Knowledge Absorption Through Social Networks for Sustainability of SMEs in Regional Australia

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Abstract
Relationships between a business and its external parties are important for knowledge sharing and absorption. This is especially true for small and medium enterprises (SMEs) in regional areas. This study aimed to identify the role of social networks in the Absorptive Capacity of regional SMEs by investigating the experiences of SME owners in the city of Whyalla, South Australia to determine how they harness their social networks to absorb external knowledge towards innovation. The results of the research will provide useful information to bodies such as universities and regional development boards, empowering them to develop policies and initiatives to support SMEs to create networking opportunities and improve their sustainability.

Keywords
Knowledge acquisition, social networks, SMEs, sustainability, innovation

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Introduction

This study investigated the experiences and opinions of small to medium-sized business owners in the regional city of Whyalla, South Australia to determine how they harness their social networks to absorb external knowledge towards innovation. The ability to use external informal knowledge to spawn new ideas for problem-solving and innovation contributes to a firm’s success and competitive advantage. A key factor in the drive for innovation-led productivity growth is the ability of businesses and its employees to identify, absorb, transform and exploit external knowledge (Zahra and George, 2002; Fosfuri and Tribo, 2008). Knowledge absorption in a business depends on formal activities, but also the informal processes of socialisation through the development of relevant and extensive informal networks. Relationships between a business and its external parties as well as the internal network among employees are important for knowledge sharing and absorption (Schmidt, 2010). This is especially true for SMEs operating in rural and remote areas of Australia.

This paper describes how the firms participating in this study obtained new knowledge from external sources and how the new knowledge enhanced innovation and competitive advantage for the firms. It also reports the specific issues the firms face in relation to operating in a rural and regional environment.

Knowledge absorption and innovation for competitive advantage

Gathering information and knowledge from a variety of sources in a firm’s external environment is central to innovation. The capability of a firm to recognize, acquire, transform and integrate new knowledge from the environment is referred to as a firm’s ‘absorptive capacity’ (AC) (Cohen and Levinthal, 1994; Van den Bosch, Volberda and De Boer, 1999; Volberda, Foss and Lyles, 2010). Zahra and George (2002, p. 186) define AC as “a set of organizational routines and processes by which firms acquire, assimilate, transform and exploit knowledge to produce a dynamic organizational capability”. These authors distinguish four dimensions of absorptive capacity that can influence innovation performance, namely acquisition, assimilation, transformation and exploitation. Acquisition refers to a firm’s capability to identify and source relevant external information. Assimilation refers to a firm's capacity to absorb external knowledge and the firm’s routines and processes that allow it to analyse, process, interpret and understand the information. Transformation involves the modification and adaption of external knowledge and its combination with existing and internally generated knowledge. Exploitation refers to the ability of firms to incorporate acquired, assimilated and transformed knowledge into their operations and routines to
create new operations, routines, competences, goods and organisational forms and to provide a competitive advantage (Lane and Lubatkin, 1998; Zahra and George, 2002).

Social Networks (SNs) have been defined as key organisational structures for effective and efficient knowledge sharing and transfer in teams and workgroups (Bosua and Scheepers, 2007). Such networks consist of the set of people with whom those working within the organisation maintain contact, such as partners, customers, suppliers, bankers and family members (Rejeb-Khachlouf and Mezghami, 2011; Granovetter, 1983, Inkpen and Tsang, 2005; McPherson, Smith-Lovin and Cook, 2001).

The resource-based view (Barney, 1991; 2001) and the knowledge based view (Grant, 1997) of the firm regards knowledge as one of the most important organisational assets and a key strategic resource that contributes unique value to a business. One of the most important knowledge management challenges that modern businesses face is that of innovation or the ability to create new knowledge in the form of new products, services, structures or processes (Hislop, 2010). Camison and Fores (2010) state that organisations with an ‘inward looking approach’ to knowledge creation that only rely on its own resources will miss out on the dynamic effects of interaction between internal and external knowledge. Both external learning capacity (absorptive capacity) and internal learning capacity (internal knowledge creation capacity) influence innovation capacity, and determine innovative performance. Firms can improve their knowledge and innovative capabilities by leveraging the skills of others through the transfer of knowledge within and across the firm’s boundaries. Research indicates that firms can build innovation capacity by tapping into external knowledge sources such as contracts, licensing, inter-firm relationships, research and development collaborations, knowledge-driven acquisitions, joint ventures and inter-organisational relationships (Zahra and George, 2002; Fosfur and Tribo, 2008). Given the greater availability of external knowledge sources in modern economies, a dynamic capability to target, absorb and deploy external knowledge to feed internal innovation processes in organizations becomes a crucial source of competitive advantage.

