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«NETWORK: A NEW PHENOMENON OF COORDINATION AND MANAGMENT»

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History of network organizations surveys

Development of the "network" approach dates back to the mid-1970s, when an European research group (IMP Industrial Marketing and Purchasing), comprising scientists from France, Germany, Italy, Sweden, and Great Britain launched a programme based on a hypothesis that the existing marketing theory was incomplete and does not allow one to grasp some important aspects of the industrial marketing. The theoretical basis of industrial networks was laid down by Hagga and Johansson (1982), Hammarquist (1982), Mattson (1985), Ford (1986), Turnbull and Walla (1986), Torelli (1986), Hokansson (1982, 1987, 1989).

At present, network organizations are increasingly in the focus of reserachers' attention. Quite a number of researches (Achrol, 1991; Achrol, Reve and Stern, 1983; Anderson, Hakansson and Snehota,1995; Iacobucci and Hopkins,1992; Webster,1992 and others) devoted their papers to network organizations. Over the last 30 years, there has been a considerable progress in this area of research (Galaskiewciz, 1996; Nohria,1992). The early papers paid more attention to inter-personal relationships between organizations and inside them. The main thrust of the research was into analyzing the non-formal ties that are based on bilateral relations and function under the shadow of formal organizations. Later on, network organizations came to be viewed as formal controllable structures, representing a natural alternative to both the market and the hierarchic coordination. Further research in this area was fostered by empiric observations over activities of a wide range of international companies. However, the attempts to oppose network organizations rigidly with the market and the hierarchic structures gradually gave way to active discussions of such advantages offered by network structures as openness of information, adaptability to quickly changing market conditions, and a possibility of a limited inclusion of the innovations component in to the network of interacting agents.

Definitions

Two types of network organizations are distinguished: the industrial and the general ones. At least two approaches to defining the industrial network organizations could be applied. Some authors (H. Hokansson, in particular) define a system of industrial interactions through its participants. H. Hakansson writes: «a network is defined as a set of agents that are institutionally independent but perform actions and/or control resources that are interconnected, in a certain sense. Moreover, at least there is a certain agreement between the agents of market interaction in respect to existence of such a relationship.».[1] The other point of view takes exchange as its basis. In accordance with the definition of a network by Cook and Emersson (1978), it is a set comprising two and more interconnected relations of exchange[2]. The differences observed are of principal importance for analyzing the boundaries and the mechanism of interaction within the industrial networks. If one proceeds from the exchange-based network definition, then falling out of one of the participants does not produce any impact on its boundaries as another one immediately steps in. However, if one takes the other definition, the same event becomes of principle importance for delimiting the network boundaries.

When writing about essential characteristics of industrial networks, H. Hokansson demonstrates that "networks are "live" structures that interconnect permanently players in the market, production, exchange activities and resources" Significant changes, such as substitution of one partner for

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[1] Hokanson H. Evolution Processes in Industrial Networks. In: Industrial Networks. A New View of Reality. London: Routledge, p.135

[2] Quoted from the same Hokanson's paper, p.143

another or network restructuring are rather rare. At the same time, the presence of systemic elements reflecting flexibility and changeability of the network is quite obvious. They can be reduced to two main network processes. The first one is related to organization of various types of activities and resources (certain combinations and re-combinations) that agents of the market use in the process of performing an economic function. The second process is choosing a method of control over types of activities and resources. Structure and functioning of a network at any given moment are defined by the results of the two processes.

A wider interpretation of a network organization means that not only industrial organizations are included into it but final consumers as well. A network organization is defined as "a coalition of interrelated specialized economic units having its own objectives (independent firms and autonomous organizations) that function without any hierarchic control, being, however, elements of a system with common objectives tied up through numerous horizontal relations, mutual dependence and exchange». (Quoted from F. Cotler, R.S. Achrol. Marketing in the network economy/Marketing and marketing research in Russia. №2, April,2000.p.4) The following categories of network organizations have been identified:

- Internal networks that decrease hierarchy and make the firm more open for the market;
- Vertical networks that increase productivity of periodically dependent links through establishing various forms of cooperation between independent specialized firms;
- Inter-market networks that strengthen horizontal ties between sectors;
- Consumer networks that take into consideration consumers' final requirements.

