

THE RELATIONAL ASPECT OF THE BUSINESS ENVIRONMENT

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Abstract. *The business performances of a company are partly determined by the relationships that a company has with the entities in its environment. The relations of cooperation established in order to achieve the same or supporting objectives of the parties involved are increasingly becoming a determinant of the business success. There is an increasing importance that the complex structures of relationships with the external entities have for the competitiveness of the enterprises. Therefore, the strategic management process should include defining the network environment relevant for the company's competitiveness management. This paper specifies a terminological framework for business network analysis. Additionally, the company's network environment is identified as an environment relevant for building, maintaining and developing the competitiveness. Thus, the paper suggests possible ways for improving the strategic management theory and practice.*

Key Words: *strategic management, competitiveness, business networks, network environment.*

1. INTRODUCTION

The basis of achieving the company's growth and development goals are various forms of interaction with the subjects in its internal and external environment. The interaction relations that a company can be a part of can be different in their nature. So, in order to define an adequate strategy it is important to identify the different types of these relations, and their potential contribution to the business success. In the overall structure of the company's possible relations, the relations of cooperation have increasing importance for the competitiveness' improvement. In that sense the business networks, understood as structures of interconnected entities, are becoming more common framework in which enterprises are creating their competitive position in modern business environment.

Given the specific nature of the relations which make the structure of the business networks, the paper first deals with the basic characteristics of these relations, i.e. the nature of the business networks. The intention is to point out that the network relations' spe-

cifics are in the base of the company's competitiveness improvement. The paper recognizes and defines the concept and the importance of the network environment. By doing so, the paper is contributing to the widening of the strategic management focus, i.e. the focus of the strategic analysis as the initial stage in the process of defining a competitive strategy.

2. THE NATURE OF THE BUSINESS NETWORKS

In its broadest sense, a network is a set of entities and their mutual relationships [4; 25; 26]. The structure of the business networks' relationships consists of interconnections that a focal company has with the entities in its environment [13; 16]. The proliferation of the theoretical considerations of the network structures requires the terminology framework of the modern business networks environment analysis to be precisely defined. Clear definition of the term business network is the first step in establishing a terminology framework for analysis of this business phenomenon. In that respect, it can be stated that the very term network, or network of relations does not indicate the nature of the relationships between the related network members. Although the cooperation in a network context is often considered as given, the question is whether the term network of relations itself implies relations of cooperation. Namely, it can be accepted that the relationship between two entities exists; the one's behaviour causes or is caused by the behaviour of the other entity. If the previous is true, then, it can be concluded that the structure of relationships in the business environment is a complex one. In addition to the relations of cooperation, this structure is made out of both competitive and transactional relations as well of the relations of coexistence of the business entities. Additionally, transactional and relations of cooperation imply a specific form of exchange between the parties involved.

In the exchange network theory, two exchange relations are seen as interconnected when one exchange relation affects the other [6; 9]. The connection itself can be positive or negative one. A positive relationship exists when an exchange relation supports or facilitates the other exchange relation. The exchange relations are negatively associated when one exchange relation interferes with or competes against the other exchange relation. In this respect, positive and negative network relations can be identified [6, p. 481]. The positive networks refer to the relationships established between functionally specialized partners whose activities support each other. The negatively connected networks are formed by members who compete with one another. Analogous to this, by narrowing the focus of analysis on the dyadic relationships i.e. the relations between two entities, one can make a distinction between the positive and negative relations. The positive relations between two entities refer to a condition in which the behaviour of one contributes to the interests of the other party. The negative relations indicate a situation in which the conduct of one party threatens or directly competes with the realization of the other party's interests. Taking into consideration the possible dual nature of the relationships, understanding of the network relationships should be limited to the structure of positive relations between interconnected subjects. In other words, the business network members' activities contribute (or are expected to contribute) to the realization of the interests of the other members of the observed network. The relations between the entities that are con-

nected only by the relations of competition or coexistence should not be analyzed in the context of relationships in the business network.

Relations between the partners in a business network include a set of their interactions based on a certain form of exchange [5; 13]. However, the exchange relations in the business networks are richer in the terms of their content and direction of flows, relative to the pure transactional relations. Namely, in the transactional relations, the material or informational flows in one direction are followed by the equivalent value of cash flows in the opposite direction. The network relationships' structures are based on multidirectional material, financial and informational flows. In that respect, the results of certain studies suggest that relations with the strategically important customers and suppliers are much more than only sales relationships [6]. These are relationships that are based on the exchange of information on needs, opportunities, production, marketing and logistics strategies. Building and maintaining these relationships requires a more active role of managers of different functional areas. The interaction between the partners is based on the coordination of the interdependent activities. This coordination requires mutual adjustment of the parties involved, in the area of the production, development, logistics and the administration.