There is a close link between knowledge creation, learning and innovation. As a result the literature on organizational learning forms an important basis for AC (Fiol and Lyles, 1985; Levitt and March, 1988). It is commonly believed that individuals absorb new knowledge more easily if they have attained certain levels of learning in the form of expertise, training or any other form of background knowledge. Volberda, Foss and Lyles (2010) confirm this by stating that AC depends primarily on prior related knowledge as well as investments in research and development. The ability of a firm to learn through gathering external knowledge (which forms part of AC) and internal learning (which involves knowledge creation), both influence a firm’s innovation capacity, and ultimately determines its innovative performance.
Firm absorptive capacity builds on and is generated by the absorptive capacity of individual members, hence individual absorptive capacity can have consequences for the firm as a whole. We assume that in a firm, individuals are the major sources of knowledge. These knowledge agents interact with each other in acquiring knowledge, via sharing or exchange, to accomplish organisational goals. As the knowledge is transferred within an intra-organisational network, network nodes recognise and absorb from others, resulting in change of their knowledge state (Tang and MacLachlan, 2010).

A number of studies indicate that SNs are invaluable in supporting the flow and sharing of organisational knowledge specifically to solve complex problems, drive and plan innovation, foster learning and source information (Abrams, Cross, Lesser and Levin, 2003; Bosua and Scheepers, 2007). There is agreement in the literature that the organisation of knowledge sharing and transfer inside a firm and between firms has a positive influence on AC. Nonaka (1994) indicated that organisation members share implicit knowledge through a socialisation process. Hedlund (1994) also confirmed that socialisation plays an important role in knowledge conversion among different individuals and groups. Schmidt (2010) argued that informal contacts have a significant and positive effect on AC and that it is more important to create a culture and organisation that leads to informal knowledge transfer rather than a culture in which information provision is more centralised. One reason for this might be that the diffusion of new knowledge is faster and less prone to distortions through informal networks compared with formal systems. A firm’s AC depends on the ability of an organisation as a whole to stimulate and organise the transfer of knowledge within the firm, across departments, functions and individuals. Gradwell (2003) points to the strong influence of close networks and relationships within firms in stimulating the transfer of tacit knowledge.

**Regional small and medium enterprises**

Small and Medium Enterprises (SMEs) are recognised as a major source of prosperity and employment in Australia and as critical to the resilience of rural and remote communities (Ergas and Orr, 2007; Reynolds, Savage and Williams, 2000; Parker, 2000). A small business is defined as one having less than 20 employees for non-manufacturing and less than 100 employees for manufacturing enterprises (Meredith, 1994, p. 16). A medium business is defined as one employing between 20 and 200 people. In Australia, small firms and their practices play a significant role in the economy and society and constitute 95.9% of businesses (Australian Bureau of Statistics, 2012). SMEs in regional areas of Australia are generally considered to be the ‘backbone of the desert economy’ (Desert Knowledge CRC, 2009; Evans and Sawyer, 2010).
SMEs have been described as the ‘mainstay’ of many national economies (Drew, 2003). Tse and Soufani (2003, p. 306) argue that they might carry even more importance in the future, stating: “While the traditional economic structure favours size and physical matters, the new economy is earmarked by relationships, networks, and information. It is in this light that it can be seen that small firms would become an even more important engine”. In 2007 Fran Bailey, then Minister for Small Business and Tourism, commented that ‘small business is more important than ever’, responsible for driving innovation, exports and jobs growth (Ministry Tourism and Resources, 2007). To remain profitable SMEs in regional Australia should aspire to such innovative activities through learning and knowledge absorption. One way of doing this, is to use the social networks of employees and managers. In accordance with the opinion of Pease and Rowe (2003) the competitive nature of business should force small firms to develop and sustain any possible source of advantage.

From their research in two regional areas in Australia, Mason, Castleman and Parker (2006) indicate that there are mainly two types of small businesses owners, namely entrepreneurs and ‘life-stylers’. Entrepreneurs take advantage of opportunities, maximise business potential and recognise the benefits of knowledge sharing in networks. Life-stylers, on the other hand, possess very little knowledge of business practices, do not take advantage of business opportunities, perceive competition negatively and do not trust others. Such business owners do not recognise the need for – or potential of – social networks to exchange knowledge.

