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NETWORK ENVIRONMENT OF BUSINESS ACTIVITY

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Abstract

This research is devoted to the problems of determining the network context of business activity. Network forms of combining business structures allow to spread technologies and knowledge, develop innovations and improve the competitiveness of organizations in the modern economy. The economic sense of networked forms of business association is that their development increases incomes and reduces costs, including transaction costs, related to the coordination of joint activities of network partners, replacing contracts and other formal bureaucratic procedures with informal relations based on trust, generally accepted rules, standards, ethics of behavior, social and cultural norms. As a result of forming network links with all stakeholders, optimal conditions for information exchange, resource saving, reputation formation, increasing the efficiency of using own resources of enterprises or providing them with access to the resources and activities of other market participants are created. The entrepreneur's ability to effectively manage relationships with suppliers, buyers and competitors, which are the main stakeholders of the company, forms the key functions of network forms of business association. As a rule, the network context is formed within the external environment of a first level company or covers that part of the environment that its participants consider important for its activities.

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Keywords: Business activity, network context, network environment, networked forms.



1. Introduction

The second decade of XXI century is characterized by rapid development of network forms of association business organizations in most economic activities such as industry, agriculture, internet, science, technology and innovation, services and many others (Asaul, Skumatov, & Lokteeva, 2004; Kolomeyzev & Shipunova, 2017).

Currently, the network approach is widely used in organization theory, industrial and service marketing, supply chain management, as well as a research of relations between market participants at the level of different groups or companies, industries, etc.

The network approach was developed in the 1970s by an international group of European researchers - members of the Industrial Marketing and Purchasing Group (IMP) from Germany, France, Italy, Sweden and the United Kingdom (Ford et al., 2000). Among them, Håkansson H., etc. (Håkansson and Johanson, 1992). The list of founders of network approach also included Anderson & Johanson (Anderson, Håkansson, & Johanson, 1994). The conceptual theory of marketing relationships was developed more deeply in 1980s in the studies of Scandinavian school of service marketing, as well as in the works of representatives of the North American and Anglo-Australian schools of marketing relationships such as Achrol and Kotler (1999), Webster (1997) and others.

At the end of twentieth century, a heated debate was an issue of whether the network approach of the new methodology, the study of the industrial markets, or an alternative form of organization of economic activity, which has excellent attributes of the hierarchical structure of the market (Gumerov, 2013).

The globalization of economy was a prerequisite for studies of the value chain management system and global commodity chains at the international level in the works of Porter (1985).

One of the first theorists of organizational behaviour, Barnard (1968), pointed out that in any sufficiently complete theory of organization communication takes center stage. Because of the structure, size and scale of activities of the organizations is almost entirely determined by the means of communication.

Katz and Kahn (1996) emphasized that communication is a social process that has the major importance for the functioning of any group, organization or society and defines the essence of the social system or organization.

Williamson (2009) shows the reasons for the emergence of networks to be connected with the need to reduce costs when making deals. Oliver Williamson (2009), the Nobel laureate of 2009 defined the institutional environment as a set of rules that define the context of the economic activity.

Torelli and Shavitt (2010) linked the emergence of networks with the socio-psychological aspects of activity - trust, reputation.

Jarillo (1989) marked the role of strategic cooperation between entrepreneurs as a factor of providing competitive advantages.

Patyurel R. believed that modern management techniques have become the main cause of networks (Yungblyudt, 2007).

Network forms of business associations described by synergetic positions as complexly evolving system, where market participants seek to cooperate with other members of the network to achieve common goals (Popova, 2009).

Special attention should be brought to summarizing the most significant results of research on the identification of the communication component of the institutional business environment in the context of the network.

North and Davis in 1971 interpreted the institutional environment as a set of basic political, social and legal rules governing the activities of economic subjects, predetermining range of options in order to maximize the distribution activity or production. This interpretation is fully consistent with the problem of identification of the institutional environment of business network organization governed by an identical set of regulations.

The institutional environment and its limited framework form an effective competitive economic device of enterprise networks, providing the maintenance of balance and adaptation of the system.

