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Advantages and Disadvantages of Enterprise Activity in Network Organisations – Some Aspects

Summary

In her article, the author focused her attention on advantages and disadvantages of cooperation undertaken by enterprises operating within the framework of network organisations in the Polish economy. Establishing cooperation by enterprises may become nowadays one of the bases of formation of their development strategies. In the conditions of high variability of the environment, the growing uncertainty of enterprise activity, there gain in importance the concepts making use of definite relationships and partnership cooperation with other entities. There appear new forms of that cooperation, new organisational structures, *inter alia*, network organisations. Affiliation to them is connected with achievement by enterprises of definite benefits, while, on the other hand, it may result in occurrence of some threats. The empirical research carried out in 2013 in a group of 363 enterprises belonging to various network organisations conform that really enterprises achieve definite benefits carrying out their activities within the framework of network. And they are decidedly more emphasised than definite threats.

Key words: enterprises, network organisations, advantages, threats to functioning.

JEL codes: D20, D23, M21

Introduction

Contemporarily operating enterprises greater and greater attention in their developmental strategies pay to cooperation with other entities. The key for achievement of market success, besides rivalry and carrying out competitive struggle, may also be collaboration and cooperation. Competition does not exclude establishment of cooperation between enterprises. Thus, there appear new forms of that cooperation but also new expectations as to the opportunities to gain definite effects of that cooperation. An aim of the article is to present a review of definite results being achieved in cooperation between enterprises, undertaken within the framework of activities carried out by network organisations in the Polish economic practice.

Results issuing from enterprises' affiliation with network organisations

Owners of every economic entity undertaking business activity want to keep them in the market, to develop and, thus, to gain success. These activities are usually accompanied by expectation to achieve a higher level of competitiveness in the course of enterprise's

development as well as higher than their potential competitors. In the processes of raising the level of enterprise's competitiveness, after all dependant on very many factors, greater and greater attention is paid to the possibilities to make use of synergy effects sticking in business cooperation between economic entities (Everett 2011, Strzyżewska 2011). As one of those forms of cooperation there may be considered the network organisation. There are many different approaches as regards understanding the essence of network organisations. In the present study, it is assumed that a network organisation is a voluntary union of independent enterprises (broader: organisations) which, through their common use of complementary resources implement definite objectives, achieving faster, in a more flexible and innovative way synergy effects of their cooperation. There would not be any attempts to undertake such cooperation if entrepreneurs or economic entities managers did not expect achievement of definite benefits contributing to growth of competitiveness of a definite network organisation, as well as its individual members or partners.

It seems that the key importance in this respect is attributed to the economic and financial effects which may be achieved by individual partners within the framework of establishing and conducting cooperation in the network organisation. They result in optimisation of operating costs, increasing the volume of sales gained (Parung, Bitici 2006, p. 120-127). Through a joint implementation of definite processes one may reduce costs as there is eliminated repetition of similar actions. For example, carrying out joint purchasing actions contributes to reduction of costs of realisation of a single order; there is possible to gain significant discounts on selling prices of the products offered; it is also possible to reduce costs related to logistic service of individual partners. Increasing the value of orders partners become more reliable for their suppliers; therefore, there is increasing the certainty of order realisation; on the other hand, their bargaining power towards suppliers is increasing. Similarly conducting joint bookkeeping and administrative service may contribute to reduction of definite costs. Thus, optimisation of enterprises' operating costs will be conducive to growth of the level of achieved profits and return on investment.

Undertaking joint activities within the framework of network organisation also contributes to growth of the scale of partners' activities, there may increase the territorial scope of the activities carried out as well as their intensity. Establishing cooperation with similar entities, enterprises may propose a more complex and diversified offer, are also able to increase the frequency of carried out deliveries as well as to enhance the scale of used distribution channels. An effect of such activities may be improvement of the quality of customers' attendance, raising the level of their satisfaction with delivery of commodities in the proper place, at the proper time and at the expected price. Jointly implemented marketing activities contribute to creation of new needs of potential customers, to a more aware formation of the image of a given network organisation, their recognisability in the market. Such activities are conducive to creating the brand of products or services provided by partners. Thus, in relation to competitors, a given network organisation becomes more recognisable among customers, and owing to which it may increase its sales and develop (Robbins, DeCenzo 2007).

