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Enabling business networking within suburban development

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Enabling Business Networking Within Suburban Development

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Abstract

As innovation has become more open and complex, value networks have become an important tool in understanding the organizational “playground”. Suburban area development is a great example of where the network approach is needed in order to revitalize and improve the environment. The suburb could be seen as continuous co-operation between many stakeholders: residents, local entrepreneurs, 3rd sector organizations, residential companies, etc. The area is governed by the city and its officials. The environment is planned, taken care of and equipped by private companies commissioned by the city.

Information collected from residents is vital for many stakeholders, and in order to access this information, the Living Lab approach is needed. This case study illustrates how a regional Living Lab can promote the networking of small and medium-sized enterprises (SMEs) and how this networking can serve the revitalization of suburban areas.

Keywords: SME networking, user driven development, living lab, urban revitalization

Introduction

The development of suburban areas is a multiplayer game. The suburb could be seen as continuous co-operation between many stakeholders: residents, local entrepreneurs, 3rd sector organizations, residential companies etc. The area is governed by the city and its officials. The environment is planned, taken care of and equipped by private companies commissioned by the city. In terms of network theory, these stakeholders belong to a value network built around the area and they all have a vested interest in the development of the suburb. According to Allee (2005), any organization, also public and non-profit organizations, can be seen as a member of a value network. In research, however, business networks are dominating.

Innovation processes can be regarded as complex, dynamic and a result of cumulative dynamic interaction and learning processes involving many actors. Innovation is a multiplayer game (Bessant & Tidd, 2007). In this game, private small businesses can be considered a central piece – as generators of new ideas, as entrepreneurs carrying out new ventures and as partners for other local actors.

Small and medium-sized companies are important for local economies. At the regional policy level, it is important to provide services and help for companies with limited resources for R&D. In the Lahti region, the members of the regional innovation system use a network facilitating innovation policy to support its innovative networks. These actions also aim to import the necessary knowledge to support innovativeness (Innovaatiostrategia 2005). One element of the innovation policy is to enhance awareness of user involvement in innovation activities. For this purpose, the Lahti Living Lab was established. The Living Lab approach is an R&D concept which aims to create innovations in a multi-contextual real-world setting. Living Labs can be thought of as user-centric environments for open innovation. (Schaffers et al., 2007, Chesbrough, 2003) In a user-driven innovation, the customer/user is the developer of the product or service. (Von Hippel, 2005).

The purpose of this paper is to analyze the formation process of an SME value network focusing on the development of a small suburb. Through this analysis, we seek to illustrate how Living Lab activities can promote SME networking. The theory section provides an insight into the value network, user involvement in innovation and network evolution. The case example is from the Lahti Living Lab, where a group of companies from the living environment (products or services such as living area services, parks, street maintenance, planning, communication and outdoor products) participate in suburb development. The case study illustrates the first phases of network formation between January 2009 and August 2009. The empirical material of this study was gathered in 3 company meetings. One meeting was with company A, and 2 others were group meetings. The meetings were documented and observed. Moreover, the project manager, who facilitates the process, was interviewed.

Value networks and evolution of networks

Value networks have been defined as inter-organizational networks linking firms with different assets and competencies together, aiming to respond to new market opportunities (Vanhaverberke & Cloudt, 2006). In other words, a value network is a system of relationships to create and capture value. (Bessant & Tidd, 2007, p. 394). Christenssen (2003) has argued that a value network is the context where an organization identifies and responds to customer needs, solves problems, procures input, reacts to competitors and strives for profit.

As Christenssen's (1997) definition implies, the concept of value includes more than just traditional financial value. According to Allee (2000), value can be understood as knowledge, intangible assets such as an image or brand, and transactions. A value network offers a place for open innovation (Chesborough, 2003) to take place. Open innovation recognizes that knowledge outside the organization is valuable and highly beneficial. The current shift from closed to open innovation activities means that the organizational value network offers many potential partners for innovation.

