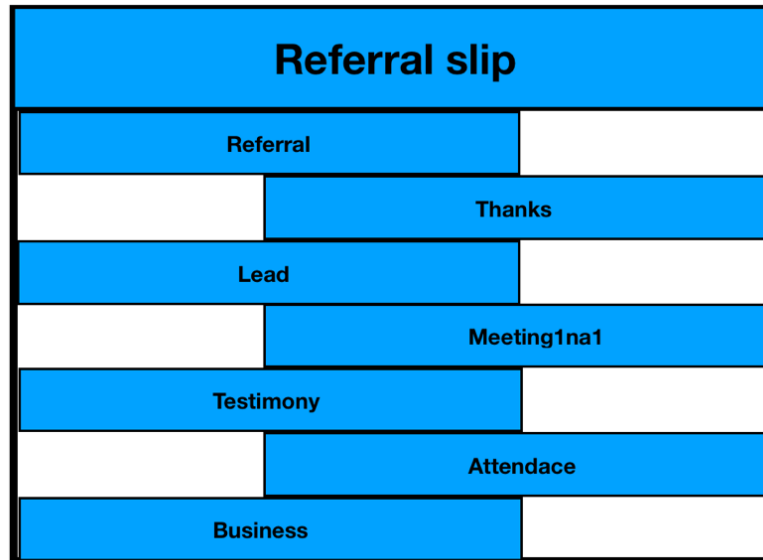


Figure 1. Specific networking interactions between SMEs performed in 2014–2018.

3. Results and Discussion

In the last decade, authors researching this topic agree that SMEs operate in a turbulent environment posing a number of threats, which (as confirmed by research) can be eliminated by creating a quality business network. Research further confirms that networking of the enterprise is directly related to its innovation and production. Networking becomes effective for the enterprise once networking activities lead to increasing the competitiveness and competitive advantage of the enterprise: increasing profits, reducing costs, multiple resources (Hamplová et al. 2019).

Networking activities bring much to the table when it comes to business. Competitiveness is linked to prosperity in the market. A specific example is a company that depends on a small number of suppliers or customers. A small number of suppliers may cause production problems and product or service delivery problems, even if at first glance it may seem that all the suppliers are prosperous and stable (Hedvičáková and Král 2019). A small number of primary customers (buyers) may cause major financial problems, should the company lose a few customers. The actors may ask why they should create and maintain a network of contacts when they have business enough, even too much to meet the demands. Creating and maintaining relationships (ties) is a preventative measure for a possible period of crisis.

Small and medium-sized enterprises can combine to form a power equal to that of a corporate business, as long as they operate in a network, whether informally or formally classified and categorised. By virtue of connections and networking, the SME owner is surrounded by various experts, much like a corporate company has dedicated departments to manage finances, marketing, logistics, communication, education and others.

Correlation and other comparative analyses yield the following results:

- Strong dependence with a correlation coefficient of 0.7 with a high level of significance was demonstrated between the 1on1 Meeting variable and the Thanks variable, which covers thanking for a business deal or a transfer of business information, knowledge and education which will contribute to closing a deal in the future or when the deal is not yet closed and its value cannot be established.
- A high correlation was also demonstrated in the 1on1 Meeting and the Participants variable; it is obvious that the more participants attend an event, the more opportunities for 1on1 Meetings arise.
- A higher correlation value also applies to the Testimony variable and the 1on1 Meeting variable, when the actors attest to the quality of services provided by other actors whom they meet in

person, which results in recommendations to other participants, thus increasing the likelihood of closing a contract, manifesting the power of the third party and the power of recommendation.

- When there are more than 12 participants at a single event, the value of a deal per regular participant doubles. In the monitored period between 2014 and 2019, groups of up to 12 members scored an average business value of approximately 200 thousand CZK of turnover, events of more than 12 participants scored an average business value of 390 thousand CZK in the same period.
- The results also include extreme values, for example, in the monitored period one group scored a record turnover from 1 participant to 9 regular participants amounting to hundreds of million CZK, which was owing to a major development project in the area

The more often small and medium-sized entrepreneurs attended 1on1 meetings to grow their business and find connections, the higher the thanks and the business gained from networking. A 1on1 meeting is a business meeting where each of the participants has the same space to communicate their goals and the partners then together look for ways of mutual assistance. The 1on1 meeting is significant because its participants already know each other, as they have met at least once in person at a standard meeting held regularly by the company which organises the meetings for this purpose.

Regular events taking place every two weeks serve as the point of first contact and opportunity to follow up at 1on1 meetings. Organising events is a demanding task, so it is most convenient for a third party to do the organising, so that the participants have time enough and space for networking rather than attending to organisational details. A big theme in offline networking is the connection to online networking; as today there are many industries where teams collaborate remotely. Social networks serve as a space where entrepreneurs build and maintain remote relationships. They meet some of these contacts offline as well, others not at all. An effective connection of offline and online networking and their mutual proportions or frequency of occurrence for SMEs is another area needing further research, as it significantly impacts the competitiveness and competitive advantage of this group, which is regarded as the backbone of the economy in the Czech Republic and elsewhere.

