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THE IMPACT OF FORMAL NETWORKING ON THE PERFORMANCE OF SMES

Abstract:

Using a large sample of Italian small and medium enterprises (SMEs), we investigate the effect of membership in a formal business network (“contratto di rete”) on firms’ economic performance. We find that network participation has a positive effect on value added and exports, but not on profitability. The advantages of networking are stronger in the case of: smaller SMEs, firms operating in traditional and in more turbulent markets, firms located in less developed areas and firms not already exploiting the weaker ties offered by industrial districts. Network characteristics, such as size, geographical dispersion and diversity, are also found to influence performance.

Keywords:

formal business network, small and medium firms, economic performance

JEL Classification: D22, L25, M21