

CHARACTERISTICS OF BUSINESS NETWORKS AND THEIR ROLE FOR STRATEGIC COMPANY DEVELOPMENT

Anny Atanasova¹ Dilyana Yaneva²

Received: 10.10.2021, Accepted: 29.10.2021

Abstract

The processes of globalization and internationalization impose the need to change the traditional thinking and reorganize the strategic corporate governance. An important prerequisite for the strategic development of the modern organizations is the construction of flexible business network structures for intercompany interaction. In this regard, the purpose of the paper is to study the specifics of the business networks and on this basis to justify their role in the process of strategic corporate governance. In connection with the goal realization, the following tasks are solved in the article: presentation of the theoretical bases of the business network organizations; consideration of the development of the theory; identification of their main features; presentation of the network business structure as a system; argumentation of the importance of the business networks for the strategic company development.

Keywords: *business networks; network structures; strategic development; strategic management*

JEL Codes: *M0, M21*

1. Introduction

The constant intensification and complication of competition between the enterprises in the domestic and international markets is caused by the intensification of the processes of globalization in the field of the economy and the dynamically changing market conditions. In addition, as a result of the rapidly evolving processes of internationalization, the need for creativity in entrepreneurial business arises today (Kyurova, p. 356). Increasing the competitiveness of the small and medium enterprises is one of the prerequisites for surviving in the fierce competition and achieving business success.

On the basis of the economic models traditionally used in practice, these challenges cannot be effectively overcome. In order to adequately respond to the

¹ South-West University "Neofit Rilski", Blagoevgrad, Faculty of Economics, Chief assist. prof., aniatanasova@swu.bg; ORCID ID: [0000-0003-2926-5654](https://orcid.org/0000-0003-2926-5654)

² South-West University "Neofit Rilski", Blagoevgrad, Faculty of Economics, Assoc. prof., d_janeva@swu.bg; ORCID ID: [0000-0003-3472-4595](https://orcid.org/0000-0003-3472-4595)

ongoing dynamic changes and the new type of information technology environment in which the business develops, the application of new approaches is required. On the basis of the economic models traditionally used in practice, these challenges cannot be effectively overcome. In order to adequately respond to the ongoing dynamic changes and the new type of information technology environment in which the business develops, the application of new approaches is required. The competitiveness in the modern economy is based on the information, knowledge and innovation. They allow the business organizations to adapt to the ever-changing conditions. One of the prerequisites for its growth in the globalizing economy is the application of a new model of development. It is based on the interaction between the enterprises on the basis of common economic interests. Thus, network associations are created for carrying out joint economic activity (Atanasova, 2020, p. 6).

The beginning of the 21st century is characterized by the presence of the necessary conditions for the emergence of networked business organizations. This is also facilitated by Bulgaria's accession to and membership in the European Union, which provides an opportunity for the Bulgarian nation and economy to be included in a complex economic and legal system of regulations and adjustment mechanisms (Marin & Dimitrov, p. 221). There is an intensive integration into the global information society and building global competitiveness of business organizations.

The development of the network business organizations and organizational structures is determined by the increasing importance of the factor "time" and its transformation into a key factor for the competitiveness of the organizations (Andronov & Alexandrova, 2004).

2. Definition and characteristics of the network business structures

The network organizations are a new organizational form of business, which arises due to the need to apply coordination principles of inter-firm interaction. In this regard, V. Petrov mentions that the companies are reorienting from centrally coordinated hierarchical structures at multiple levels of traditional pyramidal type to more flexible network-type structures (Petrov, 2008).

J. Johanson and L.G. Mattsson look at the business networks in the context of industrial markets. According to them, the companies in the industrial markets are interconnected by long-term relationships. The two sides of the relationship are important to each other; they establish and develop complex inter-company information channels and social and technical connections with each other. The main internal relationships are more developed and stronger than the external ones. In addition, many of the external relationships are also important and long-term. The authors consider the relationships in the networks in the context of their importance for the functioning of industrial markets and the market strategies of the industrial companies (Johanson & Mattsson, 1988).

S. Rosenfeld's definition of the business networks in his book „Industrial strength strategies: regional business clusters and public policy“ defines them as groups of companies with limited membership and specific, often contractual, business goals related to achieving of financial benefits (Rosenfeld, 1995).

In his work „The competitive advantage of nations“, M. Porter examines the business networks in terms of their importance for the regional development. He reveals that well-functioning business networks contribute significantly to the regional development and they are determinants of nations' competitive advantage (Porter, 2004, p. 106).