Multi-level network organizations are structures comprising multi-functional teams on the one hand and functional mechanisms on the other, that are interrelated internally and externally through a comprehensive data base providing research data and other and information flows.

Multi-level organizations are characterized by numerous horizontal and vertical links inside and between the levels and between the levels and the outside environment. The links are of the informational nature and have no hierarchic dependency. The main objective is to set up a self-control scheme inside the organization through transparency of the information and division of areas of responsibility. A multi-level organization is based on such models as inter-personal and inter-functional relationships. Efficiency of such relationships increases alongside increases of the level of mutual dependence, trust, and openness between the team members (Achrol,1997).

Description of the network approach

Originally, researches tended to analyze marketing as a simple buying-selling act. Thus, the model of a marketing complex and the model of a decision-making process were born (Nicosia, 1966; Govarde and Shee, 1969; Davis, 1970). One of the features of that tradition of research, based, for the most part, on the consumer market, was to focus attention on developing a suitable marketing complex capable of meeting consumers' needs. Consumer was viewed at that time as a passive agent that is under study and manipulated with the help of elements of the marketing complex: product, price, distribution, and promotion. The main task of the manager was to identify the best combination of the four Ps – elements of the complex – meeting the consumer's needs (Cotler, 1990). Within the firm it was assigned to the marketing department staff. In order to get more broad-based practical knowledge, the new programme of empiric marketing studies (IPM) was based on the following four postulates bringing into question the methods of research applied to the industrial marketing before:

- first, researches shall focus their attention more on relations emerging between the seller and the buyer, rather than on the buying-selling act as such;

• second, those relations shall be viewed as relations between two agents, and not as changing of the marketing complex by one of the sides;

• third, the interaction shall be studied through a synchronized analysis of both the buyer and the seller;

• fourth, the statement about large numbers of buyers and sellers and a possibility of replacing them quickly and easily shall be called into question.

Au contraire, a hypothesis was put forward about formation of lasting structures of relations within the industrial marketing. Thus, it was surmised that a distinctive feature of the modern market economy is not competitions, as is widely believed, but cooperation between suppliers and consumers. [3]

The great interest to the networks issues on the part of scholars and practitioners can be accounted, first of all, for the fact that network studies open a possibility of a different perception of the world believed by the researches to be close to reality. That factor contributed significantly to the rather fast spreading of the approach and its application to various areas of activities: industrial, commercial, and social.

As a basis for the network approach is taken the view that a firm is not a monatomic economic element but an agent of economic relations, a partner in the network (a system) of organizations operating in the market. This network makes rather a stable market structure that, in its turn, predetermines the role and the place of the firm in it, affects the results of its activities, and modifies the firm's management system. This shift of focus from the firm as an independent economic element that designs its own strategy on the basis of coordination of its internal resources and the external environment to the system of interacting firms as a single market body (structure) was, to some extent, associated with the new interpretation of the firm put forward by Coze, Eggertsson, and others.

Empirical studies of market relations at the level of specific economic relations revealed quite a number of new phenomena and forms of impacts that firms produce on each other that could not be explained neither through the conventional models of a market economy nor through the processes of hierarchic governance.

Having started with the study of pair (dual) relationships (buyer-seller), the researches based their concept of marketing network on an analysis of the firm within the system of relations with its external partners (firms, individual agents). Participants of relations are different, each relation affects directly or indirectly the result. The concept of **strong and weak relations** was introduced (Tichin, Fombruck, 1978). Relations promote exchange of resources within the network. It was found that from the point of view of management an analysis of the **complete or full** network is more important than that of a single firm. As originally the network approach was based on empiric studies of established relations that emerged in the industrial markets, it was quite obvious that the number of partners (agents) of such relations was rather limited.. New structural formations included a great number of suppliers, competitors, and consumers working with the firm under study. The new structural formation was characterized by a rather stable corpus of partners, exchange of activities, and, quite often, by a joint use of resources. The latter factor made it possible to use the three interrelated components (participants/agents, resources, and types of activities to build a **network model**. (Fig. №1)

[3] J. Johansson, "Strategy and tactics of business communications in the industrial marketing"/Marketing and market networks: Proceedings of the department of Commerce / St. Petersburg University of Finance and Economics, St. Petersburg, 1994. p. 37.