Another authoritative American scientist Klein (1998) believed that the institutional environment forms are the framework of the functioning of the individual. This statement is the best description of communication aspect in the institutional business environment.

However, the above studies do not consider the changes in the institutional environment of entrepreneurship in the context of new information and communication technologies (Evseeva et al., 2017). Institutes of the entrepreneurship development complement each other, so when any system changes happen, expected economic effect in a particular institutional environment depends on the adaptability of its elements to constant changes (Vasileva, 2017).

2. Problem Statement

The review of the problems of the formation and the functioning of the network organization form shows that objective conditions for the emergence of enterprise networks reflect the entire spectrum of dynamics in modern society.

3. Research Questions

1. The analysis of scientific literature on the problem of network forms of business organization.
2. Formulation of the basic principles of the entrepreneurial networks formation.
3. Identification of sustainable development tendencies in the communication component of the institutional environment of network forms in association business structures.
4. Justification of the economic importance of network forms in business associations.
5. Identification of advantages and weaknesses in the development of enterprise networks.
6. Identification of the integrated forms in business, created by the process of network development.

4. Purpose of the Study

The main purpose of the study is to approve benefits of communication approach in the research on the network forms of business activities in the process of their emergence and functioning.

5. Research Methods

- 5.1. Desk research.
- 5.2. Analysis of scientific literature.

6. Findings

The result of analyzing scientific literature on the problem of network forms in business organization can be considered the identification of three basic approaches to the study of their origin and functioning:

- The mathematical approach involves considering the network as an interpreted graph. Mathematical deterministic methods are universal and can be used to calculate parameters and optimize the network, but they can't disclose the nature and features of the network form of business organization.
- The communication approach identifies networks with communications. A person is considered as a member of a multitude of formal and informal organizations in which his personal qualities and communications determine the organizational structure.
- A specifically pragmatic approach links networks with the entrepreneur's motivations and elements of economic operations.
- From a system approach point of view, the network forms of interaction of business structures in the economy are hierarchical, organizational and informational in nature between the network participants and reduce their level of influence on the effectiveness of the activity. Networks provide technical, technological and industrial compatibility of production processes, a combination of consolidation of efforts and resources of network participants in priority areas of activity while maintaining market competitive relations between them in other areas of activity, the optimal combination of consecutive and parallel processes and operations.
- Process approach to the study of the formation of enterprise networks involves consideration of such phases, as: integration, division, separation and conversion, but the fundamental premise networks forming process serves, striving to income and constant increase.

The main principles of enterprise networks formation are:

- active position of business entities with the ability of participants to self-organization;
- conventional isolation of the network and its identification in the market;
- the existence of economic benefits;
- full or partial removal of barriers interaction hierarchical, organizational, character information between network members or reducing their impact on efficiency;

- provision of technical, technological and production compatibility of production processes, etc.

The communication component of network forms of association business structures institutional environment characterized by a number of stable trends, such as:

- the rapid development of information communications, due to the multiplier effect of the network of associations;
- the huge growth of mobile apps, bookings, purchases of goods and services delivery, virtual tours, navigation systems etc.;
- the emergence of new information services;
- collaboration of international payment systems to networks of enterprises in the various customer loyalty programs;
- bloggers popularization activities and increase the authority of "unofficial" information that consumers often rely to a greater extent than the "official";
- acceleration of the information transfer rate to prevent threats to life, health, safety and improving the quality of goods and services.

The economic sense of networked forms of business association is that their development increases incomes and reduces costs, including transaction costs, related to the coordination of joint activities of network partners, replacing contracts and other formal bureaucratic procedures with informal relations based on trust, generally accepted rules, standards, ethics of behavior, social and cultural norms.

As a result of forming network links with all stakeholders, optimal conditions for information exchange, resource saving, reputation formation, increasing the efficiency of using own resources of enterprises or providing them with access to the resources and activities of other market participants are created.

The entrepreneur's ability to effectively manage relationships with suppliers, buyers and competitors, which are the main stakeholders of the company, forms the key functions of network forms of business association.