The relationships in the business networks are characterized by the long term perspective, continuity and loyalty of the related parties [10; 13]. Reciprocity [23], trust [10; 14; 16] and the commitment of the partners [2; 10] are the mechanisms essential for maintaining the relationships in one business network. An important component in the structure of business networks is a personal relationship between the individuals and groups who are a part of the institutional members of the network [12; 13; 18; 24]. These relationships form a social layer of a business network [13, p. 308]. This aspect of the business network may be a crucial determinant of the network relations' success, especially when it comes to the quality of the relationships between the top managers of the related companies [17, p. 99]. Often, the networking practice of the Japanese manufacturers and suppliers is presented in order to illustrate the characteristics of the network relations [10; 22; 23]. The Japanese business networks emphasize the stability and the loyalty of the partners [10]. The relations' stability encourages commitment of the partners while the interdependence and trust accelerate the information flows. Relationships between the manufacturers and suppliers in the Japanese business networks are characterized by a high level of awareness of the parties involved that they must abide by their obligations. For example, relations with a certain supplier will not be ended when the supplier currently cannot provide the best deal, for reasons that are beyond his control. But if the supplier does not offer the best deal, and does nothing to advance it, then ending of the relationship with him is justified [10, p. 475].

Starting from the dominant motif, number and the supply chain location of the partners, the strength and the exclusivity of the relationships and the mechanisms of the interdependence regulation a number of business networks' manifestation can be identified. Strategic alliances, joint ventures, consortiums, business groups, franchise systems, clusters, strategic blocks, virtual enterprises and other contractual connections of the partners established for outsourcing or joint performance of certain activities are the possible forms of the business networks [19; 21; 23; 26]. However, there are certain attitudes that there should be a clear distinction between the business networks and strategic alliances. This distinction should be made on the basis of the dominant motif of entering into a co-

operative arrangement [8], or on the basis of the number of the participants, i.e. number of dyadic relationships [7, p. 62; 9, p. 725]. Child, Faulkner, and Tallman point out that the dominant motif for the formation of the strategic alliances is learning, while the business networks are formed primarily to ensure access to the other party's complementary resources [8, p. 110]. On the other hand, there are also certain attitudes that the strategic alliances that are created with the primary motif of increasing the volume of the organizational knowledge are only one of the possible forms of strategic alliances [15]. Thus, learning is only one of the possible motifs for entering in a strategic alliance. The relations between the two entities could be multidimensional. There can be an economic, social, and regulatory aspect of relations between the two partners. Also, there may be a greater number of hierarchical levels at which the relations between the two sides are established. So, in terms of the participants' number, the network of relations can exist between two related subjects. Therefore, it seems that by using the term "business network" one should not imply a dominant motif and/or the number of participants in a cooperative arrangement. In that sense, the term business network can be taken in a broader sense, as a term that encompasses the various manifestations of the cooperative arrangement of two or more entities.

3. THE NETWORK ENVIRONMENT

The character of the modern business environment is all the more relational while the business performances are increasingly determined by the company's relations with other organizations [20]. Competitiveness is nowadays based on the possibilities to achieve the economies of scale and scope, innovations and quick response to the environment's requests. For most companies, satisfying these requirements means the establishment of various forms of cooperative arrangements [8; 26]. It is evident that the relational approach to the sources of competitiveness' analysis is more appropriate in relation to the atomistic one in today's networked economy. Nevertheless, it seems that the analysis in the field of the strategic management do not sufficiently address the possibility that the determinants of the differences in the companies' profitability are located in their network environment [11]. The collaborative ability, understood as the ability to create and maintain beneficial partnerships, may be the basis of nowadays competitive advantage [12; 17]. Also, the characteristics of the business networks as well as the level of participation affect the attractiveness of a certain industry. Thus, a higher level of interorganizational relationships in an industry can raise that industry's entry barriers, can limit or neutralize the competition. Additionally, the profit potential of an industry will depend on the network of relationships that focal industry i.e. its participants have with other, related industries [11; 18]. The overall networking environment is changing the character of the competition. The competition of groups is replacing once dominant competitive battle at the individual level [7; 14; 22; 23]. Bearing in mind that the business networks are becoming a more evident subject of competition, and an increasingly important framework for realizing the competitiveness, the theory of strategic management should be complemented by the concept of the network environment.

