

2

The Essence of the Network Approach

Relationships and networks receive a great deal of attention from both academics and practitioners. Issues addressed include among others the importance of relationships, customer relationship management, strategic alliances, industry clusters, subcontracting relationships, and supply chain model. There is no one widely and consistently applied definition or even approach available to conceptualize the term network. What makes this even more problematic is the fact that the theoretical field underlying the concept of networks lies at the intersection of multiple disciplines. This is true with respect to mathematical sciences (graph theory and neural networks), sociology (social networks), geography (networks in economic geography), management (business networks and strategic networks), and economics (regional development theory, network effects, and spatial economics). Moreover, the very field of management science lacks methodological and ontological consistency concerning basic assumptions of networking. Easton and Araujo (1996) and Grandori and Soda (1995) have identified almost 20 different approaches or schools in interorganizational networks. The interdisciplinary nature and diversity that characterize the field of sciences devoted to the study of networks give rise to many identical terms with radically different definitions.

Möller and Rajala (2007) are right to point out that “This great diversity in network research has produced important new knowledge but has also unfortunately resulted in conceptual confusion of the core phenomenon itself.” A decade later, this remark still has not lost its validity. Networks stand to become the main paradigm in management science (Achrol 1997; Borgatti and Foster 2003; Czakon 2011). However, despite, or perhaps, precisely because of such considerable development of network theories in this interdisciplinary field of science, the lack of consistent theoretical assumptions remains a big challenge.

Taking into account the broad subject literature regarding network concepts in management, it is possible to propose the following general division of network concepts and network approaches (Möller and Rajala 2007; Ratajczak-Mrozek 2013; Szymura-Tyc 2015):

- the concept of “business networks” or “industrial networks” and the IMP network approach in accordance with the principles formulated by the Industrial Marketing and Purchasing Group (IMP),
- the concept of “strategic networks” or “value nets” and strategic approach to networks.

The above division is relevant inasmuch as it recognizes underlying assumptions that distinguish the two approaches. These assumptions, in some cases radically different, determine distinct analytic, methodological approaches, and, consequently, at a later stage, theoretical and managerial implications. The following sections of this chapter are devoted to presenting each of the two approaches to networks, with their main assumptions and differences.

2.1 The Concept of a Business Network and the IMP Network Approach

The industrial network approach is linked to research carried out by the Industrial Marketing and Purchasing Group (IMP Group). The concept stresses the significance of all the formal and informal, direct and indirect contacts (interactions and relationships) a company has with other

actors in its surrounding environment or rather—network context. It is built on the assumption of “markets-as-networks approach,” in which a company is seen as part of a larger network of relationships (Håkansson 1982; Håkansson and Snehota 1989; Johanson and Mattsson 1987).

The IMP network approach emerged in the 1970s. It was a reaction to the existing research tradition consisting in separately analyzing individual sale–purchase transactions and individual decisions connected with them. Its basic assumptions were also a reaction against the idea that companies and their economic activities are autonomous and independent (Håkansson and Snehota 1989, 1995). The main theoretical impulses and the origin of research within IMP came from:

- social exchange theory (Blau 1968; Cook and Emerson 1978; Emerson 1962; Homans 1961),
- anthropology (Malinowski 1922),
- interorganizational theory (Brunson 1982; March 1988; March and Simon 1958; Thompson 1978; Weick 1979),
- marketing with distribution channels studies (Alderson 1957; Mattsson 1969; Stern 1969),
- new institutionalism with transaction cost theory (Williamson 1975),
- some general economic studies (Penrose 1959; Richardson 1972).

Three of the above-mentioned theories are particularly relevant from the viewpoint of this book: social exchange theory, interorganizational theory, and new institutionalism. Originally, social exchange theory (Blau 1968; Cook and Emerson 1978; Emerson 1962; Homans 1961) tried to explain causes underlying the existence and disintegration of human relationships (Blau 1968; Homans 1961). It addressed, among other things, the question of power in social exchange networks (Cook and Emerson 1978) and relationship norms, that is explicit or implicit rules of behavior that regulate exchanges without the need to exert influence or resort to power. The theory accounted for both social and economic benefits, assuming that economic exchange between entities was grounded in social structures and was socially conditioned (which is linked to the concept of embeddedness proposed by Granovetter (1985), discussed in Sect. 5.1). The theory has influenced the

theoretical work conducted by the IMP Group, especially with respect to the essence of relationships and companies and their interconnectedness. One particularly relevant concept is the definition of a network proposed by Cook and Emerson (1978, p. 752), which is defined as “sets of two or more connected exchange relations,” and which became the basic assumption of the IMP network approach (Waluszewski and Håkansson 2007).

Interorganizational theory (Brunson 1982; March 1988; March and Simon 1958; Thompson 1978; Weick 1979) is “based on the observation that the interaction between two organizations is affected, in part at least, by the nature of the organizational pattern or network within which they find themselves” (Warren 1967, p. 397). Interorganizational theory analyzes organizations and the necessity to interact with other entities and external factors influencing an organization. These and other assumptions on “bounded rationality” and how interdependent business actors behave have provided further theoretical groundwork for the IMP network approach (Waluszewski and Håkansson 2007).