SMEs tend to have close control by owner/managers who also contribute most, if not all, of the operating capital of the business and are the principal decision-makers (Australian Bureau of Statistics, 2012). Unique features of SMEs are that they often have a small management team with multi-functional management roles and a short range perspective. Many SMEs exhibit a strong desire for independence and avoid business ventures that impinge upon their independence. Leadership is generally task-oriented, influenced by the owner’s personal idiosyncrasies and reluctance to take risks. Decisions tend to be intuitive rather than rational and responses, reactive rather than innovative. Education, experience and skills tend to be practical and narrow (Reynolds, Savage and Williams, 2000, p. 5). Poor record keeping and inadequate planning and control procedures within SMEs often lead to financial and managerial failure. In addition, SMEs tend to be time poor and find it difficult to quickly access reliable sources of information and advice (Macgregor, 2003; Evans and Sawyer, 2009; 2010).

Reynolds, Savage and Williams (2000, p. 15) discuss the important contributions SMEs make to the economic welfare and quality of life of Australian communities by providing greater competition in the marketplace;
providing a wider range of choice and variety of goods and services available to consumers; being specialist suppliers of parts and components to large organisations; providing a breeding ground for new industries and new entrepreneurs, assisting innovation; acting as a seed bed from which large companies can grow; and, providing employment and productive outlets for people who are unwilling or unsuitable for employment in larger organisations. SMEs provide worthwhile and meaningful employment for women, immigrants and other groups in society for whom employment is often hard to find and contribute to society’s values and stability, especially in rural areas (Reynolds, Savage and Williams, 2000, p. 15).

The research methodology and findings

The aim of this research was to determine how social networks can contribute to the absorptive capacity and sustainability of SMEs operating in rural and regional Australia. More specifically, this research identifies the enabling mechanisms and accompanying processes employed by organisations to gain external knowledge and increase their absorptive capacity through social networks.

The research questions were:

1. What steps are owner/managers of small to medium-sized businesses taking to ensure that they improve the absorptive capacity of their businesses to innovate, gain a competitive advantage, improve productivity and develop new products and services?

2. How do owner/managers of small to medium-sized businesses perceive social networks to be useful to keep them abreast with developments in their industry and to take advantage of new opportunities?

The research design was exploratory in nature using a qualitative approach and personal interviews. The participants were the owner/managers of SMEs located in rural and regional South Australia. The owner/managers were selected as typically they closely control the business and make all the critical management decisions (Meredith, 1994). Data were collected using structured face-to-face interviews. Personal interviews were particularly suitable for this study as they allowed the collection of rich data by providing researchers with the ability to probe and expand the participant’s responses (Sweeney, 2007).

Potential participants were identified in collaboration with Regional Development Australia – Whyalla and Eyre Peninsula (RDA). The Whyalla and Eyre Peninsula RDA is a non-profit community based organisation that provides businesses with information on Government priorities and programs to help achieve regional economic growth. It is part of a national network of
55 regional agencies that aim to develop a globally competitive economy for the communities in the region through fostering sustainable business and industry. RDAs in South Australia are administered by the Australian Government Department of Infrastructure and Regional Development, the South Australian Department of Primary Industries and Regions SA, and the Local Government Association of South Australia to generate local solutions to economic, social and environmental issues (Regional Development Australia, 2012). Target businesses were regional SMEs operating across a range of industries. The selection criteria were that that they had a turnover of less than $5 million and were located within the regional city of Whyalla. Whyalla is one of the industrial hubs of South Australia’s Upper Spencer Gulf region with a population of approximately 23,000 people. The compact nature of the city and the fact it contains a wide range of organisations of different types, sizes and occupations made Whyalla a suitable location for the study.

A sample of 12 firms was deemed adequate for the study. An initial email inviting participation in the research was sent by the RDA to 60 Whyalla businesses from a range of industry sectors. Six favourable responses were received and forwarded to the researchers for follow-up. The RDA then emailed an additional 40 SMEs, yielding the further six firms needed to meet the desired sample size (response rate 12%). The final sample included firms from the stevedoring and extractive industries, but mainly comprised a mix of service industries. The researchers sent a confirmatory email to each business attaching an Information Sheet, Consent Form, and a copy of the Interview Protocol. SMEs were referred to the Executive Officer of the University of South Australia’s Human Research Ethics Committee (reference number 0000026071) should they have any ethical concerns about the project or their rights as a participant.