The network participants possess and control resources, and are engaged in various types of activities. Activities are performed through making combinations with the resources. As a result of repeated procedures of exchange between the network partners a certain system of relationship between the partners emerge within the network and ties up resources and activities by the partners. In contrast to a series of discrete transactions, this system of relationship is a continuous process that is more complex and often formed by interactions between individuals in various organizations.[4]

Participants (Agents)
Individuals to company groups. Agents' aim is to intensify control over the network.

1

2

Network

Resources
Human and material resources (heterogeneous and interdependent)

3

Activities
Processes-transformations, transactions, activity cycles, and transaction chains.

Fig. 1. Network model

1 - Agents control resources independently or jointly and have information on the network resources.

2 - Agents perform activities and possess a certain amount of knowledge about various types of activities.

3 - Activities join together resources, activities, and agents.

Numerous examples demonstrate that relationships between agents go beyond the buying-selling act. They include exchange of information on needs, capabilities, industrial strategies, logistics, development of the firms, etc. Thus, cooperation often means coordination of activities and resources between two firms. Quite often, such coordination implies that the interdependent activities related to production, logistics, and administration and resources undergo modification and adjustment to make the firm better match each other. Sometimes such changes lead to modification of the production system, the product or the production programme.

Adjustment of one or both sides to the situation in the technical, commercial or social spheres is an important element of the relationship. Such adjustment brings the sides still closer together and, therefore, promotes further cooperation and prevents the emerging system of relationships from being penetrated by other companies.

Establishing and development of a system of relationships betweens the network agents requires joint orientation effort (Ford D., 1986). Establishing a network is accompanied by coordination of targets of the network participants. Putting too much emphasis on interests of any of the participants might result in liquidation of the partner and ruining the network. Search for a new partner and

[4] Hokansson H., Snehota I. No Business is an Island: The Network Concept of Business Strategy/ Marketing Perspectives, 1994. p. 174.

building a new network quite often require considerable costs. That is why coordination of motivations at various levels of the network becomes a basis for a complex interaction inside the entire structure.

In the interests of the network development agents of relationship can mobilize and use jointly resources that each of the partners controls. This results in higher interdependence. Exchange of relationships is characterized by density, coherence, frequency and duration (Lincoln, 1982; Aldreh, and Zimmer, 1986). Taking the above exchanges as the basis, the participants occupy "specific" positions within the network. However, such positions are not permanent. Each exchange of resources can change a participant's position within the network, interactions differ from participant to participant, relationships can be strong or week.

Prerequisites for a network model were listed in the paper by H. Hakansson and I. Snehota:[5]

1) in an industrial business, organization's behaviour often depends on the presence of a limited number of partners, each of them being unique and acting to meet its own objectives;

2) with this body of partners the organization establishes permanent relationships that represent a certain form of realization of the exchange process. Such an interaction makes it possible to accumulate and make use of the partners' resources and to unite their activities into one single whole;

3) production potential of each organization within the network develops through the links in the system of relationships with the other organization in the aggregate. Thus, the organization can be perceived through its relationships with the other partners within the network;

4) as the above condition is valid for the other partners, activities of each of them are incorporated into the system and are governed by the entire network.

Strategic management: a new paradigm

Following the prerequisites for the network model makes it necessary to clarify and even revise a number of aspects of the strategic management doctrine. This is not just an academic exercise, but an attempt to make practical use of the strategic management tools.

The participants get resources from the other agents and perform work through combining them with their own resources. The strategic idea, therefore, is to define which types of activities shall be performed by the firm itself and which shall be delegated to the other network members (Hakansson, 1989).