Although the definitions of the value network are company or organization dominated, a value network includes the customer as a network member. Customers are a close and natural group of stakeholders that can be approached in order to acquire knowledge to support R&D. In this case, the individual 'customer' is the resident of a particular suburban area. Residents can also be seen as citizens who actually play an interesting role in public services. In the private sector, the customer pays the service provider to receive a certain service. However, in the public sector, the role of the customer is not that simple. In Scandinavia, public services are largely financed by taxpayers in the form of taxes. On the one hand, the customer pays for the service in the form of taxes, and on the other, the customer is always the owner and supervisor, as well (Anttiroiko, Haveri, Karhu, Ryyänen, & Siitonen, 2003)

The benefits of customer or user involvement are well recognized in literature (von Hippel, 2005, Alam, 2002, Magnusson, 2003). User involvement has mostly been studied in ICT based service development. Especially in service development, users can offer valuable input (Magnusson, 2003). User information can be utilized in all stages of product and service development, but it is especially important within the idea generation and testing phases. Getting access to users is considered difficult and demands resources.

In the development of suburbs, residents are one of the key stakeholder groups. Residents possess valuable information about their daily environment. This information is important for other stakeholders within the network. It is of particular importance to companies developing and producing products or services related to the living environment. There is, however, a gap between residents and companies: companies do not know how to benefit from user activity, how to involve customers and how to use this valuable source of knowledge and ideas (Kristensson & Magnusson, 2005).

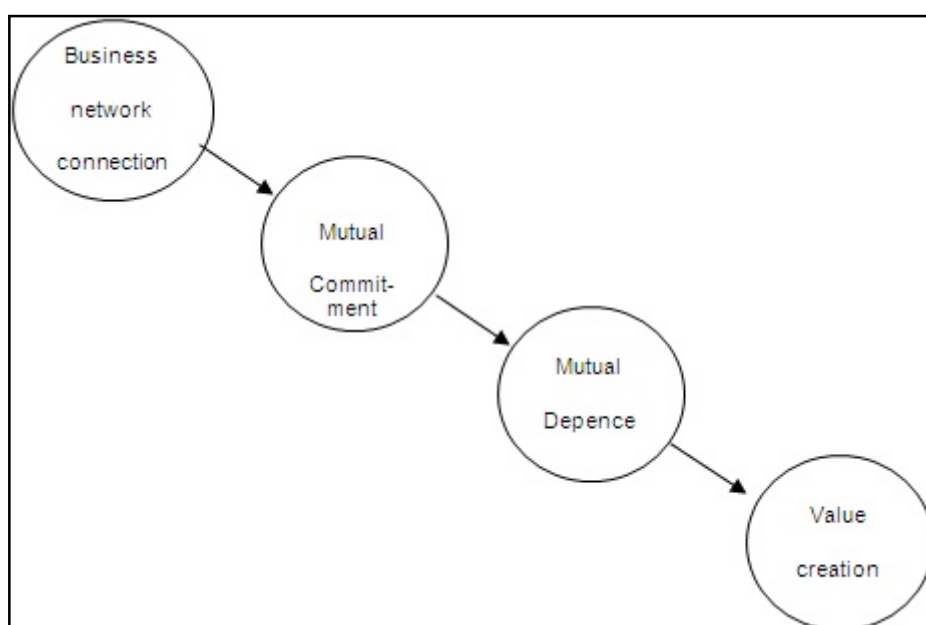


Figure 1. Development of a value creation network (Blankenburg et al., 1999)

