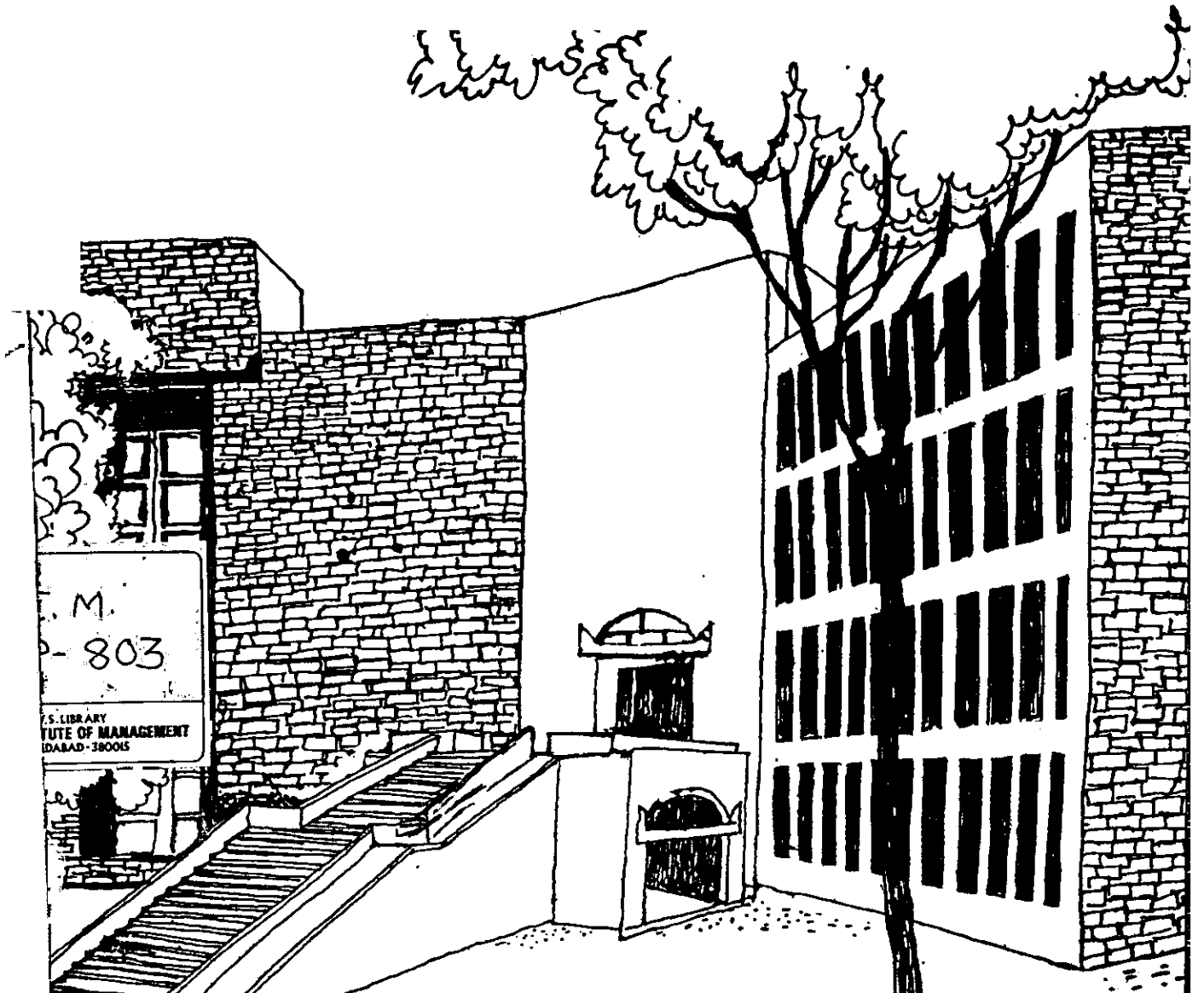




Working Paper



CORPORATE NETWORKING FOR STRATEGIC ADVANTAGE

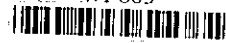
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Corporate Networking for Strategic Advantage

Networking is not a new phenomenon. It has been discussed widely in social sciences and Organisation Theory, Development Administration, literature under titles like inter-organisational co-ordination, inter-organisational linkages etc. Such studies are in the context of not-for profit organisations. In recent years the importance of networking as a part of management strategy has started receiving attention especially in Europe and North America but nothing so far has been done in developing countries.. However, the research efforts in analysing it conceptually and empirically seem to be inadequate. The purpose of this paper is to look at the various conceptual dimensions of corporate level networking and its applications to gain strategic advantage.¹

Corporate survival and growth have for long been associated with corporate ability to compete successfully. Porter (1980) developed his framework of competitor analysis and competitive strategy formulation based on this premise. Later (Jarillo, 1988) pointed to the need for looking at the collaborative aspects of a firm's strategy. By linking itself formally or informally with various other organisations a firm can enhance its strategic advantage.