The notion of "boundaries" needs additional clarification. It was introduced into the strategic management theory in order to identify the internal controllable variables as opposed to the external and non-controllable ones. Since an organization is viewed in the context of its relationships and is not perceived as such without them, and moreover, since the importance of external relationships and the strong impact they produce on creating the organization's image (Itami, 1987; Vikari, 1988), have been repeatedly demonstrated by empiric studies, there is every reason to consider the problem of delineation of boundaries. The problem becomes still more complex as the primary links of the local organization and their interrelationships are affected by the indirect ones (Hokansson, 1987; Valuszevsky, 1988). It becomes evident when one follows the technological chain of the relationships. Under the circumstances, the notion of external environment loses its importance for

[5] Hokansson H., Snehota I. No Business is an Island: The Network Concept of Business Strategy/ Marketing Perspectives, 1994. p. 176.

designing the management strategy. An organization exists and functions through an interplay of a set of interdependent agents. That is why it is difficult to see where one organization ends and another begins.

As opposed to the conventional approach to the notion of boundaries, the network approach means that on the one hand, certain resources and types of activities normally viewed as internal ones are out of the organization's control, while on the other what was considered to be external resources and types of activities in fact form an inalienable part of the organization itself, are under its influence and control.

The notion of efficiency of an organization deserves special attention. In the framework of the strategic business management the issue of organization's efficiency is of primary importance. The strategy's components, types of activities can be defined only against the factors that predetermine organization's efficiency. Previously, efficiency was perceived through the internal resources (technological, technical, informational, economic) and was based on comparing costs and results. In that case the process of strategic planning came up to an activity of a certain group of managing organizations having the functions of defining the organization's targets, interpreting the environment, forming a strategy, adjusting the organization to the needs of implementing the adopted strategy.

The "network" model gave rise to an altogether different approach to the problem of an effective management of an organization. Relationships within a system of linkages move to the centre of the strategic management. A peculiar feature of strategy ensuring its efficiency comes into existence through a coordinated behaviour of individuals within the system of interactions. Relationships become the main link defining efficiency and setting the strategy. Thus, efficiency of organization's strategy is based on its interactive behaviour.

If the above premises are taken as datum, than managing organization's behaviour requires shifting the accent from deployment and structuring of the organization's internal resources to offering its types of activities and resources to the partners it is going to interact with. This shift of notions is the basis for a different interpretation of efficiency. As a result new issues emerge to be studied: what are its determinants and how to manage it?

The earlier studies (IPM) have demonstrated the importance of organizational aspects (organizations' structure, planning procedures, strategy) and individuals as conductors of managing interrelationships. Besides, it was discovered that marketing is not an exclusive domain of the marketing department staff. Specialists in other areas and basic departments, such as research and development, production, design, finance, and others are also participants in the marketing process.

Division of labour and the ensuing exchange of resources among the network members are the source of dependence and power. These aspects have never been covered in the literature on marketing. For example, in the model based on development of the marketing complex the notions of dependence and power are missing altogether. Buyers and sellers are free to chose and change business partners. It is assumed that suppliers and buyers can be always changed.

Assuming dependence on resources, the network approach implies that in the industrial marketing neither sellers nor buyers are free to pick and change partners and that such steps are highly risky. The degree of dependence of a participant on the partner is random and is affected by:

1) the necessary level of the partner's resources;

2) the partner's monopoly for supplies (Emerson, 1962).

So, the dependence is rather a characteristic of the structure of links and the distribution of the network resources than a characteristic of the buyer and the seller. Dependence is the basis for power relationships. Management of power relationships within a network is essential for retaining manoeuvrability. Dependence is limited by what O. Williamson named opportunism or an opportunistic behaviour. As soon as participants in the network begin appreciate relationships and not isolated transactions, the opportunistic behaviour becomes minimized and comes under control. This is a source of coordination. Coordination can be also achieved through strengthening mutual obligations.

Thus, cooperation of the firms across the network is achieved. The main thesis about autonomy of a firm comes into question, and empiric studies of the various aspects demonstrate a strong interdependence of the network partners.

Studies of networks reveal a shift from control over resources to integration of resources and from managing activities to managing the flexible reaction to the changing situation (similar to the interaction pattern of the "just-in-time" systems).