The IMP Group was also influenced by the new institutionalism, especially by the work done by Williamson (1975), whose contribution is known as transaction cost theory. It addresses the question of how to choose the best way of regulating transactions (“governance structure”). According to Williamson (1975), there are three basic forms of transaction—those organized by the market, those in which relationships between partners are hierarchical, and transitional forms. The choice of a particular form of transaction is determined by the cost of transaction. According to transaction cost theory, relationships could be seen as a governance for alternative to markets and hierarchies, as they could be used to lower transaction costs (Håkansson and Waluszewski 2002). In the context of the IMP network approach, transaction cost theory should only be treated as a theoretical impulse for research rather than the way to interpret IMP assumptions (Håkansson et al. 2009). Firstly, Williamson’s work ignored the positive economic effects of relationships that are regarded as important in the IMP network approach (Håkansson and Snehota 1995; Håkansson and Waluszewski 2002). Secondly, the classic theory of transaction costs treats opportunism as a typical rather than exceptional human behavior; as a result, the role of

earlier relationships between entities tends to be ignored. Johanson and Mattsson (1987) conclude that the main difference between the two approaches lies in the nature of relationships. Under the IMP network approach, markets are characterized by permanent links because such relationships can reduce transaction costs. Through relationships, companies gain indirect access to resources of companies they do not have direct contacts with. For Williamson, such links are virtually absent at the market level and only exist within hierarchies.

The IMP research on relationships and networks focuses on how firms interact and relate to each other. It underlines that “no business is an island” (Håkansson and Snehota 1989) which means that companies, their counterparts, resources, and activities are interrelated by interactions, relationships, and interdependencies. Companies are not seen in isolation but as being connected (Ritter et al. 2004), as the essence of business enterprise is tied to constant interactions and trade exchange. IMP research indicates that single actors do not perform discrete transactions, either buying or selling (Ford and Håkansson 2006). In contrast, it focuses on the long-term interaction between individual actors rather than single transactions (Håkansson 1982).

Continuous interaction is the central idea behind the IMP network approach (Håkansson 1982; Håkansson and Snehota 1989; Turnbull et al. 1996). Companies engage “in continuous interactions that constitute a framework for exchange processes” (Håkansson and Snehota 1989, p. 191). Exchange activities create bonds between different actors. This emphasis on social and structural bonds between buyers and sellers is relevant as it “implies that many aspects of business relationships can never be formalized or based on legal criteria” (Gadde et al. 2003, p. 362). Through interactions, the distinctive capabilities (social, economic and technological) and identity of a firm are developed (Waluszewski and Håkansson 2007). A series of repeated interactions forms a relationship (Ford et al. 1986; Turnbull et al. 1996).

An important conceptual framework describing relationships and networks is provided by the Actors-Resources-Activities model (ARA model) (Håkansson and Johanson 1992; Håkansson and Snehota 1995). According to the ARA model, relationships are associated with

the exchange, adaptation, accumulation, and creation of input and output resources, as well as activities (joint operations, participation in events, and coordinated behavior) between actors (entities) of the network. Actors do not have to be companies; they can be any type of organization or individual who is relevant for understanding and picturing the network (Möller and Halinen 1999). Therefore, relationships are made up of three overlapping levels created by actor bonds, activity links, and resource ties (Håkansson and Johanson 1992; Håkansson and Snehota 1995). These three levels of the ARA model will be discussed in detail in Sect. 3.1.

Initially, research conducted by the IMP Group focused on the analysis of dyadic business relationships; later on, their attention shifted to the connectedness of different relationships, including indirect links between multiple actors. Connections between relationships mean adaptation of activities in several relationships to each other, thus raising the complementarity and complexity of interaction pattern. Relationships are dyads, but they also are parts of networks and “the identity of the firm is embedded in the network through its relationships, which are connected to each other” (Anderson et al. 1994, p. 5).

Every relationship should be viewed as being part of a network. A network is a strictly or loosely defined structure where a number of nodes (entities or actors) or related to each other by specific threads (relationships, ties, or arcs). Both the threads and the nodes have their own particular content and are heavy with tangible and intangible resources (Ford et al. 2011, p. 182; Håkansson and Ford 2002).

Most definitions of a business network emphasize connectedness of business relationships and/or actors (Anderson et al. 1994; Gadde et al. 2003; Holmund and Törnroos 1997; Todeva 2006). Connectedness refers to contingencies, that is the extent to which “exchange in one relation is contingent upon exchange (or non-exchange) in the other relation” (Cook and Emerson 1978, p. 725). Thus, a business network is defined as “a set of connected actors that perform different types of business activities in interaction with each other” (Holmund and Törnroos 1997, p. 304), “loosely connected systems of actors and relationships in which no firm can dominate (Wilkinson and Young 2002)”

(Gadde et al. 2003, p. 361), or “a set of relationships connecting two or more entities, which is characterized by continuous interaction (long-term relationships, with strong emphasis on informal contacts), interdependence (in terms of resources, entities and activities) and lack of clear boundaries and structures” (Ratajczak-Mrozek 2009, p. 81).

The above definitions of a network under the IMP network approach emphasize the connections between actors or relationships. Because actors are just one of the three levels of relationships, in addition to those existing between resources and activities, it can be argued that networks should be defined as connected relationships. For this reason, one particularly useful definition is that proposed by Todeva (2006, p. 15), where a business network is defined as a set “of repetitive transactions based on structural and relational formations with dynamic boundaries comprising interconnected elements (actors, resources, and activities).” This definition not only stresses the importance of relationships at three levels but also, to some extent, defines relationships.

