

Is there any hope? The idea of strategy in business networks

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Abstract

This paper explores some of the implications for the idea of business strategy of the networks of interlocking interdependencies which comprise the business landscape. The paper proposes a framework for analysing the strategic situations facing companies in business networks and for developing business strategy within them. The central message of the paper is that in the complex networks in which companies operate, business strategy cannot realistically be regarded as an individual-company activity.

The paper argues that in these circumstances, strategy is more usefully conceived of as a matrix of interdependencies that connects the structure and process of a network and that confronts the existing with the evolving.

This structure and process provide an array of evolving possibilities for the choices of any one actor and others, whether they are suppliers, customers, competitors or development partners.

The paper argues that the strategy of a single company can usefully be interpreted as part of the process of interaction through which the company and others confront aspects of the status quo with new evolving possibilities, whilst conforming to other existing patterns within the network.

Keywords: Business strategy, network, interdependencies, interaction, relationships.

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1. Introduction

It is commonly asserted that behind every successful company there is a superior strategy. This conventional view of sound strategy is based on core theoretical constructs such as corporate direction, strategic leadership, competition and industry analysis (Porter, 1996; Pettigrew and Wittington, 2002; Grant, 2002). But the idea that sound strategy is the key ingredient in corporate success infers that companies are independent, proactive organizations that are complete in themselves and that are able to develop and to implement their own strategy. But empirical observation seems to show that companies are not independent. Instead they seem to be enmeshed in networks of complex interlocking interde-

pendencies with each other (Axelsson, 1992; Gnyawali and Madhavan, 2001; Gadde, Huemer and Håkansson 2003; Mouzas, 2006a; Ford and Håkansson, 2006).

In this paper we explore some of the implications of these networks of interlocking interdependencies for the idea of business strategy. The paper then proposes a framework for analysing the strategic situations facing companies in business networks and for developing business strategy within them.

The central message of the paper is that in the complex networks in which companies operate, business strategy cannot realistically be regarded as an individual-company activity. We argue that in these circumstances,

strategy is more usefully conceived of as a matrix of interdependencies that connects the structure and process of a network and that confronts the existing with the evolving. Network structure and process are the vehicles for implementing strategy as well as the source of that strategy. This structure and process provide an array of evolving possibilities for the choices of any one actor and others, whether they are suppliers, customers, competitors or development partners. For example, a producer of consumer non-durable products is embedded in a structure of inter-dependence with suppliers of raw materials and packaging, with distribution companies, food researchers, grocery retailers, consumers and others. Through a process of continuous interaction each of these actors continuously discovers some of the evolution that is likely or possible in the surrounding network. Each actor may consider what evolution it would or would not want, what that evolution would depend on and which other actors it would involve. In these circumstances the evolution of a single company's strategy within a complex network is both facilitated and constrained by the evolution of the network as a whole.

Thus, the strategy of a single company can be interpreted as part of the process of interaction through which the company and others confront aspects of the status quo with new evolving possibilities, whilst conforming to other existing patterns within the network. For example, a retailer and a manufacturer may seek to develop new products with each other. This aim may mean that the retailer is less able to work closely with other manufacturers that in turn may reduce their financial and advertising support to it and may seek developments with a competing retailer. The manufacturer's new-product cooperation with the retailer may lead it to collaborate with a willing packaging supplier. But that collaboration may conflict with the intentions of a raw material supplier on which the companies have previously depended. The raw material supplier's unhappiness may lead the manufacturer to try to develop new relationships directly with companies that had previously been suppliers to the unwilling raw-material supplier. All of the companies involved in these strategic intents and the reactions to them will be based

on the actors need to access resources and skills that can only be obtained through relationships with other companies in the surrounding network. In this way the strategic intent of any one company is mediated through the network. Hence, the outcomes for any one actor are less the result of its individualistic strategy and more the result of multiple interaction and interpretation by many companies.

2. A view of business networks

It is important to establish initially that this paper is based on a view of business networks that has developed within the IMP Tradition¹. This view can be summarised as follows:

- *Structure:* A business network is comprised of an evolving structure of relationships and interdependencies between actors² that pre-exists the entry to it of any single company or other actor (Ritter, 2000; Ritter and Gemunden, 2003). This structure of relationships and interdependencies provide the dynamic context within which a company operates and which it influences. A business network has no identifiable boundary (Araujo, Dubois and Gadde, 2003). It is not limited to those other actors with which any one actor has contact or knows of or has a relationship with or appears to influence or be influenced by. A business network can have no centre, nor is it the creation of, nor can it be owned or controlled by any one actor.
- *Process:* The process that takes place within a business network is that of multi-lateral interaction, both conscious and unconscious between individually significant actors (Håkansson et al, 1982, Håkansson and Ford, 2002).

This IMP idea of business networks is intended to encompass the reality of multifarious but related interdependencies and interactions. These affect any single actor at a particular time, whether directly or indirectly and limit the actor's ability to comprehend or influence them.

This view of networks is rather different from that taken in much of the strategic management literature.

¹See impgroup.org

²We use the term 'actor' to refer to those in the network including 'actor firms', government bodies, trade organisations, universities and developers etc. For the purposes of some analysis the relevant actors will be individuals or subgroups.

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