Implementation of joint actions also allows the network organisation participants an effective use of the existing resources, not only by way of making use of own resources but

also exploiting external ones available for a partner (Popławski, Sudolska, Zastempowski 2008, p. 22). Thus, there takes place a more effective allocation and mobilisation of assets within the framework of a given network organisation. Partners, members of a given organisation, may this way perform reconfiguration of the assets indispensable in implementation of specific orders; they may share duties and fulfil definite functions, processes and tasks. Such an approach enables concentration of enterprises, being network organisation members, on the specific areas; create a unique configuration of resources (Griffin 2008, p. 364-365). Therefore, it contributes to specialisation of activities carried out by individual enterprises what may be a basis for creation of development strategies, niche ones, just in a group of enterprises belonging to the network.

Carrying out joint actions within the framework of network organisation also contributes to reduction of the risk related to enterprises' activities. Usually it concerns undertaking joint investments (Warner, Witzel, 2004, p. 126). The risk of failure of business activities is then distributed among a bigger number of partners. Each of them may invest in new business projects only part of assets; hence, they limit their involvement in a given concept and, at the same time, may diversify financial outlays on various investment ventures. Additionally network organisation members jointly have at their disposal greater opportunities to acquire financing for the planned investment projects than a single enterprise. Similarly, they may present jointly better and higher sureties, for instance, on the drawn investment credits what increases their bargaining power towards capital providers.

Joint actions of network organisations may also influence implementation of business projects through alteration of their arrangement, reduction of duration, quality improvement, and implementation of innovation. By way of elimination of redundant, repeatable actions enterprises may faster carry out definite activities, they may reduce the decision-making processes as well as there takes place a faster reaction to the changes occurring in those entities' environment. Observation and quick reaction to those changes allow cooperating enterprises implementation of new business solutions, new business models. Often it is just then when process innovative solutions may appear.

Nowadays enterprises are, so to say, forced to raise the level of their innovativeness. This is the feature understood as ability to continually seek for and use in practice new concepts, ideas and inventions as well as research and development findings. Innovativeness is also improvement and expansion of the existing production, exploitation and service technologies (Bessant, Tidd 2013, p. 5; Janasz 2011). The enterprises having in their strategy development treat innovation and innovativeness as a factor driving the enterprises' interest in the product, in a wider supply offer, specific promotional values but also in a higher quality standard, up-to-datedness. In this meaning, it is worth to note that innovativeness is a vehicle of competitiveness because it provides for opportunities to gain competitive advantage, creation of a better product offer or better terms for meeting definite needs of final customers.

Considering innovativeness at the part of activities of network organisations concerns also introduction of new solutions in an organisation, improvement and development of the infrastructure related to collection, processing and dissemination of information. In all these manifestations of innovativeness it is possible to make use of a closer cooperation

between business entities, e.g. through possession of joint R&D background, carrying out joint research, joint purchases of innovative solutions, technologies, licences, establishment of cooperation with R&D centres, etc.

Business entities' innovativeness may also rely on process (organisational) innovation or also concerning management of their particular assets. It is the degree of efficacy of organisation and implementation of definite processes and managerial functions, which significantly determine today gaining competitive advantage by an individual enterprise or a definite group of enterprises. The key to market success in this respect is a skilful use of joint resources, creation of a unique set of competences and skills (Skowronek-Mielczarek 2013, p. 50).