The main characteristic of the network is the interdependence between the different relationships, which means that exchange in one relationship is conditioned by exchange in others (Cook and Emerson 1984). Interdependence is associated with interactions and is one of the basic assumptions of the IMP research (Ford and Håkansson 2006; Håkansson and Ford 2002; Waluszewski and Håkansson 2007). Interdependence indicates that a company’s development and performance is conditioned by other actors and relationships, including indirectly related relationships (Blankenburg and Johanson 1992; Holm et al. 2005). The connections in two different relationships can complement or support each other and be positive or they may be in competition and be negative (Mats Forsgren and Johanson 1992; Håkansson and Snehota 1989). To some extent, this idea is related to the concept of externalities, which denote unplanned effects of activities undertaken by one entity on the situation of another (others) (Buchanan and Stubblebine 1962). Externalities occur when activities undertaken by economic entities bring benefits or costs to other entities. However, the idea of interdependence, according to the IMP network approach, takes into account not only the impact on other entities, as in the case of externalities, that is a unilateral dependency, but also a bilateral

dependency, that is the impact on others as well as being affected by them (also indirectly). From the management perspective, it implies that a company's strategy and managerial decisions "are dependent on commitments that others are making, which means taking account of the way every individual relationship also belongs to a broader structure of other direct and indirect relationships" (Forsgren et al. 2005, p. 57).

The recognition of the interdependence existing between companies is not in line with the traditional approach to management, which focuses on achieving and managing the company's position in relation to other entities in its competitive environment (e.g., Porter's fives forces model, portfolio analysis). Questioning "the myth of independence" (that a company acts independently), distinguishes the IMP network approach from both the rational planning approach and the resource-based view (Baraldi et al. 2007).

Another important feature that distinguishes the IMP network approach is the perception of the boundary between the company and its environment as very diffuse (Anderson et al. 1994), which means that networks have no objective boundaries (Forsgren and Johanson 1992). The fixed boundary between a company and its environment is questioned by the existence of relationships themselves (Anderson et al. 1994) and the interdependence between them. It is also undermined by the fact that through relationships a company is partially giving away control over its own resources to other entities (Håkansson and Snehota 1989) on the one hand, and gaining a certain amount of control over their resources on the other. This means "gaining control of at least one part of its environment while giving away some of its internal control" (Anderson et al. 1994, p. 2).

The way IMP researchers viewed the company's boundaries, networks, and its environment was a radical alternative to the approach to analyzing and perceiving the environment adopted in traditional strategic management. Traditionally, it is assumed that there is a clear boundary between the company and its environment, whereas the "faceless environment" (Astley 1984, p. 526) is defined as "anything not part of the organization itself" (Miles 1980, p. 195). The very assumption of the existence of relationships between entities implies that companies do not treat the environment in a generalized way "but interact with

specific ‘faces’ (Thorelli 1986; Håkansson and Snehota 1989), external well-known actors” (Anderson et al. 1994, p. 2). Hence, “the organization exists and performs in a context rather than in an environment, inasmuch as it has a meaning and a role only in relation to a number of interrelated actors” (Håkansson and Snehota 1989, p. 193).

Through connected direct and indirect relationships, networks extend almost without limits (Anderson et al. 1994; Forsgren and Johanson 1992). The lack of clear boundaries implies, in effect, the lack of boundaries and categories imposed by traditional organizational structures (Ratajczak-Mrozek 2009). In fact, every actor in a network determines its boundaries, but in reality they remain relative and arbitrary. Such boundaries may be drawn on the basis of product type, technology used, country, or a focal firm (that is a company from which perspective the analysis is conducted). They are a result of intention, interpretations, and perspectives (Forsgren and Johanson 1992). As pointed out by Anderson et al. (1994, p. 4): “Importantly, the network approach does not suggest merely that it is not meaningful to draw a clear boundary between the firm and its environment, but that much of the uniqueness of a firm lies in how and with whom it is connected.”

If one assumes, in accordance with the IMP network approach, that a company’s environment is, in fact, nonexistent, in the classic sense, one is faced with serious methodological consequences for the classic theories of strategic management (Perechuda 2013, p. 118). Because of the lack of objective boundaries and crossovers between them, business networks are becoming a difficult subject for research. Given the difficulty of delineating their spatial scope, one is in danger of adopting a perspective assuming that “everything is a network.” Obviously, such an extreme conclusion logically leads to the assumption that all market entities form a network, which is not the case in economic practice. While it may be possible to track connections between entities (by linking successive partners of suppliers and suppliers’ suppliers) to finally trace a complete sequence of connections between each entity (as was the case in Travers and Milgram’s (1969) sociological “small world” experiment), such an undertaking seems to be nothing more than a logical puzzle. A mere identification of longer connection paths does not mean the creation of one borderless network of cooperation.

The difficulty of delineating network's spatial scope raises an important question about how to analyze an endless structure (Ratajczak-Mrozek 2010, p. 26), which gives an organization its identity and how to define its field of operations if it is not covered by the concept of the "environment" or "relevant environment." The IMP network approach proposes the concept of the "network context" (Anderson et al. 1994; Forsgren et al. 2005). The network context refers to "entities that are related to the organization" (Håkansson and Snehota 1989, p. 192). It is the part of the network within the horizon that the actor considers relevant. A company's network context is made up of all connected links of the network, constituted by entities explicitly identified by the company as having an impact on its situation and activities. The network picture "drawn" by various entities is different because the network structure identified in this manner largely depends on the purpose of analysis, intentions, and perception (Ford et al. 2011; Forsgren et al. 1995). With new interactions that keep giving rise to new relationships, a company's network context (and its position in the network) is a variable known only at a particular moment. The network context is structured according to the ARA model: the actors, the activities, and the resources used in the network together with connectedness within and between these three layers (Anderson et al. 1994).