What is networking?

According to Jarillo (1988), networks are conceptualised as a mode of organisation that can be used by

1 For the purpose of this paper we define strategic advantage as an advantage in terms of an ability to identify and exploit early and appropriately the opportunities and threats in achieving corporate objectives.

managers or entrepreneurs to position their firms in a stronger competitive stance.

It is widely recognised that successful firms formulate their strategies in tune with changes in the external environment. Networks are seen as a complex set of relationships among firms operating in the external environment. These are established through conscious and unconscious interactions with each other. Networking is therefore found to be an efficient tool to achieve corporate objectives (Birley and Cromie, 1988; Wiewel and Hunter, 1985). Although the importance of this concept was recognised only recently, the positive aspects of it have been visible in all successful enterprises. Inter-functional networking within an organisation has been underlined in management literature, and it is widely appreciated that strategic management attempts to draw synergy out of it. The novelty therefore, is in terms of its applicability to inter-organisational relationships for achieving corporate objectives.

Networking has both unfair and fair aspects. There could be instances of organisations working together to comprehend the implications of new phenomenon like the possibility of 'Cold Fusion'. There could be also instances of networking for putting undue pressure on the other party to get things done. Of course, where fairness ends and unfairness begins is debatable. However, in this note we are concerned with those aspects of networking that are within the legal framework of any country.

Types of networking

Based on the nature, processes in building, and purpose of the linkage networking can be classified into the following:

(a) Formal-Informal Networking

Formal networking is one where networking relationship is established with the enterprise's business or business-related parties with explicitly specified domain of mutual interests and means creating and sustaining the relationship for their achievement. The interactions among the members are at regular or irregular intervals with pre-specified agenda. Such networks could be with the suppliers of materials and resources including funds, or buyers of output. Birley's (1985) studies in St. Joseph County and later in Northern Ireland (with Cromie, 1988) show the usefulness of developing such relationships for the success of business. In informal networks the relationships are loose, interests broad and implicit. Social networks of entrepreneurs are examples of these types.

It may be hypothesised that social networking may be more important than formal networking in developing countries. This statement is based on the authors field experience in India and corroborative evidence gathered through discussions from some other developing countries. For instance, an application for finance from a bank will get attention and approval faster if the applicant knows a few officials there. Most of the bureaucratic knots may be undone through 'contacts'. Sometimes, a known person's friend may be a friend of the brother of the bank manager and such contacts are explored and exploited to get things done. It appears that in advanced countries such contacts may be of little importance.

It can also be hypothesised that both formal and informal networks would reinforce each other for enhancing the strategic advantage of the firm. It is possible that formal relationship could lead to informal contacts and networking, and vice versa. Therefore an entrepreneur may develop networking with a banker formally to start with, but informal networking may evolve out of it. Similarly, an entrepreneur may use his informal contacts to get to know of another entrepreneur as a prelude to establishing formal networking relationship.

(b) Primary - Secondary networking

Some networking with one's own suppliers of all kinds of inputs and buyers of output is unavoidable. Networking of this nature may be called primary networking and is important as it affects the very survival of business. In such situations the firm is networking with organisations with whom it comes in contact as a part of its day to day business operations and interactions in the market place.

There can be secondary level networking with firms with which no direct business dealings exist. For instance, an automobile manufacturer may establish contacts with suppliers of inputs such as foam and rexin for seat to his subcontractor for complete seats. It may be done with the strategic objective of backward integration. Or for that matter, a company could develop active contacts with research institutions to know the potential threats from the development of substitutes.

An entrepreneur may often have secondary networking relationship with another entrepreneur both of whom have common distributors for their products. For instance, a camera

manufacturer may network with manufacturers of films to derive long term competitive advantage. Since the products in this case have complementary demand, such relationship can be called complementary networking.