Important is definition of basic processes and ways on which collaboration of a given network organisation will rely. On the other hand, such an approach to an effective management requires elimination from an enterprise of useless processes and resources and, thus, release of financial assets that may be invested in the activity areas with a higher level of attractiveness and profitability. It issues that undertaking joint actions in the sphere of process and resources management may contribute to growth of innovativeness of individual enterprises setting up a network organisation and, thus, also to raising the level of their competitiveness (Galavan, Murray, Markides 2008, p. 188).

Summing up the above considerations one may notice that results of cooperation between enterprises within the framework of network organisations may lead to achievement of definite benefits, but they also may lead to occurrence of definite threats. First of all, such threat may be dispersion of resources or loss thereof by the enterprise accessing the network organisation. This may lead to weakening of the economic potential, decreasing of a scale of activities or limitation thereof. It may also cause perturbations within the framework of customer base, their move to other enterprises operating within the framework of network organisation. As a disadvantage of acting within the framework of network organisations there can be treated a specific loss of independence by an enterprise as well as different motivation and commitment of partners. It may cause definite problems at the level of agreeing aims of activities, implementation of joint projects or carrying out real business processes. Nevertheless it seems that the very fact that network organisations emerge and function causes an advantage of benefits over drawbacks of this way of enterprises' activities, their development and gaining the competitive advantage. Therefore, it is worth to present empirical research findings from the Polish economic practice concerning identification of advantages and disadvantages of enterprises' functioning within the framework of network organisations.

Benefits gained by enterprises within the framework of network organisation's activities

The author of the article took part in 2013 in research whose aim was to identify determinants of innovativeness of network organisations in the Polish economy¹. The empiri-

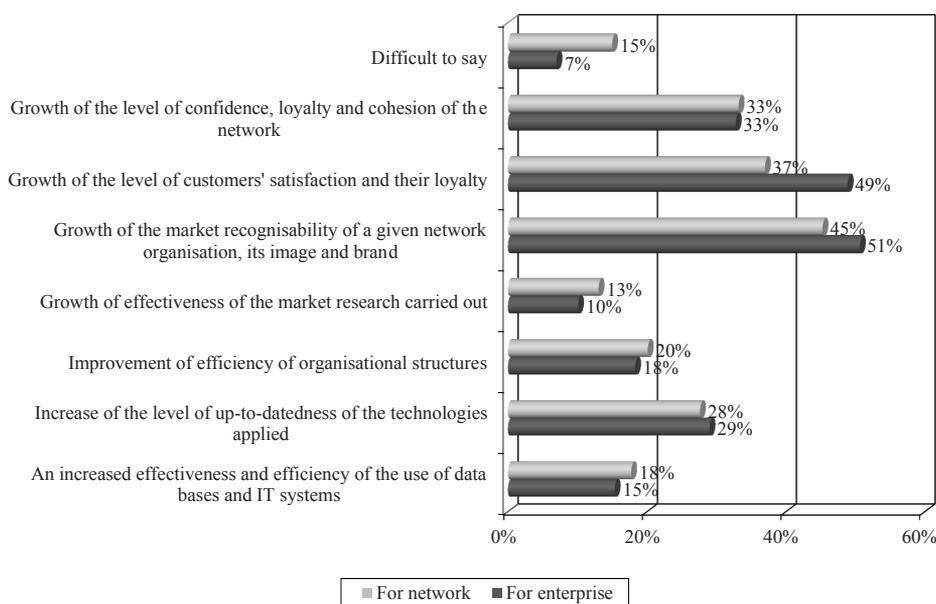
¹ The research project of the National Science Centre 2013 No. 2011/01/B/HS4/04808, manager Dr hab. Prof. SGH B. Bojewska.

cal research was carried out in a group of 363 enterprises belonging to network organisations carrying out their activities in Poland. The research was carried out by the method of Computer Assisted Personal Interviewing (CAPI). The research population constituted enterprises being members of a franchise network (121 enterprises), clusters (121 enterprises) and virtual organisations (121 enterprises)². Within the framework of carried out research one of the areas of interest was identification of positive and negative effects of functioning of the enterprises in question within the framework of network organisations. Respondents might indicate maximum three responses as regards positive effects of functioning within the framework of network organisation (Fig. 1).