Within online networking, it is common to evaluate data; there are different tools that track various conversions of given parameters, such as measuring the interest of the audience in a given company communication (Hruška et. al. 2018). Within offline networking, such feedback is not readily available. So far it is necessary to take notes on the results of individual interactions between the participants in the old-fashioned way. Online tools are however very helpful for offline networking and can make it more effective. Connecting these two areas, face-to-face and virtual, makes companies more effective and increases their competitive advantage. However, it is proven that trust is established only after 5 to 8 meetings in person, hence face-to-face meetings cannot be entirely excluded from business interactions as yet. As long as the business transactions work as expected, online space is sufficient; but when there are any issues, everyone prefers to meet in person and communicate face-to-face in order to set up standards in order to continue the cooperation.

		Correlations										
		Meeting1na1	Thank	Business	Referral	ClubMeeting	Guest	Participant	TotalReferral	Lead	Testimony	Attendance
Meeting1na1	Pearson Correlation	1	,702**	-,050	,459**	,471**	,726**	,779**	,880**	,605**	,655**	-,117
	Sig. (2-tailed)		,000	,629	,000	,000	,000	,000	,000	,000	,000	,257
	N	96	96	96	96	96	96	96	81	96	96	96
Thank	Pearson Correlation	,702**	1	,013	,376**	,556**	,557**	,736**	,724**	,579**	,471**	-,054
	Sig. (2-tailed)	,000		,899	,000	,000	,000	,000	,000	,000	,000	,599
	N	96	97	97	97	97	97	97	81	97	97	97
Business	Pearson Correlation	-,050	,013	1	-,056	,091	,036	,024	-,055	-,056	-,010	-,023
	Sig. (2-tailed)	,629	,899		,586	,377	,726	,813	,627	,585	,923	,825
	N	96	97	97	97	97	97	97	81	97	97	97
Referral	Pearson Correlation	,459**	,376**	-,056	1	,457**	,231*	,501**	,733**	,522**	,552**	-,038
	Sig. (2-tailed)	,000	,000	,586		,000	,023	,000	,000	,000	,000	,709
	N	96	97	97	97	97	97	97	81	97	97	97
ClubMeeting	Pearson Correlation	,471**	,556**	,091	,457**	1	,478**	,747**	,644**	,504**	,366**	-,164
	Sig. (2-tailed)	,000	,000	,377	,000		,000	,000	,000	,000	,000	,109
	N	96	97	97	97	97	97	97	81	97	97	97
Guest	Pearson Correlation	,726**	,557**	,036	,231*	,478**	1	,683**	,711**	,490**	,497**	-,009
	Sig. (2-tailed)	,000	,000	,726	,023	,000		,000	,000	,000	,000	,931
	N	96	97	97	97	97	97	97	81	97	97	97
Participant	Pearson Correlation	,779**	,736**	,024	,501**	,747**	,683**	1	,797**	,701**	,640**	-,055
	Sig. (2-tailed)	,000	,000	,813	,000	,000	,000		,000	,000	,000	,595
	N	96	97	97	97	97	97	97	81	97	97	97
TotalReferral	Pearson Correlation	,880**	,724**	-,055	,733**	,644**	,711**	,797**	1	,762**	,812**	-,091
	Sig. (2-tailed)	,000	,000	,627	,000	,000	,000	,000		,000	,000	,421
	N	81	81	81	81	81	81	81	81	81	81	81
Lead	Pearson Correlation	,605**	,579**	-,056	,522**	,504**	,490**	,701**	,762**	1	,632**	-,065
	Sig. (2-tailed)	,000	,000	,585	,000	,000	,000	,000	,000		,000	,530
	N	96	97	97	97	97	97	97	81	97	97	97
Testimony	Pearson Correlation	,655**	,471**	-,010	,552**	,366**	,497**	,640**	,812**	,632**	1	,069
	Sig. (2-tailed)	,000	,000	,923	,000	,000	,000	,000	,000	,000		,504
	N	96	97	97	97	97	97	97	81	97	97	97
Attendance	Pearson Correlation	-,117	-,054	-,023	-,038	-,164	-,009	-,055	-,091	-,065	,069	1
	Sig. (2-tailed)	,257	,599	,825	,709	,109	,931	,595	,421	,530	,504	
	N	96	97	97	97	97	97	97	81	97	97	97

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Figure 1. Correlation performed in the SPSS programme on SME interaction data collected from 2014 to mid-2018

4. Conclusions

Offline networking activities have always been part of our lives. People meet for various purposes, connect in various groups, associations and trade chambers. Offline networking as a marketing strategy and marketing tool is a well-known concept among small and medium-sized entrepreneurs, however, only a small percentage of companies can use the networking tool effectively. These activities are closely related to the company's vision and goals. It transpired from the interviews that given the former lack of business and management education in the Czech Republic, many business owners learn these things on the go. Many companies are not clear about their direction, which means that they cannot clearly communicate their goals and use their contact network effectively. Networking activities are closely related to knowledge about how to set up a networking plan, how to communicate this plan and, last but not least, how to evaluate and plan further activities. Offline networking is a very important activity for each business because it is a part of competitive advantage and competitiveness on the market. Companies that create and maintain a quality network of contacts overcome periods of crisis because they have backup resources and more options to turn to.

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