During the interview participants were asked to share their experiences and opinions on how they harness their social networks to acquire and assimilate external knowledge for innovation within their organisation (Krueger and Casey, 2000). The 11-item interview protocol included questions relating to typical incidents/changes that would trigger the need for new knowledge; how new knowledge could enhance innovation, competitive advantage, productivity and new products/services; how new knowledge was obtained from external sources, evaluated and/or prioritized and/or translated for potential implementation; how it was communicated and distributed and became part of the procedures, routines or policies within the firm; the processes for evaluating the benefit of acquiring new knowledge; and the role of ICT/social media and leadership and management in acquiring and embedding/absorbing new knowledge into the business’s activities. The final question asked what type of educational support would assist the firm’s ability to take advantage of external knowledge to spawn new ideas for innovation.
Notes were taken throughout the interviews and the discussions audio-recorded to ensure the capture of all relevant material. The data collected were transcribed, analysed and summarised according to emerging themes using relevant qualitative data analysis techniques (Miles and Huberman, 1984).

**How new knowledge was obtained from external sources**

Sources of knowledge were mostly “word of mouth”. Community networks, other business people in the city, the local government, political contacts and sporting networks were reported as key sources of new knowledge. It was considered important to “get into the community” and join clubs and groups and that this was “unique in a small place like Whyalla”. For one firm external knowledge was obtained from new friends made as the owner/manager’s life changed through being in business:

> So really it’s my social life that’s giving me knowledge… I’m learning all the time and loving it. I can’t do anything except think business now.

A silent partner was also a good source of knowledge and was regarded as an important part of the owner’s network. For another owner/manager whose brother has an engineering business, knowledge from family was useful:

> I’ll ask him ‘have you ever come across this particular problem? What you would use?’ He will then say, ‘I do come across that and I use this and this’. And, ‘I know the rep there pretty well and he’s known us years and years, give him a call, he might be able to point you in the right direction’.

The participants used suppliers to source information and advice and would attend the workshops their suppliers offered when bringing out new products where possible as they were generally held in the capital city. There was a reliance on company representatives as a network for problem solving: “I find that the companies we deal with are more than happy to because it’s going to help them sell their product as well”. In some instances, manufacturers offered their own in-house professional development courses, provided newsletters, and their representatives would visit regularly to share the information on the latest innovations from their worldwide networks. Professional bodies representing the industry and their on-going professional development programs and monthly publications, technical bulletins and updates, and meetings with other experts in the industry to discuss cases and achievements, all provided new ideas. Other firms subscribed to professional journals or trade-based magazines that outlined new processes, products, hardware and software.

Where specific knowledge was not available internally sub-contractors were another important source of information. The local RDA was frequently
commended as a source of useful advice. The Global maintenance Upper Spencer Gulf network, Industry Capability Network (ICN) and other government organisations such as job networks that supplied contracts were other important sources of information that enabled business expansion. It was stated: “businesses fail because they have this grand idea but they never source the information; they need to see if an idea is a workable idea”.

The internet and on-line forums were another key source of new knowledge. Some managers mentioned that their firm had signed on to a network of friends and acquaintances through business via the social network ‘LinkedIn’ and were planning to develop this network to receive new information. It was generally considered that LinkedIn had value as a source of information and business networking. Online forums such as Flying Solo and Whirlpool, world-wide-web sites such as Smart Company, and message boards were free and “good for learning”.

A business in the field of providing accommodation obtained knowledge by talking to the Visitor’s Information Centre, other hoteliers, and the general public to keep abreast of “what’s happening” and “capacities”.

> *Being a small community people tend to talk quite a lot to each other, about issues such as closure of such and such, big deals happening … so you find out from just talking to the locals. They are the best source of advertising.*

The hoteliers have a meeting once a month to discuss any problems and to let each other know what’s happening within their own hotel: “e.g. a problem patron or concern about security”. The business owners benefitted from being “part of a group”. One owner new to the city emphasised how important it was to work closely with competitors and ask what they are doing. This person is friendly with the owners of a similar organisation and has appreciated their assistance with gaining customers and information on matters to do with the day-to-day operation of the business: *I’ll ring them up and ask them what do you do with laundry at your place?*

A firm working in the finance area sourced information from real estate agents, conveyances and other banks:

> *We’ll have a chat when we’re walking down the street about what’s going on in the market. We often talk about how we can improve. They’ll back us and we’ll back them.*

A specific mechanism used in obtaining external knowledge was “Don’t presume and don’t discriminate”, recognising that people are also known to other people within networks and firms needed to be wary. There was a belief that often Whyalla business people had networks but “they just don’t know they have them and they don’t how to use them”, and that because Whyalla is
isolated, the owner/managers need to “work their networks” to gain an edge: They need to open up and broaden out. They would say, ‘but why’. The problem is that those who don’t say anything won’t get anything and those that do will get everything. One manager commented: I think that my problem was that I worked on the job all the time and didn’t have enough time for networking.