What is interesting, about 50% of the enterprises surveyed indicated the growth of market recognisability of a given network organisation, its image and brand as well as the growth of the level of customer satisfaction and the level of their loyalty. Those were also the most

Figure 1

Benefits issuing from functioning within the framework of network organisation (in %)



Source: own research of the Institute of Management of the Warsaw School of Economics (SGH) 2013, n=363.

² The sample was of the quota nature. Interviews were executed on the basis of the franchise firm base prepared for the purpose of research containing 370 businesses. According to the population structure there were adopted quotas (a definite number of interviews compliant with the population structure) per voivodeship and category: trade and services. Interviews were carried out on the basis of cluster coordination base prepared for the purpose of research containing 198 firms. According to the population structure, there were adopted quotas (a definite number of interviews compliant with the population structure) per voivodeship and nature of the institution being a member of the cluster: enterprises, research units, institutions of the business environment. In case of virtual organisations there were adopted quotas by voivodeship (in view of lack of knowledge of the population structure of virtual organisations, the quota was based on the structure of population of all firms in Poland).

frequently indicated responses not only from the point of view of enterprises belonging to the network but also from the point of view of the entire network organisation. These two benefits of functioning in the network may also be treated as the factors inducing to undertake cooperation by independent enterprises. And indeed, in opinion of respondents, this cooperation yields definite positive results.

However, in case of the growth of the level of customers' satisfaction, more often that effect was indicated by enterprises (49% of indications) than the network – 37% of indications. May be just for many enterprises accessing to and functioning in the network this factor plays definitely more positive role.

The following benefit issuing from functioning within the framework of network is the growth of the level of network's confidence, loyalty and cohesion. It was indicated by 33% of all respondents. At the similar level there was also indicated the increase of the degree of up-to-datedness of the technologies applied; it was by approx. 28% of indications both from the point of view of enterprises and the whole network. At the level of approx. 20% of indications concerned enhancement of efficacy of organisational structures of enterprises and networks. The next benefit in terms of the frequency of indications is the increased effectiveness and efficiency of the use of data bases, IT systems; it was indicated by 15% of enterprises and 18% of networks. This may mean carrying out joint actions in the area of integrating IT systems and use of information. Around 10-13% of respondents indicated the growth of effectiveness of the conducted market research.

Taking into consideration the type of the network organisation, to which the interviewed respondents belonged, there are visible definite differences as regards the range of frequency of selection of positive effects of functioning within the framework of network organisation (Tab. 1). In all groups of the distinguished networks, there the most often were indicated the growth of market recognisability of a given network organisation, its image and brand as well as the growth of the level of customers' satisfaction and the level of their loyalty. However, different was the level of those indications. And so, among franchise enterprises, it accounted for 60% as regards market recognisability of a given organisation and for 56% as regards the growth of the level of customers' satisfaction and loyalty, whereas in the group of clusters – respectively 55% and 27%, and in the group of virtual organisations – for 36% and 64%. What deserves our attention is the fact that in virtual organisations with a similar frequency as in case of market recognisability of a network organisation there was indicated the increase in the level of up-to-datedness of the technologies applied. May be it is just the virtual organisations that may be treated as the most up-to-date, and participation in them as a manifestation of the strive for growth of the level of enterprise innovativeness.