One of the key distinguishing features of the IMP network approach is the assumption concerning the very emergence of a wide network of relationships and management possibilities within such a network. The process of network emergence is not the result of a strategic plan developed by a single powerful company or decisions aimed at actively and formally shaping a specific hierarchical or leadership structure. A network emerges in the process of repeated interactions between entities (Anderson et al. 1994). Companies are not in total control over all their resources as other directly and indirectly connected actors restrict or influence the actions taken by a given firm (Håkansson and Ford 2002; Ritter et al. 2004). There is no one main overarching purpose governing the network, and the network does not have an owner or a natural center (Gadde et al. 2003; Håkansson and Snehota 1995). No company manages the network (Ford et al. 2011). At the same time, because of the interdependence of network participants, it is necessary

to coordinate activities (Johanson and Mattsson 1987). However, this coordination does not manifest itself in the form of a central plan, a hierarchical organization, or a price mechanism, as is the case in the traditional market model. On the contrary, coordination is brought about by interactions between entities, while the price is just one of many possible mechanisms (Forsgren et al. 1995). This means that network development is affected by network logic, which may be difficult to interpret. “Activities and resources are not coordinated and combined spontaneously. They are purposefully directed by many individual actors who try systematically to influence one another” (Gadde et al. 2003, p. 361). As Håkansson (1987, p. 89) puts it: “There is no ‘invisible hand’ creating a situation of efficiency and health. Instead, there are several ‘visible hands’ that try to create situations that are beneficial to themselves.” Networks are unmanageable, in the sense of being controlled and directed by a single participant firm. All actors are simultaneously involved in the management of the network, and the resulting dynamic and stable structure with indefinite bounds is “coproduced” by their interactions (Ritter et al. 2004).

When analyzing the concept of a network according to the IMP approach, it is possible to notice that the idea of a business network does not refer to any specific kind of activity that a company is engaged in but can be applied to any kind of activity. The network approach represented by the IMP network approach is a more reality-based view of the market and the activity of companies, which accounts for interactions, interdependence, and constant dynamism of business activity. What constitutes the strength of the IMP network approach is, at the same time, its weakness. Interdependence, the lack of clear boundaries, connectedness, and dynamics are things that are ill-suited for simple input–output models, considered to be neat tools for management decisions.

2.2 The Concept of a Strategic Network

The second strand of research on network concepts, in addition to the IMP network approach, is the idea of a “strategic network” (“value net,” “strategic net”) (Cravens et al. 1996; Dyer et al. 2001;

Gulati et al. 2000; Jarillo 1988; Möller et al. 2005). Researchers representing this approach, just like representatives of the IMP network approach, do not view companies as atomistic actors competing for profits against each other in an impersonal marketplace but as “embedded in networks of social, professional, and exchange relationships with other organizational actors” (Gulati et al. 2000, p. 203).

Like in the case of the IMP network approach, the idea of a strategic network originates from similar theories, such as:

- social exchange theory (Blau 1968; Cook and Emerson 1978; Emerson 1962; Homans 1961),
- interorganizational theory (Brunson 1982; March 1988; March and Simon 1958; Thompson 1978; Weick 1979),
- new institutionalism with transaction cost theory (Williamson 1975),
- some general economic studies (Penrose 1959; Richardson 1972).

It should be emphasized, that the concept of a strategic network is, to a greater extent, based on the original assumptions of transaction cost theory than the IMP network approach, and, additionally, draws on:

- the resource-based view (Barney 1991; Pfeffer and Salancik 1978),
- the theory of industrial organization (Tirole 1988),
- the theory of competitive positioning (Porter 1980).

Moreover, network research in strategic management is placed within the context of structuralism (Hawkes 1977), a theoretical framework where each action is viewed as conditioned by structures where the action takes place. Structuralism holds that phenomena cannot be analyzed independently of their context. Structuralism has been present in strategic management since its very beginnings, for the Strategy–Structure–Performance paradigm (Chandler 1962), and expresses the fact that results of an action depend on deliberately created structures (Czakon 2011). It is these reference theories that reveal a greater emphasis on strategic aspects that underlies the idea of a strategic network.

This approach to networks is clearly grounded in strategic management. Except for the recognition of the role of relationships, cooperation, and the non-atomistic nature of the market, which it shared with the IMP network approach, the idea of a strategic network is based on different assumptions.

As already mentioned, the idea of strategic network is to a greater degree than the IMP network approach based on transaction cost theory. According to this theory, a network is understood as an intermediate form between a market and a hierarchy (Williamson 1975). Network connections are interpreted as specific, indirect, or hybrid ways of coordinating economic exchange, which contain certain characteristics of both the market and hierarchy. Networks are seen as an effective mechanism enabling a company to coordinate its strategic decisions without giving up its organizational legal autonomy (Olesiński 2010, p. 65; Szymura-Tyc 2015, p. 60). It is necessary to mention the works of Powell (1990), who argued that one should not consider choosing between a market and a hierarchy as if they were a dichotomy but rather treat them as a continuum. He argued that the majority of firms “are involved in an intricate latticework of collaborative ventures with other firms, most of whom are ostensible competitors” (Powell 1990, p. 301). It is a mode of organization that is based strictly not only on hierarchy or the price mechanism, but also on coordination through adaptation (Johanson and Mattsson 1987).

According to the strategic network approach, “it is the strategizing actor who is in focus and the position is derived on the basis of the actor’s relationships to firms with which it is not involved in business exchange” (Gadde et al. 2003, p. 362). Strategic approach is based on the assumption that a company can solely plan and implement development of long-lasting relationships in both external and internal environment (Fonfara 2012). It focuses on network organizations with deliberately created structures, negotiated roles, and goals (Möller and Rajala 2007).