Regarding the development of the network economy, K. Todorov (2000) points out that the network as a higher form of organizational design in its various dimensions appears because the traditional organizational structures and isolated companies can no longer cope with ever-increasing competition and globalization of the business activities. As an expression of the processes of hierarchy elimination and of process management perception, which have been going on for the last three decades, the networks of cooperative business organizations are a network business structure that accepts different configurations. It is fragile, flexible, adaptable and adapted to the consumer needs and market requirements (Cravens et al., 1997). Its members are independent and specialized and are connected by the process of resource allocation and the management potential of various relationships (Grigorova, 2018).

Strategic business networks are defined by Carlos Jarilo as flexible structures without centralized management of production activities. According to him, the networks can be used to position companies in strictly competitive positions. A characteristic feature of the networks is the possibility for the participants to compete with each other, to attract new partners and to place their goods independently, at the same time coordinating the joint activity (Jarilo, 1995). Intercompany networks are also considered by H. Torelli, who presents them as a bridge between markets and hierarchies (Torelli, 1986). The companies participating in the network operate in a complex environment in which the relations between them are manifested. He believes that the division of labor and the variety of missions lead to two conclusions:

First, in order to achieve its mission, the company must engage deeply and continuously in a battle for the necessary resources;

Secondly, for the sustainable development and stability of a network, a minimum of unanimity between the participants must be ensured, although a change in the field of activity is possible.

According to the same author, the struggle for the necessary resources for survival and development could transform conflicts and frictions in the internal network into cooperation (Torelli, 1986).

It can be said that the business network is a modern (though still insufficiently researched) higher form of organizational design, which is in constant motion.

Manufacturers, suppliers, sellers, customers and potential business participants can enter or leave the network especially when their overall goals change (Todorov, 2000). The cooperating companies in a business network are not bound by location, size, sector or number. They are open to new partnerships that help them to stay competitive.

To clarify the nature of the network business organizations, it is necessary to add some of their organizational parameters. They create a unified mission for all members of its structure, a common vision of the end results in the maintenance of synchronized and coordinated operations, as well as common goals and values (Andronov & Alexandrova, 2004). The independent role of the network structure members is combined with the voluntary pooling of the partnership efforts and the voluntary interconnection and interdependence between the members. The fact that network structures (most often cluster associations) are extremely flexible and that allow their member organizations to compete with each other, attract new partners and at the same time organize and coordinate the activities of their members in a common network, unites two opposing principle - competitiveness and cooperation. The challenge between companies is known as 'cooperation between competitors' or co-opetition. Getting the most out of the association is a common goal of the participants and this is done only due to the stakeholders through their commitment to the community, communication between the cooperative competitors, leadership and good experience, clear delineation of tasks and comprehensiveness of action (Atanasova & Vladov, 2014).

For the participants in the network business structure, the cooperation is not a goal, but a tool for achieving the goals. They tend to cooperate with their competitors to achieve goals that prove unattainable without the help of their direct rivals in the business. Facilitating relationships through the exchange of information, integration and optimization of processes is due to the Internet and mobile technologies, which increasingly create the need for companies to cooperate and at the same time continue to be competitors.

Brandenburger and Nalebuff (1996) pay close attention to the concept of co-creation through cooperation and competition. The neologism is used to represent the cooperation between competitors who can cooperate in order to create greater value for the business, which can be shared between them, and at the heart of this statement is "The Game Theory".

The main market participants (customers, suppliers, competitors and suppliers of complementary products and services) are an organized, systematized network for creating added value. Brandenburger and Nalebuff present the complementor as a competitor whose product is valued more when consumers own two competing products than if they own a product of only one of the competitors (Brandenburger & Nalebuff, 1996). The benefits for the entrepreneurs are based on the added value they

bring to others. The added value is equal to the difference between the total value with the entrepreneur and the total value without him.

Based on the statement that a key prerequisite for the successful implementation of modern business is the understanding and study of the consumer behavior (Yaneva, 2013), we must add that the assessment of the added value is made only if the company can put in the place of the user. Theorists advise going beyond the "box" or consciousness, where goods are created and the entrepreneurs evaluate themselves. Moreover, according to Palamarova and Vassilev, business networks provide an opportunity to enter new markets and market segments and the goal is to build a strong brand that will ensure successful positioning among stakeholders and at the same time attract new members (Palamarova & Vassilev, 2017).

In connection with building a clearer idea of the business networks nature, we consider that it is necessary to summarize their main characteristics.