From the perspective of small businesses, value networks open up interesting possibilities. Instead of mere value chain co-operation, value networks provide new approaches to horizontal co-operation and an opportunity to use the core competencies of small businesses in a wider context. While access to traditional value chain networks has been dominantly difficult for the smallest businesses, in value networks the access is largely dependent on the entrepreneur's personal contacts and social relationships. Blankenburg, Holm, Eriksson & Johansson (1999) have presented in their study that the evolution of a network includes four stages before the network starts to create value (see Figure 1). The stage of value creation is preceded by the initial business connection, mutual commitment and mutual dependence. It could be argued that the process is dominated by an entrepreneurial person's networking

activities until the stage of mutual dependence that concerns the intertwined business processes of the co-operating businesses. Hite & Hesterley (2001) suggest that the formation of a network is usually based on the entrepreneur's social network. They argue that firm networks evolve from more identity-based, path-dependent networks to more calculative, intentional networks during the early growth of the firm. The network based on the entrepreneur's social relationships changes into a more strategic network. At the same time, this evolution represents the shift in the strategic context of the firm. The end result of this evolution is that the network becomes more manageable. Consequently, the network structure is also bound to become more static and organized.

Suburban development background

There have been several projects that have focused on the revitalization of suburban environments in the Lahti area. Some of these cases have been pure renovation of buildings and surroundings, some projects have focused more on social aspects. E.g. in 2003, there was a project called Metsäkangas verkossa = "Metsäkangas on the Internet ." The project aimed to provide skills for inhabitants to work in the information society and thus improve their ability to contribute. The project goals also included improving inhabitants' ability to cope in the world of work, offering services and assistance to senior citizens living at home, and providing inhabitants with services and information through the Internet. The project was lead by the City of Lahti in co-operation with the University of Helsinki, Palmenia Centre for Continuing Education. Metsäkangas was, at the time, home to approximately 3100 inhabitants (Isosuo, 2003).

Reports from previous projects listed several items that required improvement. The most successful events gathered around a specific topic or were aimed for a specific target group: computer and Internet classes for senior residents were full, and a drive to tidy up the neighborhood gathered together approximately 100 volunteers. However, general public meetings or internet classes designed for "everybody" were not a success. Based on report data, we could not identify the prevailing circumstances that might have affected the success of these single actions. E.g. we do not know exactly what kind of media and communication was used or what the competing events were. However, we suggest that the previous project was targeted for people and more precisely their skills. Therefore, the primary aim was to develop the people instead of the suburb.

Another perspective is the development of the surroundings or environment and local services. Especially services strengthen the image and competitiveness of a particular area (Rainisto, 2004). Services and a comfortable environment promote the sustainable development and vitality of an area. Image is related to the success of an area (Aula, 2002). The ageing population and families with children demand a safe environment with easy access to buildings and facilities. As pointed out in the introductory section, the development of the suburban area needs networks. The network approach is important in developing innovations which make suburbs more attractive and comfortable for its residents.

In order to promote user involvement in innovation activities, the City of Lahti has adopted the Living Lab approach. Although the concept of the Living Lab was originally introduced at Massachusetts Institute of Technology, it has recently attracted growing attention particularly in many European countries. The Living Lab approach is an R&D concept which aims to create innovations in a multi-contextual real-world setting. Living Labs can be thought of as user-centric environments for open innovation. (Schumacher et al., 2008, Schaffers et al., 2007, Chesbrough, 2003) User-centric or user-driven innovation has many names, but the goal is the same: to uncover needs and use knowledge about how customers act, experience and think. In user-driven innovation, the customer/user is the developer of the product or service. (Von Hippel 2005) While the user is often seen as an object of innovation activities, in a Living Lab the user is considered an active participant of the innovation process. This can be described as a quadruple helix model (Rönkä, Orava, Niitamo & Mikkilä 2007) In the presented case, a quadruple helix model is adopted since users, companies, the university and public sector (community) actors are in the same group and at the same level developing a better environment. Figure 2 below shows the case actors.