Naturally, such a perception of the new market organization changes the role and the content of marketing. It performs the functions of coordination of activities of various organizations within the system of their interactions. Its focus is shifted towards interactions within the network. Marketing .becomes the linchpin of the interaction mechanism and, at the same time, stops being the prerogative of only one organization, one department. It becomes the concept of managing the network, the concept that is being actively developed today. The shift of accent towards interaction and the resulting revision of the marketing management strategy was gradual, alongside the growth of the researches' interest to the industrial goods market where volumes of purchases and sales were much higher than those in the consumer goods market, and second, the growth of the services market, and, finally, emergence of new technologies (means of communication, computer technologies, etc.) that make it possible for producers to interact with final consumers. The increasing influence of those factors was making more glaring the well-known inadequacies of the marketing complex theory and the classical approach to marketing as to a type of discrete activities.

Network marketing:[6]new areas of activities

How is a network formed? What are the forms and parameters of interactions, and the ways to improve them? Marketing in its new form plays a direct role in answering those questions. A steady formation produced as a result of market interactions becomes an object of the economic activities analysis. Most often it emerges on the basis of a technological chain and, as the mechanism of interactions between production and consumptions becomes more complex, incorporates all the new agents of market interactions. Among them are intermediaries that perform physical distribution and promote flow of goods. The firm takes upon itself or delegates to other independent companies the multiple functions of promotion of goods in the market: advertising, sales promotion, building up a positive image of the firm and its goods. It needs information on the market situation, market trends and seeks assistance from research and consulting companies. Trying to minimize market risks the firm cooperates with insurance companies. The quick developing process of renewal of technologies and products makes the firm look for adequate forms of cooperation with research centers and laboratories, use the results of their activities directly in the production process. The necessity to train and develop human resources leads to cooperation with recruiting agencies and educational institutions.

That is why the main objectives of marketing in a network organization become, first of all, identification of agents of cooperation within the network, assessment of their importance, deeper

[6] For a detailed description of the approach see the author's paper: A new stage in the evolution of the marketing concept of management //REJ, №10, 1997, and Kotler F. and Achrol R. Marketing under the network economy conditions //Marketing and marketing studies in Russia,№2, 2000

study of interrelationships, defining priority areas of network development and roles of companies. Let us have a closer look at these new areas of marketing.

Sub-contracting and outsourcing based on cooperation of various interrelated production units are an effective form of organizing modern industrial activities. The form is based on an agreement between the principal contractor (customer) and the subcontractors (contractors). The customer delegates to the sub-contractors the functions of producing components, semi-finished products, and services necessary to produce the final product. The sub-contractor shall strictly follow specifications by the principal contractor. This is the way contractors inside the industrial sector become specialized.

The increasing specialization of every link dictates new approaches to coordinating their activities. The final product to a great extent depends on efficiency of the coordination. That is why sub-contractors put forward new requirements towards the mechanism of coordination of the ostensibly independent agents.

It is widely accepted that there are two coordination mechanisms: the market mechanism (the invisible hand) that coordinates proportions of production and consumption through fixing the market prices; and the mechanism of coordination inside the company (the visible hand) that is often referred to as hierarchic. However, deeper studies of industrial markets have revealed a third mechanism that differs from the first two [7]. This mechanism that plays the decisive role in the industrial markets is an interactive cooperation between the companies. Their relationships and the networks formed by interacting companies are a new phenomenon of coordination and management that can be categorized neither as a market nor as an intra-company phenomenon. A better understanding of this mechanism is important for a number of reasons.

First, industrial markets constitute a sizable part of the economy, having turnovers that by some estimates are three times higher than those of consumer markets.

Second, understanding of the mechanism will help trace more closely the process of industrial development

This interactive cooperation comes to the focus of attention in the market studies in an attempt to find the strategic areas of development and strengthening of the network, changes in the company's role in the system of interactions.

The first to be thoroughly analyzed are the **dual relationships** that emerge between partners within the interactions chain. That is why it appears to be necessary to consider here features of various types and forms of interaction that could help identify «strong» and «weak» links.

As **parameters of network interactions** could be considered, first of all, organizational forms of interaction between companies. Within the wide range of such interactions at least three homogenous groups can be identified: interaction based on *various forms of joint ownership of assets; interaction based on contractual relationships* and interaction based on *informal cooperation agreements*. Formally this classification is based on the degree of inter-dependence and responsibility of the partners: presumably, it is the highest in cases of joint ownership and decreases alongside the decreasing degree of formalization of the relationship. However, experience shows that the basic differences are in the specific forms of interaction, while reliability of interaction, inter-dependence and responsibility are affected not as much by the fact of joint ownership as by factors of some other nature (corporate business culture, history of relationships with the partner, subjective features of the partners, etc.)