First, it needs to be clarified that in terms of their development prospects, the business networks only pursue business goals (Rosenfeld, 1995). It is very important to determining their location. It should be borne in mind that the business networks can be built in different territories and the way of building is voluntary and the inclusion is based on a contract between the participants. Relationships between them are based on both cooperation and competition. In this regard, Jarilo clarified that the entrepreneurial networks enable the companies included in them to maintain their competitive advantages over non-networked companies. At the same time, the organizational and managerial interactions in the network are carried out mostly by the management of a company - a leader, chosen by consensus, which has the task of coordinating plans and current activities and organizing information exchange (Jarilo, 1995). The relations with companies and other organizations outside the union should not be neglected either.

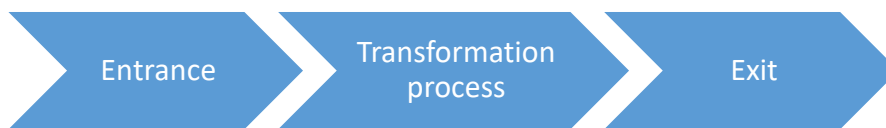
3. The network business structure as a system

Madgerova and Karashtranova maintain that the system is defined in time and space a set of elements with known properties, forming a single whole and located in certain relationships and established relationships with each other, which is designed to achieve certain goals (Madgerova, Karashtranova et al., 2012). On this basis, we must note that it is important for the development of business networks to apply a systematic approach to their formation, operation and management.

We believe that the systems approach helps to analyze the objective reality, the characteristics of the systems and their structure. According to Bertalanffy, considered its founder, it is defined as a set of certain principles and methods for studying objects as a system that unites in a whole set of interconnected elements (Bertalanffy, 1951). In this approach, the elements, internal and external connections affect the functioning of the system, as the goals of each element are formed depending on the overall

importance of the system. The simplest model of a system is the transformation model, which can be represented as follows:

Figure 1. Transformation model of the system elements



Source: adapted from Atanasova, A. (2020). Cluster integration to increase the competitiveness of the small and medium enterprises, Neofit Rilski Publishing House, Blagoevgrad

The main characteristics of the system can be reduced to the following:

- it is a set of components connected together in an organized way;
- the components are affected by being in the system and the behavior of the system is affected if any of the components leaves it;
- this organized set of components does something;
- this set is of interest to someone (Atanasova, 2020, pp. 42-43).

Based on the above, it can be concluded that the network systems reflect the relationship between the components of the internal environment and the factors of the external environment for the organization. Formation of the networks with their specific network connections is aimed at achieving organizational goals in accordance with the needs and expectations of the partners and the economic situation. The network systems are equally applicable as systems for internal organizational cooperation and for cooperation between individual organizations and groups of organizations (Andronov & Alexandrova, 2004).

4. The business networks as an important prerequisite for strategic company development

As it turned out, some researchers define business networks as a form of inter-firm cooperation that allows companies located in different regions or countries to cooperate on the basis of common development goals expressed in a cooperation agreement. Companies decide to join with their strengths, share information and create synergies to become more innovative and competitive in the domestic and international market. At the same time, they retain their autonomy and do not create a separate legal entity. The main advantage is that this model of cooperation is suitable for any type of business or sector. In today's network economy, the joint creation of added value through cooperation and competition is a powerful tool for identifying

new market opportunities and developing business strategies. This, in turn, is the basis of the strategic management. In line of this, Ivanov and Usheva (2021), proved a significant interdependency between various work outcomes. Therefore, underling the importance of applying the strategies on the work place (Ivanov & Usheva, 2021, p. 93-94).

The need for strategic management and marketing decisions with its long-term orientation correlates with the achievement of the company goals by creating certain conditions and attracting the necessary resources. The researchers of the networked business organizations argue that the mutual interest of the organization's members is transformed in the pursuit of joint cooperation in order to achieve results that would be difficult to achieve by each company individually. In this regard, we will emphasize that the company synergy is obtained as a result of the interaction of the different parts of the organization. The concept of synergy relies mainly on the positive effect that is obtained in each organization, thanks to the common support activities. The aim is to increase the efficiency of the company in unstable external conditions and to make it more resistant to economic and other changes. In this case, a synergistic effect is observed in the business network, i.e. the results of the aggregate actions in the network business structure have a higher effect than that of the sum of the individual enterprises. Synergism is a subject of great attention of the managers, as the cumulative positive effect ($2 + 2 = 5$) significantly increases the overall results of the various business corporations compared to the level of efficiency of each of them individually (Campbell & Luchs, 2004, p. 11). It includes suppliers, customers, developers, third party distributors and others. These third parties usually have a good reason to maintain the network and remain active in it. Recognition of their interdependence motivates all the members of the business network to share information and cooperate. In this way, they are much more interested in contributing to the improvement of the final product, rather than simply fulfilling their contractual commitments (Petrov, 2008, p. 323). Moreover, Kyurova and Kiryakova-Dineva (2019, p. 361) maintain the thesis that a successful business partnership depends to a large extent on the effective implementation of the business communication between professionals from different countries. In this regard, other lines of analysis can be found, such as the state of the issues under consideration against the background of communications and intercultural dialogue between the business representatives of different nationalities (Kiryakova-Dineva & Chankova, 2021). Based on the well-developed and balanced relationships and communications, the company's potential is increased and a competitive advantage is built. This favors the permanent stabilization of the company's competitive position in the market.