As for dependencies of the benefits indicated by the enterprises belonging to networks in view of their size and range, the distribution of the obtained responses is in principle approximate to the distribution for the whole body of respondents interviewed (Tab. 2). There attracts attention the fact that with the increase of the number of network organisation's members and the range of its activities, the greater importance is assigned to the growth of market recognisability of a given network organisation, its image and brand. In turn, for

Table 1**Positive effects of functioning within the framework of network organisation depending on its type (in %)**

	Franchise firms	Clusters	Virtual organisations
An increased effectiveness and efficiency of the use of data bases and IT systems	15	14	17
Increase of the level of up-to-datedness of the technologies applied	28	22	36
Improvement of efficiency of organisational structures	24	17	14
Growth of effectiveness of the market research carried out	8	17	6
Growth of the market recognisability of a given network organisation, its image and brand	60	55	36
Growth of the level of customers' satisfaction and their loyalty	56	27	64
Growth of the level of confidence, loyalty and cohesion of the network	35	32	31
Difficult to say	7	4	12

Source: own research of the Institute of Management of the Warsaw School of Economics (SGH) 2013, n=363.

Table 2**Positive effects of functioning within the framework of network organisation depending on its size and range (in %)**

	Number of network members				Network's range			
	up to 10	10 – 20	20 – 50	above 50	local	regional	national	international
An increased effectiveness and efficiency of the use of data bases and IT systems	14	13	15	23	13	14	19	18
Increase of the level of up-to-datedness of the technologies applied	32	27	33	25	29	33	27	18
Improvement of efficiency of organisational structures	22	19	14	13	22	20	14	22
Growth of effectiveness of the market research carried out	10	8	9	15	8	10	10	15
Growth of the market recognisability of a given network organisation, its image and brand	51	38	56	57	53	49	52	58
Growth of the level of customers' satisfaction and their loyalty	58	43	42	48	66	50	41	45
Growth of the level of confidence, loyalty and cohesion of the network	35	19	30	47	37	29	32	49
Difficult to say	8	15	12	7	6	8	20	9

Source: own research of the Institute of Management of the Warsaw School of Economics (SGH) 2013, n=363.

smaller networks, those of the local range, there was more often indicated the growth of the level of customers' satisfaction and loyalty. This can certainly contribute to achievement of a higher level of sales and it is really felt by enterprises. It may also be treated as a criterion deciding one's accession to the network.

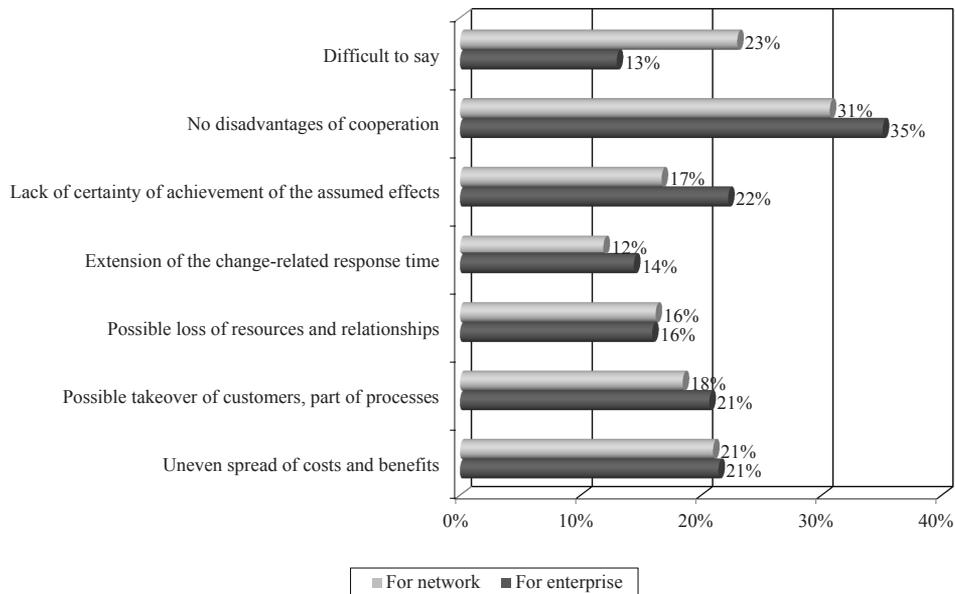
What is interesting this is the fact that for enterprises being members of the largest networks (number of participants above 50 and an international range of network's activity) a substantial benefit is also an increase of the level of confidence, loyalty and cohesion.

