

Włodzimierz Sroka · Štefan Hittmár  
*Editors*

# Management of Network Organizations

Theoretical Problems and the Dilemmas  
in Practice



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*“In memory of Marek Janus”.*



# Foreword

There is no doubt that for some decades now it has been extremely difficult for firms to stay competitive when relying only on their own internal resources and capabilities. The increased globalization and liberalization of markets together with the higher complexity and multidisciplinary nature of the innovation process have driven firms to rely on a wide range of formal and informal ties so as to benefit from the complementary or specialized resources of other agents. In other words, we are facing a world of networks.

Reliance upon collaboration agreements in order to increase flexibility and gain competitive advantage is not new. Firms have always needed to establish agreements with different agents—such as suppliers, customers, universities, research institutes, or even competitors—so as to collaborate on different activities along their value chain. However, in the twenty-first century, we have seen that the phenomenon has become even more pervasive and thus relevant. First, it is observed that the possibilities of cooperation may now apply to all activities within the value chain. Collaborative agreements are not only used for less strategic low-value activities but are increasingly being used for high-value and knowledge-based activities such as those related to the research and development function. Second, the increased liberalization of markets and the greater cross-border enforceability of contracts have expanded the markets available to firms and thus the internationalization of these collaborative agreements. The result is that nowadays, in order to stay competitive, many firms have established a global network of interfirm agreements with external agents located not only in developed economies but also in developing ones.

The benefits of network collaboration are substantial. They allow firms not only to be more efficient or flexible but also to access the distinctive capabilities of a specialized partner and thus to concentrate on those parts of the process in which they can exploit their competitive advantage. However, collaboration has been also found to impose numerous challenges; effective management of network organizations becomes key in the maximization of the benefits stemming from collaboration, while at the same time minimizing the risk associated with these practices.

These challenges are mainly related to effective partner selection and control so as to avoid negative spillover effects which may result in the erosion of a firm's competitive advantage. Indeed, it is well known that one of the most difficult dilemmas faced by firms in terms of collaborating in knowledge-based activities is that they are obliged to maintain the necessary knowledge exchange to achieve the alliance objectives, while avoiding the unintended leakage of proprietary knowledge. In addition, given the increased number and dispersed nature of the alliance portfolio which firms need to leverage, achieving effective coordination in order to reach the network objectives also becomes a difficult managerial challenge for these firms. It is for this reason that trust has been identified as a crucial factor which must be taken into consideration by firms when forming their collaboration agreements. Trust between partners allows for smoother communication and coordination and also reduces the risk of opportunistic behavior. As a consequence, firms have tended to show a preference for familiar trusted partners. However, it has been demonstrated that this preference can also lead to the so-called paradox of embeddedness, which may lead to the firm missing potential business opportunities with other agents. These dilemmas, among others, are a frequent concern within network organizations.

It goes without saying that the increased internalization of these agreements and the greater strategic value and variety of the activities being externalized have increased the difficulty of effectively managing these network organizations in terms of both coordination and control. It is for this reason that I believe this monograph sheds more light on this relevant topic by raising numerous issues which are relevant for the effective management of network organizations, from both a theoretical and an empirical perspective. It deals with issues such as the different types of network organizations, the role of trust in networks, and the benefits of clustering and also provides empirical data on the phenomenon. What most impressed me was that this monograph not only addresses the topic from a macrolevel perspective but also from a more microlevel one by taking into consideration managers' and other individual members' perspectives on network decisions.

In conclusion, for me, the key insight the book holds is that firms no longer base their competitive advantage merely on their internal resources but on the distinctive ways in which they manage to combine them with external resources from diverse agents. The reader should note that effective network management can help firms to develop a distinctive and difficult to imitate competitive advantage, which can indeed be critical to survival in the highly competitive global economy in which we are immersed. It is for this reason that the insights provided in this manuscript are a worthwhile read.