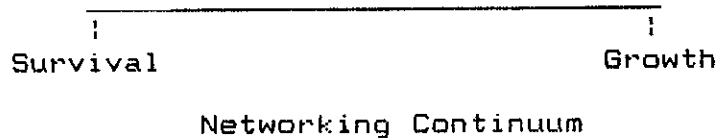
(c) Industry - Institutional networking

Networking with enterprises with which business dealings exist or/are likely to exist is crucial for the survival and growth of business. It may be formal or informal and primary or secondary networking.

Institutional networking is also unavoidable because all businesses have to deal with governmental and non-governmental agencies for various purposes such as borrowing funds, obtaining licences or permission and payment of taxes. Some of these networking might be developed in the process of fulfilling statutory requirements while the others might be developed as part of survival or growth strategies of the firms.

Survival/Strategic Networking

It is clear from the above discussion that there can be a variety of networks which are not mutually exclusive. The important question is under what circumstances a firm would network and with whom. Based on its characteristics each network can be placed on a survival-growth network continuum as shown below. To illustrate, firms belonging to the same industry often organise to and oppose introduction of new taxes by the government when they feel that such taxes would affect their survival. Such networks can be called survival networks; these are formed generally to solve a specific problem and are temporary in nature.



Strategic networks can be noticed in successful firms which systematically plan and nurture networking relationships. It should be noted however that in some cases the same relationship may appear to be survival for one and growth network for another. For instance, subcontracting of component production and networking for it with the small firms can be a definite growth strategy as is noticed in several engineering firms. Subcontracting can be often resorted to as part of turnaround strategy and networking for this purpose may be considered as a survival network. In this case, although temporarily the network is for survival, it is expected that it would lead to long term growth of the firm.

These networking relationships will belong to any one of the types of relationship mentioned above. For instance, networking with a commercial bank may be for survival purposes at some time, and for growth purposes at some other time. While survival networks emerge under pressure, strategic networks are planned, developed and nurtured carefully.

Dynamics of Networking

Networking is a dynamic process undergoing changes over a period of time. For instance, the nature of networking at different stages of growth of a firm would be different. In the initial start up and survival stages when the entrepreneur would be learning and gaining confidence, it is likely that entrepreneurs would develop strong networks with as many environmental constituents as possible. At the growth stage,

entrepreneurs would be more selective in developing networks for two reasons. One, they would already be having the minimum networks already strongly developed; and two, over a period they must have grown wiser in terms of selecting what would be good for them. One may notice more of strategic networking at this phase. For instance, a firm which is in the household plastic business and is planning to enter PVC pipes for agricultural purposes would do well by starting networks with the agricultural department of the government, agricultural financing agencies and big farmers. Ideally, such networking should be started when the decision to enter this business was taken and thus make use of the project implementation phase to grow it strong.

We have yet to come across studies that have tried to bring out the facilitating and constraining factors leading to the development or otherwise of appropriate networks. There are a few studies referred to earlier throwing light on the process of network building.

Product Life Cycle and Networking

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In a dynamic environment, the strategies of a firm cannot remain the same for ever. Broad changes in the macro environment (technology, population, regulations) and specific changes in the market environment (consumers, dealers, suppliers, competitors) will necessitate changes in the nature of relationship a firm has with the constituent elements of the environment mentioned above.

When demand outstrips supply as it happens during the growth phase of a product, networking is likely to be easy without much effort put in. Conscious, planned networks will,

however, have to be developed when a product enters the maturity phase and competition hots up.

As part of environment scanning and network development, entrepreneurs have to watch changes in the life cycle of the products of their suppliers. Such analysis can be extended to some of the government assisted programmes and people associated with them.

Conclusion

It is clear from the above discussion that any networking can find a place on the survival-growth continuum, because of the dynamic nature of network necessitated by the internal and external factors. This does not, however mean that managers who network should behave like 'fly by night' operators. The top management has to decide what type of networking is required at any given point in time for achieving the corporate objectives and maintaining competitiveness. In the process of redrawing networks, earlier existing networks should not be cut off completely and suddenly to antagonise the other end of the networking. What may be required is the emergence of networks as a strategic process.

Top management has to identify factors which enable or constrain development of networking. This may be internal or external. A total environmental analysis might be found useful in this regard. Success and sustenance of any networking depends on the style of networking also..

This paper has attempted to conceptualise and identify the nature and characteristics of networking. It has emerged from the discussion that substantial research opportunities exist in this area.

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