Negative effects of enterprises' membership in a network organisation

Interesting research findings were also obtained as regards recognition of negative effects attributed to functioning within the framework of network organisation, both from the view point of enterprise – its participant – and the entire network organisation (Fig. 2). Attention is attracted by the fact that most often there was indicated lack of negative effects of functioning in the network; for enterprises it was 35% of indications and for the network – more than 31%. More than 22% of enterprises and 17% of all networks indicated lack of

Figure 2

Negative effects of functioning within the framework of network organisation (in %)



Source: own research of the Institute of Management of the Warsaw School of Economics (SGH) 2013, n=363.

certainty of achievement of the assumed effects. More than 21% of enterprises as well as networks indicated an uneven spread of costs and benefits resulting from functioning within the framework of network. With a similar frequency there was indicated the possibility to take over customers and part of processes by other network's participants. The possibility to loose resources was indicated by approx. 16% of respondents, while extension of the change-related enterprises' and networks' response time – by approx. 13%. In principle, therefore, there prevails the conviction of lack of very severe negative effects of functioning within the framework of a network organisation. With the indicated other negative effects, in principle, there can be made a conclusion that they are naturally related to carrying out business activities.

Subjecting to an analysis the relationships occurring between the type of network organisation and the negative effects of functioning within its framework one may point out that most often the respondents indicated the lack of occurrence of those effects (Tab. 3).

Table 3

Negative effects of functioning within the framework of network organisation depending on network type (in %)

	Franchise firms	Clusters	Virtual organisations
Uneven spread of costs and benefits	28	18	18
Possible takeover of customers, part of processes	22	15	26
Possible loss of resources and relationships	20	7	21
Extension of the change-related response time	20	10	13
Lack of certainty of achievement of the assumed effects	29	21	17
No disadvantages of cooperation	30	39	36
Difficult to say	9	18	12

Source: own research of the Institute of Management of the Warsaw School of Economics (SGH) 2013, n=363.

The highest frequency in this respect took place among clusters. The second place in terms of frequency among clusters as regards indications was taken by lack of certainty of achievement of the assumed effects. Among franchise enterprises, there were indicated lack of certainty of achievement of the assumed effects and uneven spread of costs and benefits. In turn, among virtual organisations, the second place as regards the frequency of indications was taken by the possibility to take over customers and resources. The distribution of other responses was similar to the one obtained for the whole body of respondents.

As for dependency of the indicated negative effects by enterprises belonging to a network in view of their size and range, the distribution of obtained responses is in principle similar to the one for the whole body of interviewed respondents (Tab. 4).

Table 4

Negative effects of functioning within the framework of network organisation depending on its size and range (in %)

	Number of participants				Network's range			
	up to 10	10 – 20	20 – 50	above 50	local	regional	national	international
Uneven spread of costs and benefits	21	10	24	34	28	17	24	15
Possible takeover of customers, part of processes	27	13	22	15	27	27	13	16
Possible loss of resources and relationships	21	10	15	13	25	16	14	9
Extension of the change-related response time	12	11	22	21	10	17	16	9
Lack of certainty of achievement of the assumed effects	25	19	22	25	18	19	29	21
No disadvantages of cooperation	36	41	34	32	45	37	28	37
Difficult to say	11	13	10	9	6	13	15	15

Source: own research of the Institute of Management of the Warsaw School of Economics (SGH) 2013, n=363.

It is worth to pay attention that for smaller networks, those with the number up to 10 participants and with the local and regional range, more often than in relation to large networks there was indicated the possibility to take over customers and part of processes as a threat issuing from enterprise's affiliation with a network organisation. However, for the majority of enterprises the most often indicated response is lack of disadvantages of cooperation what confirms the fact of an advantage of achieving benefit through activity carried out within the framework of network organisations.