Strategic networks “encompass a firm’s set of relationships, both horizontal and vertical, with other organizations” (Gulati et al. 2000, p. 203). Such networks are composed of interorganizational ties that are

of strategic significance and include joint ventures, strategic alliances, long-term buyer–supplier partnerships, and strategic blocks (Gulati et al. 2000; Jarillo 1988). Strategic networks encompass also brand networks, distribution channels, product development networks, or competitive coalitions (Gummesson 1996; Möller et al. 2005; Srinivasan et al. 2006). And finally, a strategic network is very often identified with a subcontracting or franchising network (Jarillo 1995). Depending on the adopted strategy, a company chooses cooperators and, consequently, the form of cooperation it wants to pursue. Strategic networks are characterized by varying degrees of formality (e.g., industry clusters functioning in the form of associations or clusters based upon informal cooperation) although they are mainly formalized (Forsgren and Johanson 1992; Ratajczak-Mrozek and Herbec 2014). Sometimes such a network is even defined as “a formalized group of business entities with limited membership collaborating for specific purposes” (InterTradeIreland 2011). In such a case, one can exactly indicate the limited number of network members.

According to the strategic approach to networks, relationships are a kind of tool used to implement a company’s strategy. Hence, the resulting strategic network is characterized by clearly defined boundaries, even if the relationships enable the company to acquire resources from entities in its environment. Achrol et al. (1983) distinguish the immediate environment of a networked company (the primary task environment), made up of the main company and its direct network connections, the indirect environment (the secondary task environment), which includes indirect connections and the macro-environment.

In view of the above, strategic definitions of networks emphasize their intentional creation (Möller and Rajala 2007) by the so-called flagship company (“hub firm,” “network orchestrator,” and “network captain”) in the process of competing with entities outside the network. Jarillo (1988, p. 32) defines networks as “a mode of organization that can be used by managers or entrepreneurs to position their firms in a stronger competitive stance” and adds that these are “long-term, purposeful arrangements among distinct but related for-profit organizations that allow those firms in them to gain or sustain competitive advantage vis-a-vis their

competitors outside the network.” Such networks have to be managed in order to be efficient (Czakoń 2009; Dyer and Singh 1998; Möller and Rajala 2007).

Active and intentional development of a network of company's relationships means that the presence of one main entity (flagship firm) intentionally building a strategic network is emphasized (D'Cruz and Rugman 1993; Jarillo 1995). A flagship company (e.g., the headquarters of a multinational company, university in an industry cluster, or just a so-called broker) acts as the task integrator. The integrator is the one main entity that is actively and intentionally creating the network in a strategic manner. It also assumes the role of a center of control, which organizes the flow of goods and information between multiple and often formally independent companies. However, it is usually assumed that the flagship company/institution only has strategic control over those aspects of its partners' activities which are dedicated to the network. Hence, other companies in the network are independent along some dimensions.

The concept of a hub firm responsible for creating network strategies fits in with the five partners model or the flagship model proposed by D'Cruz and Rugman (1993). They see a network of companies as a management structure, which is used to organize economic exchange based on cooperative connections between independent (in terms of capital) companies and other entities. A network of companies includes five groups of partners, each with a different position and varying degree of control. The network is led by a flagship firm, usually a large transnational corporation that provides leadership and strategy to a vertically integrated chain of entities with which it has established key relationships. The remaining four groups of partners cooperating within the network include key customers (and other customers), key suppliers (and other suppliers), key competitors, and the non-business infrastructure (trade unions, universities, government bodies, and research institutes). The creation of a network involves a decomposition of the value chain of the flagship firm. Relationships between network partners are mainly shaped by asymmetrical, strategic control exercised by the flagship firm over the remaining (independent or affiliated) companies. Partners retain autonomy over activities that are not the subject

of cooperation within the network, while the flagship firm's strategic control extends only to those aspects of its partners' business systems which are committed to the network.

The five partners' model can be related to the idea of a value-creating network, in which a flagship firm defines its way of offering value added. Basic features of such a network include one value-oriented goal shared by all participants, mutual investments aimed at adding value, and asymmetry of power, which provides a possibility of control (Srinivasan et al. 2006). Such networks are formed around a single hub company, which acts as an integrator, controlling the key resources and value activities (Achrol 1997).

Within the strategic approach to networks, one can also distinguish a broad range of analyses devoted to network organizations (Gulati et al. 2000; Jarillo 1988; Powell 1990). Podolny and Page (1998, p. 59) define a network form of organization as "any collection of actors (...) that pursue repeated, enduring exchange relations with one another and, at the same time, lack a legitimate organizational authority to arbitrage and resolve disputes that may arise during the exchange." A network organization is a form of coordinating activities, which is partly created in a deliberate manner, often subordinate to the company's strategic goals (Szymura-Tyc 2015, p. 80). Such network organizations constitute an organizational structure, a polycentric form of economic activity characterized by relatively stable, cooperative rather than competitive relationships between organizations (Olesiński 2010, p. 65).

Summing up the strategic approach to networks, the following observations can be made: Firstly, compared to the IMP network approach, it is much broader and diverse as it contains a number of ideas about managing relationships between companies and network structures. Secondly, the strategic approach seems to be more appealing to managers compared to the IMP network approach: It addresses questions related to the use of relationships in management and provides a vision of solutions that can be applied in business practice as well as a vision of a manager who can take control of at least some part of reality, environment and thus achieve better performance.