According to Bogdanova and Tsvetanova (2012, p. 200), the communication between the participants in the business network is a source of uncodified (tacit) knowledge, a result of accumulated experience and its sharing in the closest environment, i. e. in terms of the social contacts, not the formal relationships. This in

turn favors the development of the innovation systems by making reliable innovative decisions (Bogdanova & Tsvetanova, 2012, p. 212). Filipova and Yuleva maintain the thesis that through their partnership with other businesses, the innovation activity and strategic development increase (2020, p. 461).

Based on the voluntary principle on which the network structures are built, a higher degree of engagement is observed. Unlike the other structures, in the networks the division of labor and power is based on the knowledge and competence (Hadjiev, 2017, p. 158). Thus, through the use of experience, the additional value is created through the cooperation. This facilitates the sharing of the assets by the all participants in the value chain (Petrov, 2008, p. 323).

As Johanson and Mattsson (1988) point out, the external relationships are important for the network development, for the formation of industrial markets, and for the marketing strategies of the network firms. Business chains make it easier for companies with the same subject of activity to join the complex business. However, they do not generate demand for more companies with similar or related activities such as clusters. In interaction with companies outside the union, business networks attract the necessary specialized services in the region. Thus, they create conditions for the companies' development providing specialized services. This creates preconditions for increasing the competitiveness of the local market, economic growth and regional development.

At the same time, the business networks are an important prerequisite for adapting to the growing and dynamic requirements of the market. Facilitating communication and effective interaction with the consumers leads to a fuller satisfaction of the consumer tastes and needs, which is one of the main directions of the strategic marketing management.

There are some advantages that distinguish the network business structures from typical economic models. In this regard, we will emphasize that the processes and operations are standardized. The concentration of the economic activity of the organization on priority areas of specialization or on unique business processes increases. There is a positive trend of significant reduction of costs, rationalization of their structure and increase in revenues, as well as optimization of the work process and the workforce.

5. Conclusion and Recommendations

The rapid change of the modern economic relations imposes the need to search new ways to adapt the business to the modern market conditions. A new look at the competitive relationships is established. They grow into inter-company cooperation and collective commitment. At the same time, the relationships and trust with stakeholders are being strengthened. This lays the foundations for the emergence of the networked business organizations, which play a key role in strategic corporate development.

In this regard, the authors' research has unlocked new scientific directions for study on the topic of future scientific contributions, such as problems in identifying individual business structures - clusters, alliances, consortia, virtual business networks, joint ventures, etc., as well as problems related to the organization and management of the networks, coordination and interconnections between the enterprises on the occasion of their operation.

REFERENCES

- Andronov, E. & Alexandrova, M. (2004). Network organizations - nature, problems and prospects for development, *Management and sustainable development*, (11), 3-4, 10-14. http://oldweb.ltu.bg/jmsd/files/articles/11/11-01_E_Andronov_M_Alexandrova.pdf
- Atanasova, A. (2020). *Cluster integration increasing the small and medium-sized enterprises competitiveness' in Bulgaria*. University press. Neofit Rilski, Blagoevgrad, 243
- Atanasova, A. & Vladov, R. (2014). Co-creation of value through the exchange of personnel within the cluster association of corporate IT sector, *Eleventh International Conference "Smart specialization of Bulgaria"*. IBSEU, Sofia, Bulgaria, 155 – 168. https://ibsedu.bg/media/Conference/2014/_2014_1.pdf
- Bertalanffy, L. (1951). General system theory - A new approach to unity of science (Symposium), *Human Biology*, 23 (4), 303-361.
- Bogdanova, M. & Tsvetanova, E. (2012). The network approach in the regional innovation systems' research. *Dialog extraordinary thematic II*. https://www2.uni-svishtov.bg/dialog_old/2012/INI/38-statia-2011.pdf
- Brandenburger, A.M. & Nalebuff, B.J. (1996). *Co-opetition*, Harper Collins Business, Hammersmith, London, UK.
- Campbell, A., & Luchs, K. S. (Eds.). (1997). *Core competency-based strategy*. Cengage Learning Business Press.
- Cravens, D., Greenley, G., Piercy N., Slater St. (1997). Integrating contemporary strategic management perspectives. *Long Range Planning*, 30 (4), 502. [https://doi.org/10.1016/S0024-6301\(97\)00029-0](https://doi.org/10.1016/S0024-6301(97)00029-0)
- Filipova, M. & Yuleva-Chuchulayna, R. (2020, Julio/Septiembre) Innovation projects as a factor for strategic development of small and medium - sized enterprises, *Revista Inclusiones*, 7, № Especial, ISSN 0719-4706, 461-476.
- Grigorova, V. (2018). *Business networks and their integration flexibility*, available at 10.09.2021 <https://financebg.com/%d0%b1%d0%b8%d0%b7%d0%bd%d0%b5%d1%81-%d0%bc%d1%80%d0%b5%d0%b6%d0%b8%d1%82%d0%b5-%d0%b8-%d1%82%d1%8f%d1%85%d0%bd%d0%b0%d1%82%d0%b0-%d0%b8%d0%bd%d1%82%d0%b5%d0%b3%d1%80%d0%b0%d1%86%d0%b8%d0%be%d0%bd/>
- Hadjiev, K. (2017). Evolution of organizational-structural models in management. *Authority, governance and societal development: Global, regional and national perspectives:*