Oviedo, Spain  
12 February 2015

Andrea Martínez-Noya

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# Introduction

Włodzimierz Sroka and Štefan Hittmár

Effective management is crucial to the success of network organizations and may reduce the risk which is inherently associated with cooperative strategy. If such a strategy is to be successful, managers must have a degree of knowledge of the factors which are of key importance in this process. The main goal of this monograph is therefore the complex presentation of the management of network organizations from both theoretical and practical perspectives as well as an international perspective, in the form of the presentation of selected cases from various Central European countries. The authors claim that without some type of network management, irrespective of the type of network, it is not possible to compete effectively with other companies and/or networks. As network organizations are representative of a wide portfolio of possible network types, i.e. alliance networks, clusters, outsourcing, and virtual organizations, this book presents various perspectives of the management of network organizations.

The monograph consists of both theoretical and practical chapters which have been written by the foremost experts on network organizations. The objective of this monograph is presented in four parts. In the first part, the theoretical aspects of network management are presented. The authors, among them Hittmár and Jankal, as well as Lendel, raise different topics which are important for the management of network organizations, such as general management of networks. In turn,

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Oczkowska describes the application of alliances in the network model of international expansion, and Sankowska raises the topic of the relationships between trust and networks. It may, therefore, be said that Part 1 is an introduction to the main topic of the book.

The second part presents the management of different forms of network organizations, concentrating on clusters and alliance networks; however, all texts in this part present differing perspectives. More specifically, the texts of Skokan, Sujová and Hajdúchová concentrate rather on general aspects of clusters, whilst Knop's work is focused on the process of cluster management. The final text in this part, written by Sroka and Gajdzik, is devoted to the managerial aspects of network organizations.

In turn, the third part focuses on the effectiveness of networks, featuring texts by Łacka, Jankalova and Jabłoński. However, the phenomena which may limit effectiveness within networks, such as pathologies, are thoroughly presented in the paper by Cygler.

The last part of the monograph describes network management in practice, including case study analyses from different countries. For example, the texts of Varmus, as well as Štefko and Gallo, present ventures from the Slovakian market, describing the cooperative activities of sporting organizations as well as the application of management tools for the management of network organizations and network models respectively. In turn, Puślecki presents an overview of the management of alliance networks within the biopharmaceutical industry in Poland. Finally, Mazel and Vajčnerová present the example of network alliances in the tourist destination of Oberengadin in Switzerland.

The advantages of the aforementioned monograph are:

- the presentation of the points of view of different scholars who have practical experience in terms of network organizations,
- the presentation of the management of different types of network organizations,
- simple and understandable language,
- a wide application of practical cases.

The authors believe that a combination of theory and practice, together with the nature of the texts presented here, have successfully achieved the goal of this monograph. Therefore, it is designed for a wide group of recipients, including both scholars and managers as well as students of management science.

**Part I**  
**Theoretical Aspects of Network**  
**Management**

# Strategic Management of Networks

Štefan Hittmár and Radoslav Jankal

**Abstract** Strategic management of a network organization is the set of managerial decisions and actions by which network management determines in advance what should be accomplished and how it should be achieved. In the first part of the chapter, different types of strategies at the level of networks and organizations are characterized. Subsequently, the strategic management process which is appropriate for the network is described. Traditional approaches to strategy development place emphasis on enterprise as an object from which the entire process of creation, implementation, evaluation and controlling strategy unfolds. For a network, however, it is somewhat different, as first it is necessary to define the mission and vision of the network, determine its objectives, and consequently—by implementing the necessary steps—to establish its strategies, i.e. overall, business and functional network strategy. It is also necessary to take into account the orientation of the individual network members. Consequently, the individual enterprises of the network have to update their visions and missions to fulfil the strategies of the network.

## 1 Introduction

As with general management, and the definition of other terms, so in strategic management there are numerous definitions which seek to characterize this concept as comprehensively as possible. We can conclude that strategic management is a concept which is understood differently by different authors. This may be due to the fluidity of contributing factors such as technology, market rules, etc. Similarly, strategy is a dynamic process and as such is never repeated.