2.3 The IMP Approach and the Strategic Approach to Networks—Differences Between Strategy Development and Relationship Management

The assumptions underlying the IMP business network and strategic network described in Sects. 2.1 and 2.2 indicate that “the business network should not be confused with the strategic network” (Forsgren and Johanson 1992, p. 7). Both network approaches assume that “actors are embedded within networks of interconnected relationships that provide opportunities for and constraints on their actions” (Möller and Rajala 2007, p. 895), but are based on different assumptions. From the viewpoint of consistency of theoretical assumptions as well as organizational management, it is particularly important to compare both approaches in terms of strategy development, relationship management, competition, and performance of companies embedded in a network.

A network according to the IMP approach is characterized as being decentralized and generally not under the control of an individual company. “No company owns it [a network]. No company manages it, although all try to manage in it” (Ford et al. 2011, p. 184). One can manage within a network but cannot manage a network. “Relationship and network management is about managing interactions with others, not about managing others” (Ritter et al. 2004, p. 178).

From the IMP network perspective, companies have limited freedom to act independently, and the outcomes of their actions are dependent upon the actions of other connected actors (Baraldi et al. 2007). This is a two-way process, as relationships not only make it possible to exert influence, even if limited, on other entities, and gain control over at least some part of company’s environment (or rather network context), but also mean giving away some control over company itself (Anderson et al. 1994). For this reason, one important aspect of decision making in management is to identify “the extent to which a company will allow others to influence its nominally internal activities” (Ford and Saren 1996, p. 48). The influence exerted by an entity within a focal relationship also depends on relationships connected to this focal relationship.

It means that management decision is influenced, at least indirectly, by the business network context (Anderson et al. 1994; Blankenburg Holm et al. 1996). Hence, a strategy is not just the result of a company's independent activities. An actor manages and acts according to its own strategy and business plans but, simultaneously, adapts to the current and future relationships and evolves together with the network. Actors act purposefully and pursue their own goals, but "in such a setting, reacting to other actors' actions can be more important than acting itself. And the reactive behavior in the process of interaction is something that can hardly be planned" (Håkansson and Snehota 1989, p. 197), which poses a challenge for the process of strategic planning.

A strategy is a process of "identifying the scope for action, within existing and potential relationships and about operating effectively with others within the internal and external constraints that limit that scope" (Håkansson and Ford 2002, p. 137). This obviously creates a challenge and a dilemma for management (Ritter et al. 2004). The term "strategy of a business network" appears in the context of network position (Baraldi et al. 2007; Gadde et al. 2003; Håkansson and Ford 2002) and not the idea of one strong company imposing its formalized strategic plan on others. Håkansson and Snehota (1995, p. 327) define position "with reference to the nature and type of relationship a company has, how it is situated in a network with respect to others, customers, suppliers and other third parties with whom it has direct relationships or to whom it indirectly relates." The network position depends on the overall network structure, the number and type of company's relationships, and how these are connected along the three layers of the ARA model (actors, resources, and activities). Position is the result of earlier activities in the network, investments in the relationships both by the company and by other actors (Johanson and Mattsson 1987, p. 36). This implies that a company's position is determined more from the outside than from the inside and depends on how the company relates to other actors during interaction (Gadde et al. 2003). Even though the concept of network position within the IMP network approach is a structural concept and as such it is related with notions of structural social network analysis (SNA) (Borgatti 2005; Freeman 1978), unlike SNA,

it concentrates on the quality of the relationships much more than on their number and structure.

Johanson and Mattsson (1987) suggest that the network position is a key factor of a company's development and can also be a constraint. From this perspective, two basic groups of companies can be distinguished. The first one includes companies that are aware of benefits derived from relationships. The second group contains companies lacking this awareness, which passively enter relationships as a result of interactions and transactions (Ratajczak-Mrozek 2010). This division into two groups of companies can be associated with intentional (deliberate) and unintentional (emergent) networking (Möller and Svahn 2003) or reactive and proactive change (Agndal and Chetty 2007).

Two levels of network position can be distinguished: micro and macro. The micro-position refers to a firm's relationship with another network actor (Johanson and Mattsson 1987). The macro-position denotes a company's relationship with the business network as a whole or its specific part. The macro-position is not merely a sum of all micro-positions of a company. Its position is constantly changing and develops as a result of continuous interactions, which means that it is not just the product of independent strategies but is also created by other network participants (Ford et al. 2011, p. 7; Forsgren et al. 1995).

The role of a manager involves creating, developing, and defending the company's network position. This is due to the fact that all the companies have objectives regarding their desired future positions (Johanson and Mattsson 1987). The desire to achieve an important position in the network is associated with the concept of power, which "is based on the network positions (Markovsky et al. 1988) and on the control over critical resources and activities via the relationships with other actors (Pfeffer and Salancik 1978)" (Forsgren and Johanson 1992, p. 9). Hence, "strategic action is defined as efforts of a firm to influence its position in the network of which it is part" (Gadde et al. 2003, p. 357). A strategy refers to the process of building, managing, and exploiting relationships within an interdependent, interconnected network. Strategy and coordination are not a question of control but rather an influence on the network, which is exerted by key actions or resources,

especially knowledge. It is also manifested in the adaptations actors make to each other (Forsgren et al. 2005).

When defining a company's network position according to the IMP network approach and its influence on the perception of strategy, one needs to consider the remark made by Baraldi et al. (2007), who point out that the IMP network approach of dealing with market positioning differs in a number of ways from Porter's (1980) strategic view of market position. In the IMP network approach, the key idea is network position rather than market position; as a result, "the concept of position is more in terms of power and dependence between actors than in terms of conflict between them." In contrast, "Porter views strategy as a matter of creating a unique and valuable position against others in the market through the performing and combining of activities" (Baraldi et al. 2007, p. 884). The IMP network approach, in contrast to traditional strategic management, understands position as a more multidimensional concept, which cannot be reduced to a superiority compared to rivals or market position in a strategic map that needs to be "defended."

