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## Network myopia: An empirical study of network perception

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### ABSTRACT

The purpose of the paper is to examine the perception of network surroundings by managers. We scrutinize a random sample of 305 Polish logistics services firms in order to capture the managers' perception of direct and indirect relationships. We have identified a network myopia phenomenon, that is a narrow view of relevant actors and relationships in the firm's network environment. Our data suggest that managers rate vertical relationships along the supply chain much higher as compared to the value network, and direct relationships much higher as compared to indirect ones. We find support for the concern expressed in previous studies that managers may be narrowing the number and diversity of relevant actors to manageable levels, making their extended network largely invisible. We substantiate the gap arising from the managers' network perception insofar as exploiting the potential of network strategies is concerned. This may undermine the capability to see prospective partners, the benefits of establishing diverse relationships, and the opportunities embedded in networks. This study extends earlier research on network pictures by better understanding the views of network surroundings by involved actors.

### 1. Introduction

The interdependence of firms (Håkanson & Snehota, 1989), their embeddedness in social relationships (Uzzi, 1997), and networks' importance for firm performance have long been recognized in the literature (Zaheer & Bell, 2005). Networks are structures that convey information in markets (Granovetter, 1973), provide a competitive advantage to some actors over others (Burt, 1992), and offer opportunities otherwise unavailable (Möller & Halinen, 1999). The network perspective sees markets as business networks, where business units or firms are represented by nodes, and long-term complex interactions between them are represented by links (Håkansson & Ford, 2002).

Researchers have identified structural advantages that are accessible for firms given their position within business networks (Koka & Prescott, 2008), the relational privileges firms may enjoy with their partners (Hatch & Dyer, 2004), or their capacity to benefit from access to resources owned by other firms (Gulati, Nohria, & Zaheer, 2000). Network research has gained an identity on its own, forming a paradigm useful in explaining a wide range of outcome variables relevant in management (Borgatti & Foster, 2003).

Academic interest in the prerequisites of business (Dhanaraj, 2007), or strategic (Möller, Rajala, & Svahn, 2005) networks' successful exploitation is much more recent. From a resource based perspective firms differ in their capability to shape and exploit networks (Mitrega,

Forkmann, Ramos, & Henneberg, 2012), to the extent that their capability to leverage networks has been identified as distinctive (Capaldo, 2007). This view may be further developed by incorporating various types of partners into the scope of attention, thus extending the vertical supply chain dimension, and the horizontal alliances with competitors dimension, into a comprehensive value network (Nalebuff & Brandenburger, 1997). Value networks involve partnering with complementors who increase the value of the firm's product to customers with complementary offerings.

If firms seek increased market (Anderson, Forsgren, & Holm, 2002), innovation (Tsai, 2009) and financial (Gulati et al., 2000) performance, they need to develop network specific capabilities. One such critical capability refers to management skills and competencies in developing valid views of networks and their potential evolution, a condition to perceive the opportunities embedded in networks (Möller & Halinen, 1999). We adopt a cognition perspective, recognizing the fundamental challenge that managers face, relative to information complexity, ambiguity and munificence (Walsh, 1995). In order to meet this challenge managers develop knowledge frameworks that represent their perception of the environment, facilitate information processing and decision making. It is necessary that managers perceive their network environment as a source of strategic options (Colville & Pye, 2010). Network pictures are a central concept to network studies, as they describe the mental representations, or cognitive maps, of relevant network

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characteristics as internalized throughout the eyes of involved actors (Mouzas, Henneberg, & Naudé, 2008). Recent empirical studies refine the conceptualization of network pictures by testing the dimensions of this concept and adopting a dynamic view, focused on the processes through which networks are understood and strategy enacted within them (Abrahamsen, Henneberg, Huemer, & Naudé, 2016). This process may involve the various managers' network pictures amalgamation into a shared network insight (Mouzas et al., 2008). However, the manager's network perceptions, analyzed at individual rather than collective level, have not been empirically studied so far.

The aim of this study is to examine the perception of network surroundings by managers. We adopt the second level of network analysis, focused on firms in networks in order to capture managers' identification of relationships in network environment (Möller & Halinen, 1999). We use a random sample of 305 respondents from the Polish logistics services industry to clearly portray the phenomenon in a networked industry. We collect data on direct and indirect network relationships, and on the importance attributed by respondents to each type of partners. We offer a better understanding of network pictures by looking at the network actors and relationships that individual managers perceive. This study contributes to bridge the gap between what researchers suggest that managers could achieve through the exploitation of their respective networks, and what managers actually perceive as existent in their business environment.