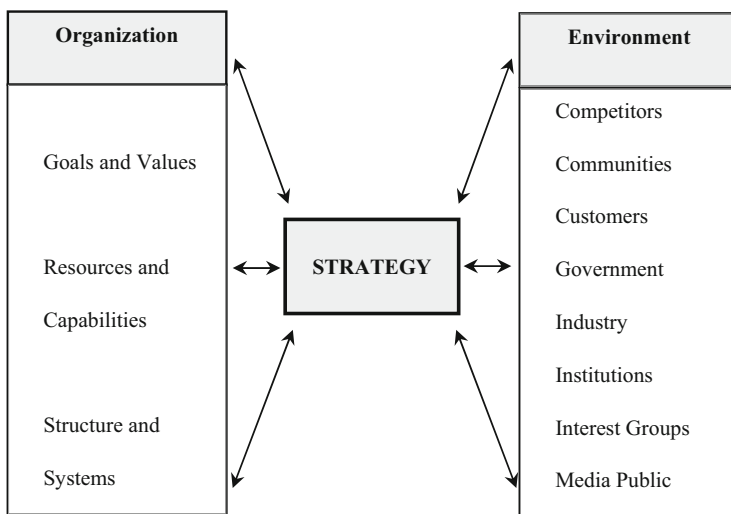
The following selected definitions reflect the diversity of views on the content, form, function and other statements of the concept of strategic management. Strategic management theorist William Glueck defines this concept as “*a stream of decisions and actions, which leads to the development of an effective strategy or strategies to help achieve corporate objectives*” (Kazmi 2002). James Higgins of

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**Fig. 1** A generic strategic management framework. *Source:* Fleisher and Bensoussan (2003)

Rollins College states that strategic management “*is the process of managing the pursuit of the organization’s mission while managing the relationship of the organization with its environment*” (Štefánik and Laššák 1994). In turn, Lesáková et al. (2001) defines strategic management as a process by which companies analyze their competitive environment to identify opportunities and threats. She also claims that strategic management is (1) a process of evaluation of companies’ own resources and skills to understand their strengths and weaknesses, and (2) a process of comparison and finding the intersection of these two analyses to choose the best strategy.

Fleisher and Bensoussan (2003) understand strategic management as a means of running an organization that has as its ultimate objective the development of values, managerial capabilities, organizational responsibilities, and administrative systems which link strategic and operational decision making, at all hierarchical levels, and across all lines of authority. This concept is illustrated in Fig. 1.

According to Dess et al. (2004), “*strategic management consists of the analysis, decisions and actions an organization undertakes in order to create and sustain competitive advantage*”. These authors have defined four key attributes of strategic management:

- management of the organization towards overall goals and objectives,
- the inclusion of multiple stakeholders in decision-making,
- the need to incorporate short-term and long-term perspectives,
- the recognition of trade-offs between efficiency (doing things right) and effectiveness (doing the right thing).

## 2 Strategy

The concept of strategy (from the Greek *Strategos*, a general) comes from military operations—such as the art and science of commanding army forces. Generally, strategy is the active implementation of any long-term plan to achieve specific goals.

Strategies are the means by which long-term objectives may be achieved. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures. Strategies are potential actions which require decision-making from top management as well as a substantial proportion of network or organizational resources. In addition, strategies affect an organization's long-term prosperity—typically for at least 5 years—and thus are future-oriented. Strategies have multifunctional or multidivisional consequences and require consideration of both the external and internal factors facing the network or organization (David 2011).

## 3 Levels of Strategy

Most academics classify strategies into three levels: corporate, business and functional (operational) (Fig. 2).

If an organization produced a single product or service, managers could develop a single strategic plan which covered everything undertaken by the organization. However, network organizations are in diverse lines of business. Each company within a network must define its own (corporate, business and functional) strategy, where the (overall, business and functional) network strategy is taken into account. Petry (2006) described the meaning of three levels of strategy for networks (Fig. 3).