Managers also spoke of the benefits of networking with ‘locals’ to gain external knowledge:

I quite often run something by the older people in town just to get an idea of where something fits in. There’s a lot of knowledge out here and this town is an intricate town and you have to be very careful how you approach them.

The people employed have lived in Whyalla for a long time, so we have contacts which are valuable to our head office if they want to know what’s going on.

**How external knowledge was used to improve sustainability**

Due to increased regulation, one firm described how it collaborated with its competitors to source information to achieve outcomes that would not have been possible for an individual firm due to the extensive nature of the information required and the costs involved. This new knowledge enabled the firm to survive and expand its operations: Without new knowledge, you can’t expand; you are stuck in that one field. Another firm explained how new external knowledge received from a supplier and collaboration with another firm allowed them to do work that they would not otherwise have been able to carry out:

We finished up chasing around the country … and finished up with this company that came up with an idea and that’s tied us over and its actually let the job go ahead.

You can’t really purchase [the] gear in Australia so we designed some. We finished up going over to … and doing work over there because we were the only ones who had the equipment to do it.

New knowledge enabled organisations to enhance the services and products that they provide:

If our customer doesn’t know about new technology or new ways of getting things done, then if we’ve got that knowledge, we can bring it to their attention and maybe sell it to them.
Where there was an identified need for complex dentistry to be available regionally, new knowledge enabled that service to be provided. This benefited both the business and the community by making it easier for local people to receive the specialised treatment they required without having to take time off work, travel and incur extra costs. For a hotel wanting to provide accommodation for staff of a large mining company, information in relation to the specific meals required and their departure and arrival times enabled the business to change its opening hours and the menu style to capture this market: *We had to adjust and adapt to new people coming into town and what their needs are.*

A finance firm used new knowledge about the housing market to offer changed conditions and increase its business.

> You find out that market is quiet and that people can’t afford the loans, you say well let’s speak to the right people and we can change the deposit amount.

Another firm requested its manufacturer develop an industrial paint that is water-based and safer for its customers to use. This firm aims to use this to their advantage by allowing people to trial its products: *If it doesn’t do what they think it will do, they can bring it back. That then goes back to those networks.*

One manager set up agreements with other similar businesses to not undercut their competitors’ rates, explaining: *Good for other businesses as well, especially as everyone knows everyone in Whyalla.*

**Issues related to being regional**

The owner/managers discussed the specific challenges and threats their firms faced because they were regional. For some businesses dealing with the State government was the “biggest hurdle” of being based regionally. State government processes were often in a state of change, too slow and staff not understanding or flexible in their approach. One manager reported that working with Local government was “quite good” but for “anything that goes to Adelaide; we put a six month tag on it”:

> We normally get a response to a simple question within 6 months which is ridiculous because I can’t run a business like that.

> Seems like every time, it’s a time of change with the government. But unfortunately that’s where the money is. If you need to expand, you need to get the government contracts.
Travel expenses and time away from work and family commitments often disadvantaged owner/managers in regional firms. Attendance at seminars and forums held in capital cities was difficult. While the use of technology had diminished “the tyranny of distance” it hasn’t disappeared, with managers still needing to travel. Some of the comments received were:

*In the country access can be frustrating. Technology helps.*

*Stay overnight because it starts at 9am and you do 3 hours and you’re back home. You know you could have web cast it, used Skype or a conference call.*

Most managers also acknowledged the benefits and importance of “actual face to face networking opportunities”. The managers discussed their need to weigh up the costs and benefits of travelling in relation to gaining new customers or jobs:

*When I go to Sydney for a course, that’s a couple of days I’m away. On top of that, travel, accommodation and the course fees. If you’re not getting clients, then why you would do that?*

*They have a thing in Melbourne but I thought it was a bit much going all the way there. But, here I am the whole time thinking I need to have that made and they … had it the whole time.*

*Our suppliers have a road show that travels around the country. We have to decide whether it’s worth our cost to get to Adelaide and spend a day looking at their new products. But, if you don’t you get left behind your competitors if they do go.*