[7] Johansson J. et al. "Firms in Networks A New Perspective on Competitive Power.- Uppsala, 1995.P.15.

When undertaking an analysis of contractual relationships it is advisable to examine the numerous forms of contracts. Most of the European companies prefer long-term contracts. They are usually subdivided into *permanent, framework, and renewable*, groups. The first ones are legal agreements regulating a whole series of separate transactions within a certain period of time. They dominate in German companies (83% of the companies surveyed). Framework agreements imply performing in future of a certain series of transaction of which specific terms and conditions will be agreed immediately before their implementation. They are popular among Italian companies (53% of the companies surveyed).

Renewable contracts that regulate only a specific transaction account for the biggest share (45%) of contracts signed the British companies.

Arguments in favour of the priority use of short-term contracts are, first of all, the resulting greater mobility of relationships, and lower costs when changing partners. This type of contracts is preferred by 84% of Italian, 42% British and 30% of German companies[8]. As to the Japanese companies, they also use mostly short-term contracts that they normally renew once a year. The reason for this is the fact that the long-term cooperation (the factor decreasing opportunism) of companies there is the cooperation history and not the contract form[9].

Forms of informal contacts are many. They can be regular conferences with participation of the producer and a range of trading companies selling its products, setting up a unified management team to coordinate decisions of continuously cooperating companies, joint participation in self-regulating professional associations, establishing associations that incorporate all the suppliers of one company-client, etc. All the different forms contribute to improving information exchange, coordination of the decision-making process, and planning of actions of interacting companies.

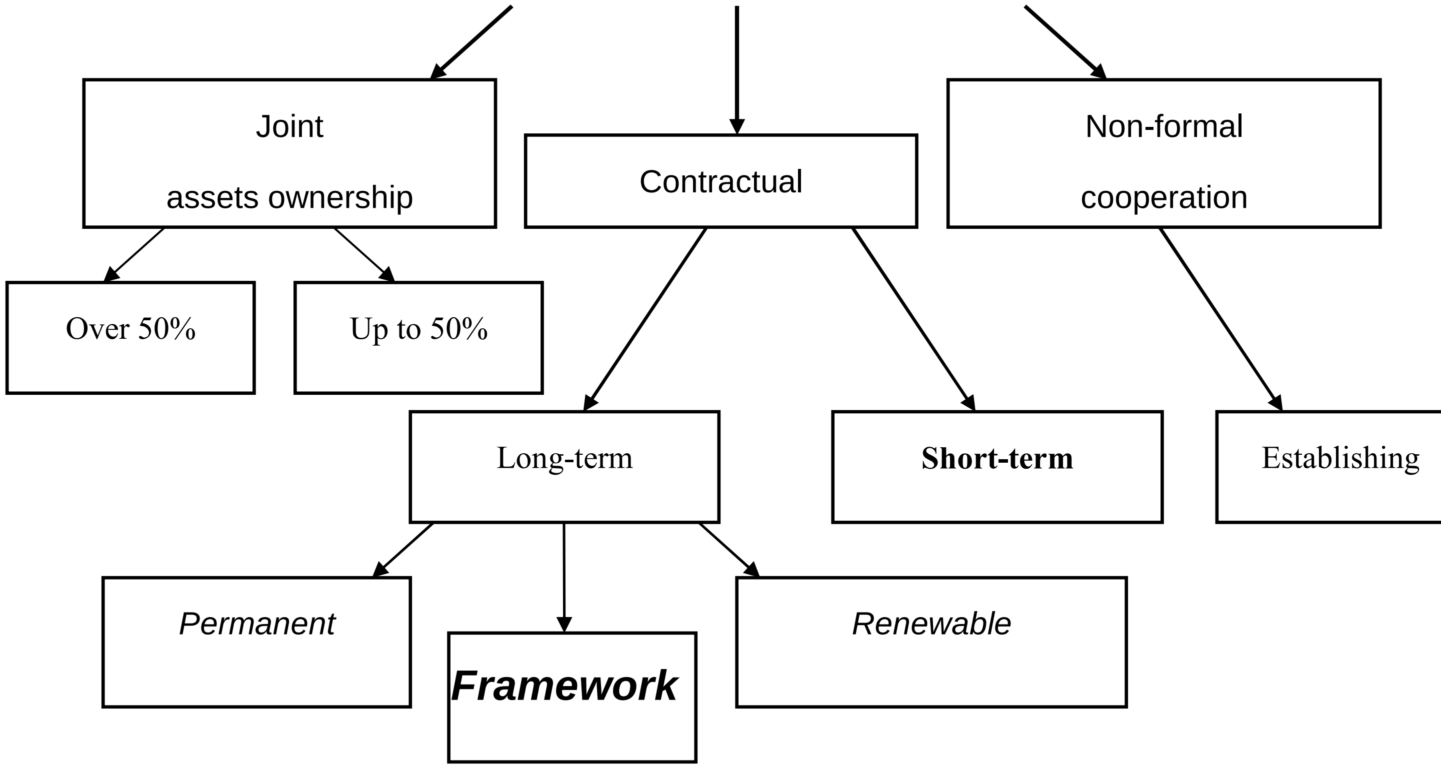
The above classification demonstrates multiplicity of forms of dual relationships. That is why marketing analysis of the primary cell of the network business organization – a pair of dual relationships - shall begin with their classification in accordance with the following pattern (Diagram 1).