### 3.1 Overall Network Strategy

Every network requires an individually tailored, clearly formulated overall network strategy in order to achieve success, and help the companies which are part of the network to prepare their own corporate strategies and to contribute to achieving the goals of the overall network strategy. This strategy contributes not only to the achievement of network goals, but also to the achievement of the individual goals of network members.

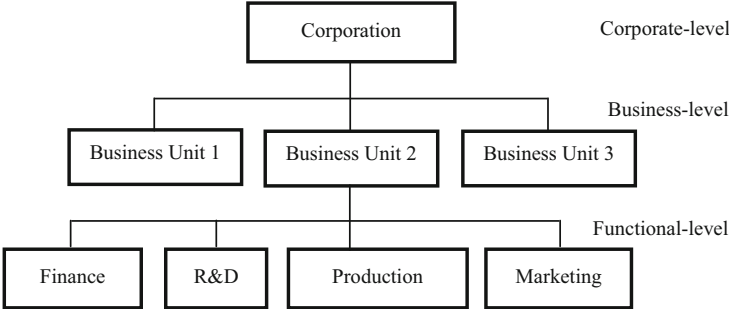


Fig. 2 Levels of strategy

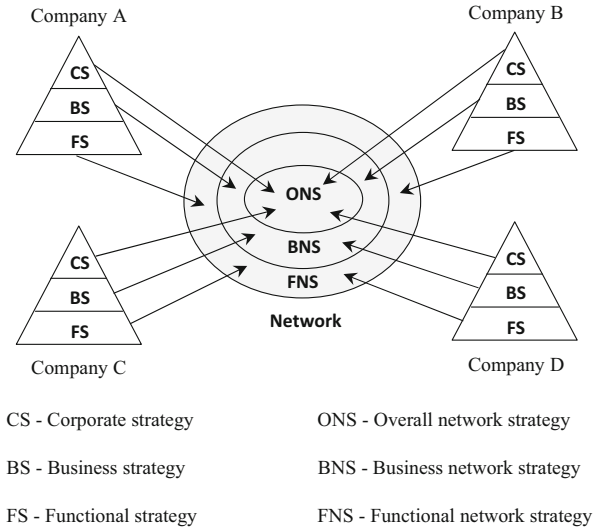


Fig. 3 Network strategy levels. Source: Petry (2006)

3.2 Corporate Strategy

If an organization deals in more than one type of business, it follows that a corporate-level strategy will be necessary. This strategy seeks to answer the question: *What business or businesses should we be in? or What business are we in?* Corporate-level strategy determines the roles which each business unit in the organization will play. Corporate-level strategy pertains to the organization as a whole and the combination of business units and product lines that make up the corporate entity. Strategic actions at this level usually relate to the acquisition of new businesses; additions or divestments of business units, plants, or product lines; and joint ventures with other corporations in new areas (Daft 2010).

### **3.3 Business Network Strategy**

Network strategy at the business level covers that which is related to the focus of the network as a whole. Every member of the network represents a single business or group of related businesses. Each will have its own unique mission, competitors, and strategy at the business level.

The concept of planning separate business units is based on the following principles:

- The network is managed as a ‘portfolio’ of businesses, each network member serving a clearly defined product and market segment with a clearly defined strategy at the business level;
- Each network member in the portfolio develops a strategy tailored to its capabilities and competitive needs yet remaining consistent with the overall network’s capabilities and needs;
- The total portfolio is managed to serve the interests of the network as a whole, to achieve balanced growth in sales, earnings, and asset mix at an acceptable and controlled level of risk.