Resumption

The dynamic market changes and their unpredictability cause that individual enterprises often are not able alone to resist an ever growing competition. Having this in mind, establishing cooperation with other enterprises and setting up jointly with them network organisations may contribute to their survival in the market, to reduction of threats issuing from the dynamic changes in the environment. Most often when choosing such an action strategy there are taken into account definite achievable benefits. The empirical research carried out in the Polish economic practice confirmed that enterprise managers most frequently indicated the growth of the market recognisability of a given network organisation, its image and brand as well as the growth of the level of customers' satisfaction and their loyalty. They were also the most often indicated responses not only from the point of view of enterprises belonging to networks, but also from the point of view of the whole network organisation. The subsequent places in terms of frequency of indications were taken by the growth of the level of confidence, loyalty and cohesion of the network as well as the growth of the level of up-to-datedness of the technologies applied. As negative effects of functioning within the framework of network organisations

were, in the first instance, indicated the lack of certainty of achievement of the assumed effects and uneven spread of costs and benefits resulting from the functioning within the framework of networks. What's interesting, as related to negative effects of functioning in the network, the most often indicated was their lack. Therefore, may be accession to a network organisation is preceded by an analysis of benefits and drawbacks, and advantage of the former is decisive that a specific enterprise begins to act in a definite network.

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Korzyści i wady działania przedsiębiorstw w organizacjach sieciowych – wybrane aspekty

Streszczenie

W artykule skoncentrowano uwagę na korzyściach i wadach współpracy podejmowanej przez przedsiębiorstwa funkcjonujące w ramach organizacji sieciowych w polskiej gospodarce. Nawiazywanie współpracy przez przedsiębiorstwa może stać się współcześnie jedną z podstaw tworzenia ich strategii rozwoju. W warunkach dużej zmienności otoczenia, rosnącej niepewności działania przedsiębiorstwa, zyskują na znaczeniu koncepcje wykorzystujące określone związki i partnerską współpracę z innymi podmiotami. Pojawiają się nowe formy tej współpracy, nowe struktury organizacyjne, m.in. organizacje sieciowe. Przynależność do nich wiąże się z osiągnięciem przez przedsiębiorstwa określonych korzyści, z drugiej zaś strony może skutkować wystąpieniem określonych zagrożeń. Badania empiryczne przeprowadzone w 2013 r. w grupie 363 przedsiębiorstw należących do różnych organizacji sieciowych potwierdzają, iż rzeczywiście przedsiębiorstwa osiągają określone

korzyści prowadząc działalność w ramach sieci. I są one zdecydowanie mocniej akcentowane niż określone zagrożenia.

Słowa kluczowe: przedsiębiorstwa, organizacje sieciowe, korzyści, zagrożenia funkcjonowania.

Kody JEL: D20, D23, M21

Выгоды и недостатки действия предприятий в сетевых организациях – избранные аспекты

Резюме

В статье обратили внимание на выгоды и недостатки сотрудничества, к которому приступают предприятия, функционирующие в польской экономике в рамках сетевых организаций. Установление сотрудничества предприятиями может в настоящее время стать одной из основ формирования их стратегий развития. В условиях большой изменчивости окружающей среды, растущей неуверенности действий предприятий повышается значение концепций, использующих определенные связи и партнерское сотрудничество с другими субъектами. Появляются новые формы этого сотрудничества, новые организационные структуры, в частности, сетевые организации. Принадлежность к ним связана с достижением предприятиями определенных выгод, с другой же стороны она может вести к появлению определенных угроз. Эмпирические исследования, проведенные в 2013 году в группе 363 предприятий, относящихся к разным сетевым организациям, подтверждают, что действительно предприятия достигают определенных выгод, осуществляя деятельность в рамках сети. И они решительно больше подчеркиваются, нежели определенные угрозы.

Ключевые слова: предприятия, сетевые организации, выгоды, угрозы для функционирования.

Коды JEL: D20, D23, M21

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