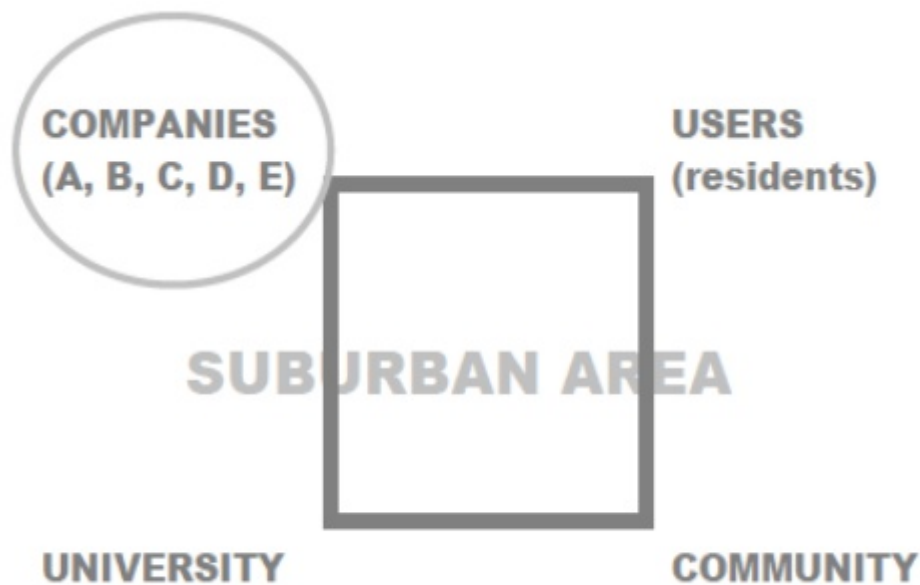


Figure 2. The study setting

The Lahti Living Lab enhances awareness of user-driven innovation. It seeks to create answers to the question of how private and public organizations could profit from users as equal contributors to R&D activities? The Lahti Living Lab creates a method especially for companies/organizations for active user involvement. The project aims at promoting user involvement in innovation activities and developing methods and tools for organizations.

The Case: Lahti Living Lab company group

The Lahti Living Lab project hosted by the LUT Lahti School of Innovation started in autumn 2008 with the goal to promote user involvement in all kinds of innovation activities. Soon after the project web site was launched, the project manager was contacted from a small local firm (company A). The company wanted to know more about user involvement in product and service development.

The first company (A) is a small one, employing four people. The company was established over 15 years ago. It designs and manufactures different outdoor products – most importantly bicycle stands and bus stop shelters. After some meetings, it was agreed that more companies

around the theme “living environment” should be included and the theme should focus on “user involvement in suburban development”. Company A did not name any companies, but it defined some lines of business that were interesting to it. As the project manager defined the companies, Company A was informed about the status of the negotiations.

As a result, companies B and C were asked to join this project. After this, Company C proposed that Company D should be invited. The construction of the network was an open process, meaning that the participating companies knew which companies were asked to join. Company B is a “one woman” firm, which provides garden planning services. Company B was found by the project manager purely on basis of the line of business and the company web site.

Company C is a large one. It was established by five local municipalities, which are also clients of Company C. The company provides maintenance services (for parks, streets, etc.). Company D is a multinational company and the largest of this group. The company operates in several business areas, but in this case, the town planning is a participating line of business. Company E operates in the media and communication business. This company was asked to join the project because media could play important role in the success of user involvement. Some basic characteristics of the participating companies are summarized in Table 1.

Table 1. Participating companies in the network

	Number of employees	Main product or service	Contact origin
Company A	4	Outdoor products such as bicycle stands	Contacted Project manager (PM)
Company B	1	Garden planning and building	Contacted by PM, not known before
Company C	230	Maintenance of parks, streets, etc.	Contacted by PM, company known from previous projects
Company D	several thousand	Town planning	Company C suggested, contacted by PM
Company E (local)	14	Media & communication	Contacted by PM, no previous joint projects

The first network meeting took place in May 2009. The participants were asked beforehand to think about and present their motivations and expectations for this project. The results are summed up in Table 2. The overall aim of the project is to develop methods for user involvement. However, the two smallest companies (A & B) see this as an important business network opportunity, whereas the rest of the companies (C, D, E) mainly see this project as developing something new for their internal development purposes. However, Company C used the occasion to encourage company A in its R&D. In the meeting, there was a great deal of discussion about the suburban area and some current problems such as parking scooters. One scooter was recently stolen while the owner was in a supermarket. Company C brought up this problem with Company A: “you should do something about this problem.”