### **3.4 Business Strategy**

Business-level strategy seeks to answer the question: *How should we compete in each of our businesses?* or *How do we compete?* For smaller organizations in only one line of business, or large organizations which have not yet diversified into different products or markets, the business-level strategy is typically the same as the organization’s corporate strategy. For organizations in multiple businesses, each division will have its own strategy which defines the products or services it will offer, the customers it wants to reach, and so on. Business-level strategy pertains to each business unit or product line. Strategic decisions at this level concern the amount of advertising, the direction and extent of research and development, product changes, new-product development, equipment and facilities, and expansion or contraction of product and service lines. Many companies have opened e-commerce units as part of a business-level strategy (Daft 2010).

### **3.5 Functional Network Strategy**

Strategy at this level deals with various functional areas of the network. Once again, we apply the same rule as with the higher levels, meaning that any strategy of the network members at the functional level must be based on functional network strategy.

### 3.6 Functional Strategy

Functional-level strategy seeks to answer the question: *How do we support the business-level strategy?* For organizations that have traditional functional departments such as manufacturing, marketing, human resources, research and development, and finance, these strategies need to support the business-level strategy. Functional-level strategy pertains to the major functional departments within the business unit. Functional strategies involve all the major functions, including finance, research and development, marketing, and manufacturing (Daft 2010).

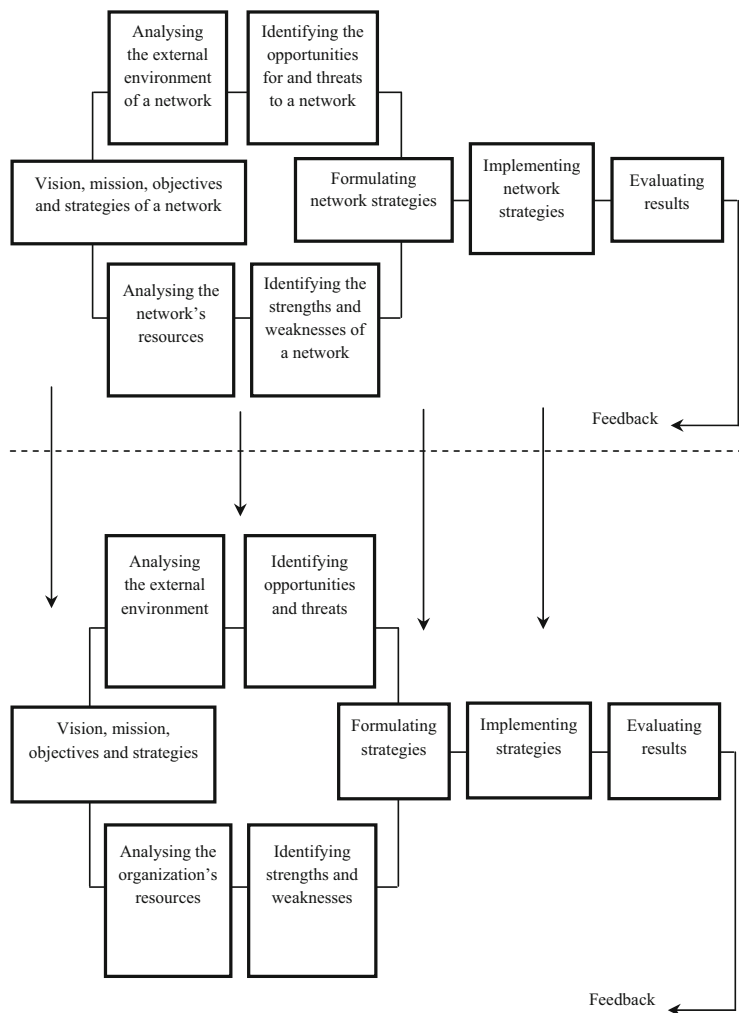
## 4 Strategic Management Process

The strategic management process, as illustrated in Fig. 4, is a process that encompasses strategic planning, implementation and evaluation. Although the first steps describe the planning which must be undertaken, implementation and evaluation are also significant. Even the best strategies may fail in such cases when management neglects to implement or evaluate them properly. At this stage, the various steps of the strategic management process are described in detail. The process of strategic management within an organization in the network differs in that the process must first take place at the network level before businesses gain access. Subsequently, the participation of a business in the network is taken into account at each step.