However, as mentioned earlier, the form of a contract does not reveal the full picture of emerging relationships between partners. Therefore, additional parameters shall be measured to evaluate significance of the given pair of dual relationships within the system of interacting market agents. For the “producer-distributor” pair they can be:

- the volume of purchases of goods from the producer company;
- the length of cooperation with the producer company;
- the share of the distributor’s profits ensured by the producer company;
- the number of regions where the distributor sells goods from the producer company;
- the share of various channels of distribution in the distributor’s business;
- the presence of conflicts and the ways they are resolved, etc.

[8] Burchel B. &Wilkinson F..1997.Trust, business relationships and the contractual environment // Cambridge Journal of Economics.21.p. 222.
[9] Sako M.& Helper S.1998 Determinants of trust in supplier relations: Evidence from the automotive industry in Japan and the United States.// Journal of Economic Behavior & Organization. Vol. 34,404

Diagram № 1.Classification of market relationships partners



The above **parameters** can help identify **significant and insignificant dual relationships** that makes it possible to define most promising areas of the dual relationships development.

Further and more detailed study of dual pairs can be carried out in order to identify cooperation factors –**interaction criteria** – that are significant for the both partners. These criteria can be identified as a result of a cross-evaluation of significance of various partner service characteristics. As such complex characteristics can be used aggregated blocks, for example conditions of trade, activities by trade representatives, the supplier market strategy, etc. However, they need to be broken down into smaller details. For example, conditions of trade can be viewed through evaluation of such characteristics as (terms of payment – roubles/dollars, cash/non-cash transactions, prepayment/credit/payment upon receipt of goods); discounts for specific clients, discount size in case of prepayment, etc.

Apart from evaluating significance of cooperation factors and identifying interaction criteria it is useful to define the degree of satisfaction against the full range of the partners interaction characteristics.

As far as the interacting companies' priorities are concerned, price that used to be named as the most important factor is now considered as such by 67% of companies while quality and timely deliveries have come to the forefront with 77% and 71% respectively[10]. Therefore, on the one hand, the list of factors against which the degree of satisfaction of every client is evaluated shall contain the partner service characteristics mentioned above. On the other hand, it is not correct to evaluate the degree of partner satisfaction without evaluating the product itself, its quality, brand, assortment, use value, and demand. In other words, the degree of satisfaction as a complex index shall be extended to include evaluation of the characteristics of the product flow that, in the final analysis, is the result of the partners' interaction.

[10] Stepherson K.& Gregory Hayden F. 1995 Comparison of Corporate Decision Networks of Nebraska and the United States. Vol.XXIX.№3, p.245.

Carrying out of **a comprehensive evaluation of the degree of satisfaction with the interaction** of a certain dual pair in comparison with other companies – competitors to the partners could provide a fuller picture of possible variants of development of paired interactions in the market.