Starting from the model proposed by Achrol, Reve and Stern [1], in order to adequately include and understand the company's relationships and its environment, there can be identified three levels of the business environment: primary, secondary and macro environment (Figure 1). The primary environment of a focal company consists of its direct suppliers and buyers, the competitors and regulatory agencies with which there are certain direct relationships. The secondary environment of the focal company is made of the suppliers' and buyers' partners, other regulatory agencies and direct and potential competitors of the focal company. The macro environment consists of the general social, economic, technological and political factors that influence the activity in the two previous environments. Warning about the "dyadic atomization" as a form of reductionism that analyzes two interrelated entities outside of the context in which their interconnectedness exists,

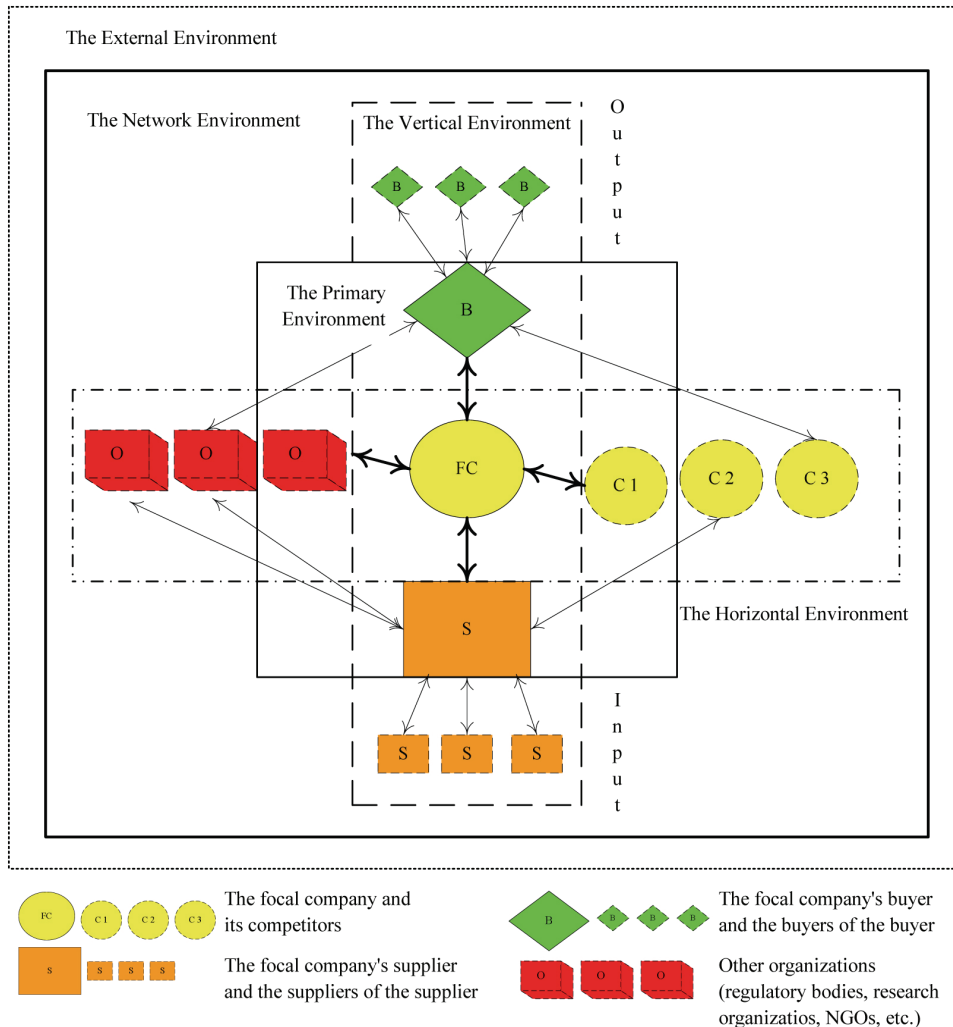


Fig. 1. The Business Environment (adjusted according to Achrol, Reve i Stern, 1983, p. 58)

Anderson, Håkansson and Johanson [3, p. 13] emphasize the necessity of looking into the network context in which these relationships exist. The network context dimension does not introduce new external stakeholders into the analysis of the environment. The network context consideration only emphasizes the direct and indirect relationships that a company can have with its stakeholders and that could affect its strategic management process. Furthermore, not only do the performances of the focal company depend on whom and what kinds of relations it has, but also they depend on whom and what kind of relations its partners have [12]. Therefore, the choice of partners has a direct and an indirect effect on the company's performances. In that respect Anderson, Håkansson and Johanson are talking about the primary and the secondary function of the focal relationship between the two sides [3, p. 3]. The primary function of the focal relation is its direct effect on the behaviour and the performances of the related parties. The secondary function (or a function of the network) refers to the impact that the focal relation has on the related parties due to its connections with the other relations. The secondary effect, then, exists thanks to the relationships' connection. In relation to this, for example, the resources that the supplier has developed in the relationship with its supplier do not only affect the performances of those two parties, but also affect the behaviour and performances of the observed supplier's customer.