As a rule, the network context is formed within the external environment of the company of the first level or covers that part of the environment that its participants consider important for its activities.

The following advantages are stimulating for the development of enterprise networks:

- reduction of transaction costs and risk as a result of increased confidence;
- increasing the innovation potential of regions and the possibility of their mutual adaptation strategies in the process of interaction and mutual knowledge of the needs;
- access to new technology, market expansion as a result of the intensification of information stream;
- flexibility, receptivity to innovation and business focus on the end user;
- commitment to provide access to resources controlled by other market participants;
- optimization of production and economic relations and contacts;

- coordination of plans of industrial and economic activities in the framework of close cooperation;
- organization of joint collective centers of consulting, marketing, business plan development, etc.
- minimization of costs for the interaction processes of network participants;
- joint implementation of business projects;
- increased opportunities to attract investment;
- collective marketing activities and increasing the availability of information;
- improving the competitiveness of products and the network as a whole;
- improving the mechanisms of interaction with public authorities at the municipal, regional and federal level;
- creation of favorable conditions for changing the concentration of business resources of all kinds;
- improving the quality of decision-making through joint discussion of problems;
- timely warning of crises and improve the use of reserves;
- maximizing the effectiveness of business results;
- the possibility of carrying out research and innovation activities;

The negative consequences of building relationships on the basis of network include:

- the growth of monopolism and the reduction of competition in the market;
- reduction of short-term efficiency, related to the contradiction between individual and collective goals;
- reduction in the efficiency of networking participants and slower decision-making process when it is over-extension;
- increasing dependence, limiting the actions of individual entities and in the future the company's loss of independence
- reduction control flexibility due to the formation of close links and collective character of the power;
- dependence on hired business managers, leading to an increase in risk associated with the flow of highly skilled personnel;
- blurring the boundaries between organizations at the expense of complicating the relations between members of the network;
- increase transaction costs as a result of investment in maintenance and development of inter-firm relationships that may be ineffective;
- risk disclosure containing commercial secrets, when disbanding the network.

Network forms of business have become the basis of formation of a number of integrated forms presented in Table 01.

Table 01. Integrated forms of network forms of business

Integration factors	Forms of association
Production and technology	Cooperation, rent, franchising, leasing, outsourcing, subcontracting
Organization and management	Cartels, syndicates and trusts, holding companies, concerns, consortiums, financial and industrial groups
Finances	Associations, business companies, public and state corporations
Economic and legal regulation	Clusters, contractual associations, unions, alliances, self-regulating organizations, special economic zones
Education and culture	Conferences, seminars, exhibitions, presentations
Innovations	Science cities, innovative clusters, techno parks, technopolises
Globalization	Joint ventures, transnational corporations, concessions, free economic zones

Network forms of business activities depending on the dynamics of integration factors can make flexible and cost-effective form, so the integrated forms shown in the table are constantly transformed.

7. Conclusion

The coordinated actions of network participants play a key role in the network approach, enabling the identification of common problems, to join efforts to address them in order to achieve results that exceed those that the company could achieve by acting independently on the market.

The communication component of the institutional environment of network forms of association business organizations include information and communication technologies, such as automated information systems, mobile apps, official websites, social media, etc.

In today's information society, in addition to physical and legal entities, business network elements are informal social groups, economic and legal relations, operation of the network technology, the territorial governments, information and communication.

Multiplier effect of business associations determines the institutional environment for their development, as the totality of the subjects and objects of business and communications arising between them in the process of production and consumption. The system of these relationships forms the institutional factors of the development of one enterprise in close relationship with others.

The main trends in the development of network structures in global business are:

- radical changes at the same time in many sectors of the economy, leading to an increase in their number and variety of species;
- the innovative role of enterprise networks;
- intensification of planned bases and program-target methods of creation and functioning of business networks;

- reorientation from centralized multi-level structures of hierarchical type (pyramids) to the creation of more flexible structures with horizontal relations;
- the creation of on-net local markets;
- increasing integration of business networks with other types: marketing, sales, information, etc.

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