### 4.1 Step 1: Identifying the Current Vision, Mission, Objectives and Strategies of the Network or Organization

A mission statement is a key indicator of how a network or organization views the claims of its stakeholders, and represents the starting point of the strategic planning process. Although corporate mission statements vary, the most comprehensive include four main elements: namely, the mission, vision, values, and goals of a network or organization (Hill and Jones 2012).

A vision statement, in general terms, expresses a view of the future status of the network or organization; and is the starting point from which corporate objectives, strategy and other business activities are directed (Hittmár 1999). A vision statement should answer the basic question, “*What do we want to become?*” A clear vision statement provides the foundation for developing a comprehensive mission statement. Many organizations have both, but the vision statement should be established first and foremost. The vision statement should be short, preferably one sentence, and as many managers as possible should have input into developing the statement (David 2011). The vision of a company lays out some desired future

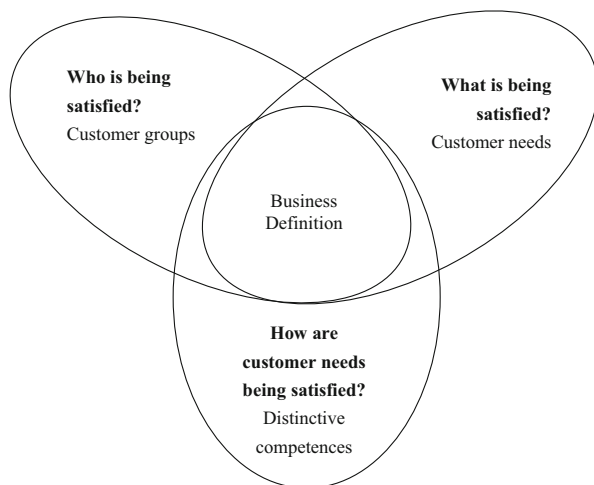


**Fig. 4** The strategic management process within a network

state—it articulates, often in bold terms, what the company would like to achieve. Good vision statements are meant to stretch a company by articulating some ambitious, yet attainable, future state that will help to motivate employees at all levels and drive strategies (Hill and Jones 2012).

Each network or organization requires a mission statement which defines its purpose and answers the question: *What is our reason for being in business?* The process of defining the network or organization’s mission forces management to carefully identify the scope of its products or services. When defining the mission of the whole network, it is of the utmost importance to take into account the direction of the individual network members. An important first step in the process of

**Fig. 5** Defining the business: the starting point of strategic planning.  
 Source: Abell (1980)



formulating a mission statement is to come up with a definition of the network's or organization's business. Essentially, the definition should answer these questions: “*What is our business? What will it be? What should it be?*” The responses guide the formulation of the mission. To answer the question, “What is our business?” a network or company should define its business in terms of three dimensions: *who is being satisfied* (what customer groups), *what is being satisfied* (what customer needs), and *how customers' needs are being satisfied* (by what skills, knowledge, or competencies). Figure 5 illustrates these dimensions (Hill and Jones 2012). It is also important for management to identify the objectives and strategies currently being utilized by the organization and the network alike. Objectives are the foundation of the planning process. A company's objectives provide measurable performance targets which workers strive to achieve. Knowing the company's current objectives gives managers a basis on which to decide whether or not these objectives need altering. For the same reasons, it is important for managers to identify the strategies currently in use.

## 4.2 Step 2: Analyzing the External Environment

The external environment is a primary constraint on the actions of a manager. Analyzing that environment is a crucial step in the strategic process, as a network's or organization's environment, to a large degree, defines the options available to management. A successful strategy will be one that aligns well with the environment. Managers in every network or organization need to analyze the environment. They need to know, for instance, what the competition is doing, what pending legislation might affect the network or organization, and the specifics pertaining to the labor supply situation in locations where it operates.