The network context, relative to the concept of the external environment, reflects better the business reality in which the company can partially affect the external members, but can also leave to the known external members of the network to partly affect its internal functions [3]. The boundaries of the network are difficult to determine due to the fact that relationships can spread very far from the focal company. It is therefore important to distinguish the network horizon which is limited by the space in which the focal firm perceives its direct and indirect relationships [ibid. p. 4]. What the horizon of the network will be depends on the firm's business experience and the structure of the network itself. Therefore, the horizon is a dynamic category. The part of the network horizon that the company considers relevant represents its relevant network environment [12]. Important components of the network context are the entities that make it, the way they are interconnected, the activities they perform and the resources they employ. In a network environment the company has a network identity which reflects its perceived desirability as a partner [3, p. 4]. This perception is determined by the relationships that a focal company has with other members of the network, its connection with their activities and their resources. The following assumptions are essential for a model of the business network environment [12, p. 6]:

- The behaviour of a company is often determined by the behaviour of a limited number of other subjects, each of which pursues its own objectives.
- With these subjects the company enters into the relationships of interaction that make the process of exchange. By developing the relations of cooperation a company creates the opportunities for accessing and exploiting other's resources and for networking activities with them.
- The distinctive company's capabilities are developed through relationships with its partners, so its identity is created through the relations with others.
- Since the focal company's partners exist in a similar context (with their own network of relationships), the focal company's performances are determined by the broader network context.

4. CONCLUSION

Given the described characteristics of the network relationships, in determining the terminological dimension of the network analysis, network environment should be considered as a part of the overall environment of an enterprise. The business network is a set of the subjects interrelated by positive exchange relations. These relations are characterized by longevity, loyalty, reciprocity, trust and commitment to achieving common and supportive goals. In relation to the transactional relations, exchange relations in the network are denser due to the fact that they include multidirectional physical, financial and informational flows and the exchange of the goodwill of the parties involved. Also, the continuity is a characteristic immanent to these relations. The business networks are one of the possible forms of a network of relationships. Bearing in mind that the business networks are typical for economic sphere of a society, inter-related entities in these networks are (exclusively or predominantly) holders of the economic activity.

The company's performances and competitiveness are determined by the internal potential, as well as by the characteristics of its external environment. The possibility that the sources of the company's competitiveness, i.e. differences in their profitability should be searched in the complex structure of the supportive relationships with the entities in the external environment is more and more pronounced. Defining and implementing the objectives of growth and development of an enterprise requires recognition of the complex structure of cooperation in the external environment, the position of the focal company in a given structure of relations, as well as building capacity to manage the structure. So, identifying the concept of the company's network environment is a way to complement the classical strategic analysis that is based on an analysis of the overall environment and the structure of an industry where the company operates in determining the position and prospects of the company.

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RELACIONI ASPEKT POSLOVNOG OKRUŽENJA

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Poslovne performanse preduzeća su delom determinisane odnosima koje ono ima sa subjektima u svom okruženju. Pri tome su odnosi saradnje koji su uspostavljeni radi ostvarivanja istih ili podržavajućih ciljeva uključenih strana u sve većoj meri faktor poslovnog uspeha preduzeća. Sve je veći značaj koji složene strukture odnosa sa subjektima u okruženju imaju za konkurentnost preduzeća. Stoga bi proces strategijskog menadžmenta trebalo da podrazumeva i definisanje mrežnog okruženja relevantnog za upravljanje konkurentnošću preduzeća. Rad precizira terminološki okvir za analizu poslovnih mreža. Takođe, u radu se mrežno okruženje preduzeća identifikuje kao ambijent značajan za izgradnju, održavanje i razvoj konkurentnosti. Ovim rad ukazuje na moguće pravce unapređenja teorije i prakse strategijskog menadžmenta.

Ključne reči: strategijski menadžment, konkurentnost, poslovne mreže, mrežno okruženje preduzeća