This paper is organized in four parts, followed by conclusions. Firstly, we outline the benefits available to firms through network purposeful exploitation, and the network representations underlying managers' actions. Secondly, we explain our empirical research design, run on a representative sample of Polish logistics firms. Thirdly, we present the results of our investigation. In our discussion we focus on the relatively limited scope of network perception managers actually display. Contrary to extant literature assertions, network pictures are much less developed, and particularly limited to the direct network surroundings. We suggest that such limitations may hamper a successful deployment of network strategies.

## 2. Theoretical framework

The network perspective develops in line with modern scientific rationality (Sandberg & Tsoukas, 2011). Its representational logic assumes that managers operate in a networked environment, which has pregiven features represented through cognition, and that action is based on these representations. Importantly, managers' representations are seen as biased, as opposed to researchers' representations which follow a rigorous method and yields more objective knowledge on networks. Consequently network representations have been developed by researchers, with limited attention attributed to managers' own network representations.

### 2.1. Managerial representations

The cognitive stream in management research acknowledges the restricted managers' ability to concentrate attention and analyze data, and the resulting selective understanding of their firms' surroundings (Walsh, 1995). The term 'cognition' encompasses two meanings: (1) mental activities, also termed processes; and (2) mental structures, or representations (Helfat & Peteraf, 2015). The relationship between structures and activities is complex and bidirectional because mental activities shape structures, which in turn focus activities strengthening emerging mental representations. The cognitive stream of management research claims that structural features do not determine outcomes, but rather that organizations only 'act' through the choices and actions of the managers within them (Kaplan, 2011). For instance, competitive actions of a firm against a given rival can be predicted by focusing on three drivers of competitive behavior: awareness, motivation and capability (Chen, Kuo-Hsien, & Tsai, 2007). Only the third driver can be

objectively measured and assessed, while the others are connected to managerial perception.

An individual's knowledge structure orders an information environment in a way that enables subsequent interpretation and action (Walsh, 1995). This mental template consists of organized knowledge about an information domain, hence the way this knowledge is organized i.e. its structure, is as much important as the specific content. Manager's conceptions about the world and the firm's place in it are what cognitive scientists call representations (Gavetti & Rivkin, 2007). Those representations are selective, and consist of elements that are relevant to the manager. As a result, representations vary between expert managers and novices, as well as they vary across the hierarchical levels. The "quality" of representations, or their accuracy – the extent to which they capture the underlying decision problem may vary dramatically (Gavetti, 2005).

By acknowledging the restrictive nature of representations researchers recognize that managerial perception is not perfect. As a result a managerial myopia emerges, understood as a stable perspective that narrows the set of alternatives considered by decision makers and relies on underlying theories associated with bounded rationality and learning dysfunctions (Ridge, Kern, & White, 2014). The myopia concept has been used in strategic management research to reflect the shortcomings of learning, such as the tendency to ignore the long run, and the larger picture, as well as overlooking failures (Levinthal & March, 1993). Initially, the concept of myopia has been introduced in marketing by Levitt (1960) to encapsulate the various failures perpetrated by the top management. Hence, the shortcomings of representations inherent in managerial myopia constrain the recognition of future opportunities, and impact the way how decision makers scan the environment for strategic alternatives (Ridge et al., 2014).

### 2.2. Network pictures

The way an actor views the surrounding business network is the most general conceptual framing of network pictures (Ramos & Ford, 2011). They result in the development of "practitioner theories" or "theories in use" framing the way managers make sense of their network environment, the set of options for action available and the evaluation of those options (Abrahamsen et al., 2016). Importantly, the relationship between network pictures and strategies is reciprocal: the cognitive schema provided by network pictures informs strategizing, but in turn is also changed by strategizing in order to accommodate new insights and new experience (Laari-Salmela, Mainela, & Puhakka, 2015).

The representation of network surroundings is quasi-graphic, providing a vision (Möller & Halinen, 1999), or an image that has directional behavioral repercussions (Henneberg, Mouzas, & Naude, 2006). By providing a topology of the relationships around the firm network pictures selectively frame the environment. In line with the cognition stream of management literature issues such as uncertainty, incomplete understanding or ignorance frame what managers choose to see (Corsaro, Ramos, Henneberg, & Naudé, 2011).

Even if the core function of network pictures is to grasp an extremely blurred and undefined environment into a simplified framework or model, the outcome is still complex and multidimensional. Eight dimensions have been identified (Henneberg et al., 2006): (1) boundaries, reflecting the relationships a firms has along the supply chain and beyond it; (2) centre/periphery, involving a focal firm with central relationships, and sometimes also more distant relationships; (3) actors/activities/resources, reflecting the who and the what perceived as relevant in the network surroundings; (4) focus, either on actors or on relationships; (5) directionality of interactions, capturing both the flow and the interdependence within the network; (6) time/task explains the time horizon long-term or short-term involved in the network; (7) power, reflects the degree to which firms perceive themselves as independent or dependent upon each other; (8) environment, refers

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