In summary, when analyzing a company's strategic behavior, it is assumed in the IMP network approach that the company, being part of a network, can, to a certain limited degree, influence the network while being itself affected by it and its connections. A business network actor not only acts according to its own strategy and plans but also adapts them in response to current and future relationships and evolves together with the network (Ratajczak-Mrozek 2010). Managerial autonomy is restricted, which leads to questioning the idea that a company can develop its own independent strategy (Ford and Håkansson 2006).

In the IMP network approach, "interdependence and coevolution are important characteristics, and the competitive aspect of strategy becomes less important" (Gadde et al. 2003, p. 358). There is a departure from the model of Porter's five forces (1980), in which business relationships were analyzed by accounting for competitive relationships, including customers, suppliers, and industry competitors, competing for a share of value added in a given value chain. Strategy is not simply identified with competition. There is no dichotomy between competitive and cooperative relationships (Baraldi et al. 2007). Strategy "shifts from

that of pursuing a victory over others to somehow making it together with customers and suppliers, distributors and development partners” (Ford et al. 2011, p. 107). This can be associated with the idea of coope-tition (Bengtsson and Kock 1999, 2014; Brandenburger and Nalebuff 1997; Cygler 2010; Gnyawali et al. 2016; Le Roy and Czakon 2016), where competition and cooperation are no longer perceived as alterna-tive forms of interorganizational relations but rather as complementary.

Because of the interdependence, the business performance of com-panies operating in a network is “dependent not only on how well the organization itself performs in interaction with its directly connected actors, but also on how these actors in turn manage their relationships with third parties” (Håkansson and Snehota 1989, p. 191). Thus, a company’s performance is dependent on whom this company interacts with and with whom it is indirectly connected with. A company’s per-formance and effectiveness depends on the systematic relating to oth-ers. Håkansson and Snehota (2006, p. 273) argue that “the effectiveness of a firm is not given by the possession of the ‘right’ set of resources accessed by a ‘right’ set of relationships at each moment in time but by the involvement in relevant change processes—the movement, in the context of the company.”

Although management and strategic issues identified by IMP researchers aptly describe business reality, they cannot be used as sim-ple recommendations for managers to implement. One has to agree with Baraldi et al. (2007, p. 879) who argue that “it is a characteristic of the IMP approach in studying business markets that the emphasis is placed upon rich description and efforts to understand the underlying processes behind interaction between organizations in networks, rather than on the formulation of managerial checklists and decision rules. (...) [Consequently,] the overall contribution of the IMP approach to the strategy literature has been fairly slim.”

The strategic approach to networks understands a network and relationships as a tool, a model or concept that a company and man-agers use purposefully to obtain competitive advantage, “instead of as a ‘metaphor’ to describe business transactions” (Jarillo 1988, p. 32). The strategic network is based on assumptions derived from strategic

management. It is assumed that a company manages its network and its relationships. According to the strategic network approach, a strategic action “concerns efforts by one actor to influence relationships with an outer environment” (Gadde et al. 2003, p. 357). In this way, it follows Porter’s view of strategy (1990) as a matter of creating a unique and valuable position against others in the market and competitive environment through the performing and combining of activities. It is assumed that a company can identify its desired market position and develop a strategy to achieve it.

The network and relationships become a company’s strategic resource. This is related to the notion of network capabilities (Human and Naudé 2009; Mitre ga et al. 2012), or a company’s portfolio of relationships and its network positional resources that are key factors in the process of gaining competitive advantage. This understanding of relationships as a company’s strategic resource is clearly based on the resource-based view (Barney 1991; Pfeffer and Salancik 1978), where a company’s resources and capabilities are considered to be the key factor in determining its strategic behavior and competitive advantage. Networks and relationships become the source of competitive advantage thanks to a privileged position, benefits of being part of the network structure, effectiveness of cooperation, and unique connections. A network becomes a resource, which can be acquired and created and which should be deliberately shaped in order to achieve competitive advantage (Czakon 2011).

The concept of the strategic network assumes that a portfolio of relationships as well as the network as a whole can be appropriately managed. M  ller and Swanh (2003) propose the net-portfolio concept. Similarly, M  ller and Rajala (2007) identify different management mechanisms in basic network types. Different strategic activities and strategic relationship and network management are designed to ensure success in the competitive struggle.

The ability to build and exploit networks can be the source of competitive advantage. “Competition becomes the strategic focus in and between conflicting and rival relationships” (Gadde et al. 2003, p. 358). Even when more cooperative aspects including the idea of coopetition (Bengtsson and Kock 1999, 2014; Brandenburger

and Nalebuff 1997; Cygler 2010; Gnyawali et al. 2016; Le Roy and Czakon 2016) are acknowledged, “strategic management is often defined as focusing on how companies may improve their performance in competitive interactions with other firms” (Gadde et al. 2003, p. 358).