The local media network company, Company E, is very different from the other participants in the group. It seems that everyone knows why the company is involved. For Company E, the motivation to participate is (as the company puts it) “looking for something that does not exist yet”. In the current changing media world, the traditional TV and radio are losing importance. They need to be reinvented, and the media needs to find new ways to reach people. The project manager wished to invite this company to the project because he envisioned that companies D and E had something in common. In the area of town planning, medias could be the channel to reach the residents in the planning phase.

The first joint meeting could be interested as the initial business contact . At this stage, the ‘entrepreneurs’ communicated about their companies, their motivations, expectations and even their willingness to engage in future projects. During the first meeting, it grew evident that in spite of the differences between the companies, the participants could find mutual interests and that they would be willing to move ahead to discuss joint activities. The participating companies showed interest in knowing more of each other’s business. They were especially keen on knowing more of the ways to get suburban residents involved in their development activities.

Table 2. Motivations and expectations of the network participants

	Motivation	Expectation of outcome
Company A	Enhancing R&D from proactive to preactive	Financial interest → new business, networking in general

Company B	Networking, Specific expertise for suburb development	Concrete benefit from network
Company C	Better use for taxpayers' money	New concept to take care of environment
Company D	New ways to involve residents and social interaction in development projects	New methods
Company E	"We don't know why we are here but we know that we have to be involved."	New concept, new channels for users and service providers

The second facilitated meeting took place in August 2009. After the initial business contact, the participants now recognized each other and were aware of each other's primary interests in the co-operation. The minutes of the second meeting were dominated by the issue of deciding on the joint activities. The challenge was twofold: to identify activities that could keep the network participants working together for a joint target and to include the residents in the activity. The companies decided together to organize a walking tour in the local suburban area. The idea was to take a walking tour or two with local residents along predetermined routes. The company representatives would lead the tours, and they were asked to prepare questions to the residents. As the network facilitator, the Living Lab project will organize and promote the event. The participating residents will be rewarded with local bakery products. The bakery volunteered to support the walking tour with complimentary bakery products to secure the residents' interest in the development of the suburb. Consequently, the network actually grew with another company.

In the mean time, after the second meeting, the companies have taken a step further as they have committed themselves to the project with formal agreements and project admission fees. So far, the companies have no direct financial relations to each other. However, it could be argued that building a greater commitment to the network is underway.

Conclusion

In this paper, we have described and discussed network formation in a suburban development context. The case study shows how a Living Lab can promote networking between companies of very different sizes. Building a greater commitment to the network is underway.

The cultivation and enabling business networking has been on the agenda of regional policy makers for long and now it seems that Living Lab beside its original purpose, it can be a useful “tool” to build company networks. Living Lab brings together the relevant stakeholders of value network. Living Lab approach brings companies to the threshold of common client and this way opens new possibilities to build new business offerings as a network.

User involvement is an important and interesting topic for companies. From the Living Lab point of view, participation in the Living Lab can be a start for companies to adopt user-driven development in their R&D activities. The challenges are to develop and test methods for user involvement that serve the SME network goals.

The company network building also serves the revitalization of the suburban area. An event organized by the network to gather information from users animated the environment and activated residents. The outcomes from this event will be embodied as better products and a better environment for local residents. The direct relationship between companies and residents could be a new solution to development of suburban areas.

This research offers a fruitful ground for further studies. Interesting questions include through what kind of a process firms end up in a business network with joint activities, and what the role of the broker is (in this case the Living Lab project) in this process. Also the utilization of user knowledge in SMEs will be researched in the future.

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