Contradictions and mutual claims by the partners revealed in the course of the study help introduce improvements in the network relationships, and bringing them to a higher quality stage - partnership.

A complex system of interactions requires time, skills, and tremendous effort to build, to develop, and to maintain it. **Investments** into establishing a system of relationships are **of a special type**, and their importance is hard to overestimate. At the same time, the network of relationships that a firm has established with other players in the market becomes the basis for a **competitive firm**, a source of additional resources for development.

The above information makes it possible to sum up the differences between the traditional marketing and the network approach (see Table №1). However, it shall be remembered, that the network approach emerged on the basis of the traditional marketing and is rather its higher stage than a negation. Taking into account the author's position interpreting market as a developing form of relationships between production and consumption,[11], such transformations are quite natural.

Table №1. Differences between the traditional approach and marketing in the network business organization.

	Network approach	Traditional marketing concept
1	Market as a network of interrelated agents. Certain degree of structuring present.	Market as a body of independently functioning agents. No structuring.
2	Firm as an element of a network of interactions	Firm as a stand-alone entity
3	Multilateral interactive cooperation as a method of adjustment and coordination of proportions.	Unilateral activities – formation of 4Ps as a result of market research.
4	Selection of a network, entering it and permanent re-positioning	Selection of a niche, a target segment and positioning
5	Permanent development of the process.	A certain position in the procedure of strategic decision-making
6	Direct taking into account the human factor in the interaction – establishing relationships.	Formalized approach – coordination of product and money flows.
7	Inter-organizational deployment and dependence of resources	Intra-firm deployment of resources
8	Investments in relationships – creating a joint competitive advantage	Investment in material and non-material assets
9	Descriptive approach (in the process of formation)	Normative approach

While the traditional concept of marketing interprets market as an environment, the network approach views it as a network of interconnected agents that has a well-defined structure. This supposition makes it possible to identify the following specific features of the network concept: a firm is never analyzed in isolation as is the case in the marketing theory; it is part of the market, and, as mentioned earlier, is closely interconnected with the agents around it. Therefore a firm; shall assess not only its own actions but activities of its partners in the network (multilateral interaction) as well. When using the network approach in the process of introducing a new product into the market, the firm's actions are not limited to segmenting the consumers and positioning the product.

[11] Tretyak O., Marketing: interrelationships between production, trade, and consumption. St. Petersburg, 1992, p.27.

It is looking for the most promising network to join and, after entering it, is subject to permanent re-positioning as a result of its own actions and actions by the other agents in the network.

One more important characteristic of the network approach is concentration of effort on the process of activities and not on looking for a place within the strategic management procedure that is rather complex. That does not mean that strategic management is missing in the network concept. Since the firm has to adapt itself continuously to the changing environment, the cumbersome procedure of developing a strategic plan and its implementation lose their importance. However, the process of looking for promising areas of development, and their identification is related to changes in the environment, and defining a stable competitive advantage.

Other features are related to the firm's resources. First, as was said earlier, the new approach interprets relationships as resources, and, consequently, their availability – as a competitive advantage. The closer are the relations, the bigger the competitive advantage, as stable relationships between the agents in a network create barriers to other firms entering the market, and guarantee an exclusive access to the resources

Network organization is often considered to be a quasi-organization, and therefore, the usual intra-firm deployment of resources is replaced in a network with an inter-firm mutual dependence of resources. Firms aim to be more dependent on each other since their competitive advantages are based on heterogeneity of resources and strong relationships.

One more feature is the effect of the first two: firms within a network prefer to invest into relationships as this is the way to strengthen one's position and competitive advantages. Besides, quite often such investments are not as costly as purchasing new equipment, etc., as envisaged by the conventional concept, but, at the same time, gives the firm a chance to reach a higher production level. However, it shall be remembered that the larger are investments into relationships with the partner, the higher are the costs of their disruption.

Thus, through improving and strengthening network relationships the firm implements the development strategy in the market it conquered, the strategy of penetrating and consolidating its positions in the new market, creates for itself competitive advantages that are hard to copy, opens the way for making use of innovations.

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