In the context of the strategic network is embedded the idea of competition between entities connected within a particular network with those remaining outside the network. One is interested in measuring the competitiveness of entire network systems (Dyer and Singh 1998). The phenomenon of network emergence is associated with the disappearance of competition between individual firms. Related to the idea of the competitiveness of an entire network is the notion of a relational advantage (relational rent) (Dyer and Singh 1998; Światowiec-Szczepańska 2016; Ziggers and Henseler 2009). Relational advantage is treated as the main source of advantage that network systems have over other forms of activity. Relational advantage is defined as “a supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners” (Dyer and Singh 1998, p. 662). Companies cooperating within a network can generate joint relational advantage through relation-specific assets, knowledge-sharing routines, complementary resources, and effective governance mechanism. A relational advantage generated by a network can be sustained if one of six mechanisms preserving a relational rent is in place. These mechanisms operate when entities connected by a relationship cannot ascertain what and to what extent generates the returns (owing to unclear interdependencies and causal ambiguity); cannot quickly replicate interconnected resources and skills, copy a given investment (e.g., with another partner) because of the interorganizational asset interconnectedness and high costs of previous investments; cannot find a new partner with the requisite complementary resources or appropriate skills; cannot access the capabilities of a potential partner because these resources are indivisible (e.g., it is already engaged in a relationship with another firm); and cannot meet the requirements and replicate a distinctive institutional environment owing to its existing formal rules (legal controls) or informal rules (social controls) (Dyer and Singh 1998).

The idea of a relational rent is based on the assumption that the network generates effects of coordinated activity, resulting from cooperation between independent organizations and having access to assets of alliance partners, without the need to invoke proprietary rights. This kind of competitive advantage is directly associated with the synergy effect (Niemczyk 2006). In order to generate a relational rent, it is necessary to implement network coordination, which denotes mechanisms of market, hierarchical and social coordination.

Summing up the above analysis of competitiveness in the strategic network approach, it can be said that because it is evidently grounded in the strategic approach, the idea of a strategic network draws, to a greater extent than the IMP approach to business networks, on the theoretical underpinnings of well-known concepts: above all the resource-based view (resources and capabilities seen as a source of competitiveness and competitive advantage) (Barney 1991; Pfeffer and Salancik 1978), and transaction cost theory (reducing transaction costs and coordination mechanisms) (Williamson 1979); but also, to a certain extent, the theory of agency (reducing agency costs) (Barney and Ouchi 1986) and the positioning school (the organization's environment as the source of competitiveness, the role of a company's position relative entities outside the network) (Porter 1980).

Despite the similar emphasis on relationships and interdependencies, the concept of a network according to the IMP approach and the concept of a strategic network represent two different approaches to network research. The differences between both approaches, with a special emphasis on difference in the area of strategy and management, are compared in Table 2.1.

Each of the identified network approaches (that is IMP network approach and strategic network approach) is based on different assumptions. It is therefore essential to ensure methodological consistency when conducting research in this field. While it is valid to treat these approaches as complementary, one should be careful in combining them for analytical and research purposes and be aware of their underlying assumptions, always clearly identifying which one is treated as the main theory and which one is only used as a complement.

Table 2.1 Differences between the IMP and strategic approaches to networks with special emphasis on differences in the area of strategies and management

Characteristic	IMP network approach	Strategic network approach
Network emergence/creation	The result of interactions and relationships between entities	The result of a strategic process of creating a network by a focal company
Network boundaries	Diffuse network boundaries, almost non-existent	Clearly defined boundaries, despite the importance of relationships with entities from the environment
Network picture	Relative, arbitrary network picture, visualized differently by each network actor	One objectively known picture of the network
Network management	Nobody manages the network, management is only possible within the network	The network is managed by the focal company. Management involves relationships, their portfolios and the entire network
Focal company	No central entity. It is possible to create an arbitrary, relative visualization of the network from the perspective of the focal company	The focal company plays the key role in the process of managing the network and creating relationships; has a complete picture of the network
Strategy	Implemented in the context of a company's influence and position within the network	Complies with strategic activities and management
Competition	A fuzzy notion of competition resulting from a greater emphasis on interdependence and cooperation	Network actors compete with companies outside the network; the concept of a relational rent
Coopetition	Based on certain assumptions about coopetition	Based on certain assumptions about coopetition
Coordination	Through interdependence and interactions	The mechanism of network coordination (market, hierarchical and social coordination)

The study presented in this book focuses primarily on an in-depth analysis of business networks in accordance with the IMP network approach. However, to a certain degree, a reference to the strategic approach is also made. This kind of analytical approach complies with recommendations found in the literature, where it is pointed out that a broader explanation of mechanisms underlying the emergence and exploitation of interorganizational connections requires a reference to both concepts (Szymura-Tyc [2015](#)). Ritter et al. ([2004](#), p. 177) argue that “both these points of view are relevant and that firms confront different types of relationship and network management situations” involving power and control, influence, and mutual interdependence. This view is shared by Möller and Rajala ([2007](#), p. 896) who believe that “both of these network views are relevant in understanding how companies behave and try to manage in network contexts.” It should be added, however, that such recommendations about the joint use of the IMP and the strategic approach are mainly made by representatives of the latter.

In this book, the IMP approach to relationships and networks is treated as the theoretical basis. However, it is assumed that when one analyzes companies’ relationships in this way, it is possible to identify strategically created network structures. Forsgren and Johanson ([1992](#), p. 7) state that strategic networks may well be sections of business networks. These may be joint ventures, industry clusters, or multinational companies. Additionally, within the IMP network approach, special emphasis is placed on managerial issues and companies’ strategic activities. The fact of being entangled in a network does not imply that a company does not make strategic decisions or cannot manage in the network. As Turnbull, Ford, and Cunningham ([1996](#), p. 47) state, “Without a wider network view, any approach to relationship strategy runs the risk of degenerating into short-termism. It can also mean that the company may be unaware of the potential effects on itself and its relationships arising from the actions of other companies elsewhere in the network or of the opportunities for improving its overall position in the wider network.” Through appropriate activities, a company may try to exploit opportunities created by relationships and networks.

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