One manager attributed the firm’s issues from being located regionally to being separated from its city-based head office, access to training, and not being able to deal with people face-to-face:

*If I need something built, it gets built in Adelaide. If something is not going right I might not know about it until it’s shipped to us whereas if I’m in Adelaide, I can pop into the workshop and have a look while they are building it.*

*I have to ring them whereas, if am in Adelaide, I could go in and have a chat. It’s always easier face to face especially if you want something done quickly; you can press what you want to get done and how urgent it is, it’s always done a lot better than over the phone.*

Another manager found working in the country isolating. While in Adelaide the senior management of this firm might discuss things with managers of similar organisations over lunch, there did not appear to be the opportunities
for the same type of contact and support locally. For an organisation operating in the accommodation field most problems related to “supply and the timing of supply” of food and beverages because “everything we order comes from Adelaide; we can’t get anything in a hurry”. There were also issues with people not knowing where Whyalla was located. People ring up to book because they think it’s a suburb in Adelaide. That’s a bit of a concern because we have so much advertising about Whyalla.

Sourcing labour was also an issue: I have had to bring in labour from Adelaide and Port Lincoln. You can’t just go and grab crane drivers off the street.

Operating within a small city required firms to always consider their business relationships and their impact upon future opportunities within the community: A builder tried to not pay me, I could have sued him but I didn’t want to because that just makes enemies.

Features identified in relation to working in the country were the requirement to multi-task and the need to “get on with all people” because it is likely managers “will meet them everywhere - business transcends into social as well; this is not so in the city”. There were also advantages of operating within a smaller, regional centre. One new business owner commented: If I can’t do it in a small town, I probably won’t be able to do it in a city. Business operation was believed to be different in the country. Knowledge sharing was considered easier: You can just ask and people are open and honest and willing to share. Networks included competitors: We promote each other.

**Discussion and conclusions**

The purpose of this research was to determine how the use of SNs and external knowledge gained informally may improve the AC and sustainability of regional and rural SMEs. Innovation in organisations is dependent on humans’ ability to acquire, absorb, create and share new knowledge. The successful conversion of this knowledge into new products and services can provide the basis for superior performance and give firms a competitive edge. In this study external knowledge was generally obtained by owner/managers talking with other people within community networks. Many participants emphasised the need for regional firms to be involved in community activities and be a part of local groups and clubs. Hoteliers who operated in a similar industry would meet regularly to discuss their situations and share experiences. For some firms on-line forums were a useful source of new knowledge. However, it was also reported that often local business people did not use or appreciate the need to use networking to benefit their firm.

Trust and confidentiality in dealing with networks and external knowledge were regarded as important, particularly within a competitive business
environment. To improve sustainability, it “helps to be first with information” and “develop a rapport with other industries”. It became evident that collaboration and the sharing of knowledge, even with competitors, were valuable to businesses in the regional city. New external knowledge enabled some firms to undertake work and perform tasks they may not otherwise have been able to. Other firms were able to adapt and enhance the products and services they provided to the benefit of the regional community.

Threats to sustainability were experienced by those firms that operated with State government contracts due to lack of understanding of regional issues, distance and difficulties in communication. Often isolation limited the ability of regional firms to acquire up-to-date information relating to new products and services being released by manufacturers and their suppliers. Regional firms needed to assess the high cost of travel, in terms of both money and time away from their business, to attend professional development activities held in capital cities, against the likely benefits that may transpire in relation to increased customers and profit. Several owner/managers believed they were disadvantaged by the lack of ‘face-to-face’ interaction with city-based groups.

This study provides new knowledge on key problems and challenges faced by SMEs in terms of innovation, social networks and social media. It has highlighted the importance of SME owner/managers being aware of the benefits of networking, understanding their own social networks, and using these networks to their firm’s advantage. The findings indicate that SME owner/managers feel physically isolated and removed from business managers and experts in similar industry sectors and depend on social networking activities to source and share knowledge. The findings also highlight the key role of bodies such as universities, the local RDA and Chamber of Commerce in undertaking research to determine gaps and barriers in SME capabilities, developing policy that aims to recognise, define and formulate goals to solve problems and impart knowledge and expertise to organisations that are isolated and disconnected from urban business networking. This should involve identifying specific interventions that regionally located SMEs can exploit to improve their innovative skills through networking activities, and creating networking opportunities and providing support for regional and rural SMEs to become more engaged, innovative, strategically competitive and therefore more sustainable.

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