- Internation*. NBU, Sofia, 148-160. ISBN 9786192330071
http://eprints.nbu.bg/3441/1/doklad_organizational_structure_last_12_08_2017%20%281%29.pdf
- Ivanov, P. & Usheva, M. (2021). Workplace outcomes, the example of Bulgarian corporations, *Ekonomicko-manazerske spektrum*, 15(1), 84-96. DOI: 10.26552/ems.2021.1.84-96
- Jarillo, C. (1995) *Strategic networks*, 1st edition, Routledge, ISBN 9780750623278, 192.
- Johanson, J. & Mattsson, L.G. (1988). *Internationalization in Industrial Systems—A Network Approach*. In: Hood, N. and Vahlne, J., Eds., *Strategies in Global Competition*, Croom Helm, New York.
- Kiryakova-Dineva, T. & Chankova, Y. (2021). *Intercultural Dialogue as a Tool for Maintaining Sustainable Partnerships in Tourism*, in: Filipa Brandão, Zélia Breda, Rui Costa and Carlos Costa: *Handbook of Research on the Role of Tourism in Achieving Sustainable Development Goals*, IGI Global, 282-299. doi: 10.4018/978-1-7998-5691-7.ch017, ISBN13: 9781799856917
- Kyurova, V. (2020, Abril/Junio). Study on the creativity of the entrepreneurial business, *Revista Inclusiones*, 7, num Especial, ISSN 0719-4706, 355-366.
- Kyurova, V. & Kiryakova – Dineva, T. (2019). Sustainability in the business environment through intercultural dialogue. *CBU International Conference Proceedings*, 7, <https://doi.org/10.12955/cbup.v7.1482>, 360-369.
- Madgerova, R., Karashtranova, E. at all. (2012). *Organization and management of small business*, ed. Langov, 97.
- Marin, N. & Dimitrov, P. (2018). Economic Effects of the Membership of the Republic of Bulgaria in the European Union, *Kutafin University Law Review*, 5 (1), 209-221. <https://doi.org/10.17803/2313-5395.2018.1.9.209-221>
- Palamarova, P. & Vassilev, D. (2017). Strategies for building a corporate digital brand in a business network, *Marketing - experience and prospects*, ed. Science and Economics, University of Economics, Varna, 585.
- Petrov, V. (2008). Application of network organizational structure in the construction enterprise - a prerequisite for its sustainable development, *Management and sustainable development*, 1 (19), 323. http://oldweb.ltu.bg/jmsd/files/articles/19/19-51_V_Petrov.pdf
- Porter, M. E. (1990). *The Competitive Advantage of Nations*, London: Macmillan.
- Rosenfeld, S.A. (1995). *Industrial Strength Strategies: Regional Business Clusters and Public Policy*, Washington DC, Aspen Institute.
- Thorelli, H.B. (1986). Networks: Between Markets and Hierarchies, *Strategic Management Journal*, 7, 39-40.
- Todorov, K. (2000) (red.). *Basics of the small business*. Sofia, Trakiya-M, p. 280. ISBN 9549574563
- Yaneva, D. (2013). Assessment of the factors forming the consumer behavior in cultural tourism. *International Scientific Conference “Cultural corridor Via Diagonalis – cultural tourism without boundaries”*, Sofia – Bulgaria, Belgrade – Serbia.