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Understanding collaborative business networks

By ***Sarita Koendjbiharie***

Ever wondered how Apple gets its latest shiny new phone into your hand, how Nike has you working out in their latest products or how Ryanair safely gets you and your luggage from one destination to another? In these cases and many more, a whole network of firms is working behind the scenes to deliver a quality service or product.

Consumers are not reasonably expected to guess exactly who or what is involved in the delivery of a service or product. Their prime interest is in the quality of the final result. On the other hand, firms seeking to maintain or even improve customer satisfaction, streamline their services with no drop in quality, release the best possible products and as cost-effectively as possible, should be on an almost-constant quest for the business models and approaches that make the best commercial sense.

The emergence of collaborative business networks, where separate corporate entities collaborate autonomously but inter-dependently at the same time, may just provide the answer. How, though, does the senior decision-maker conclude if this way of doing business makes sense?

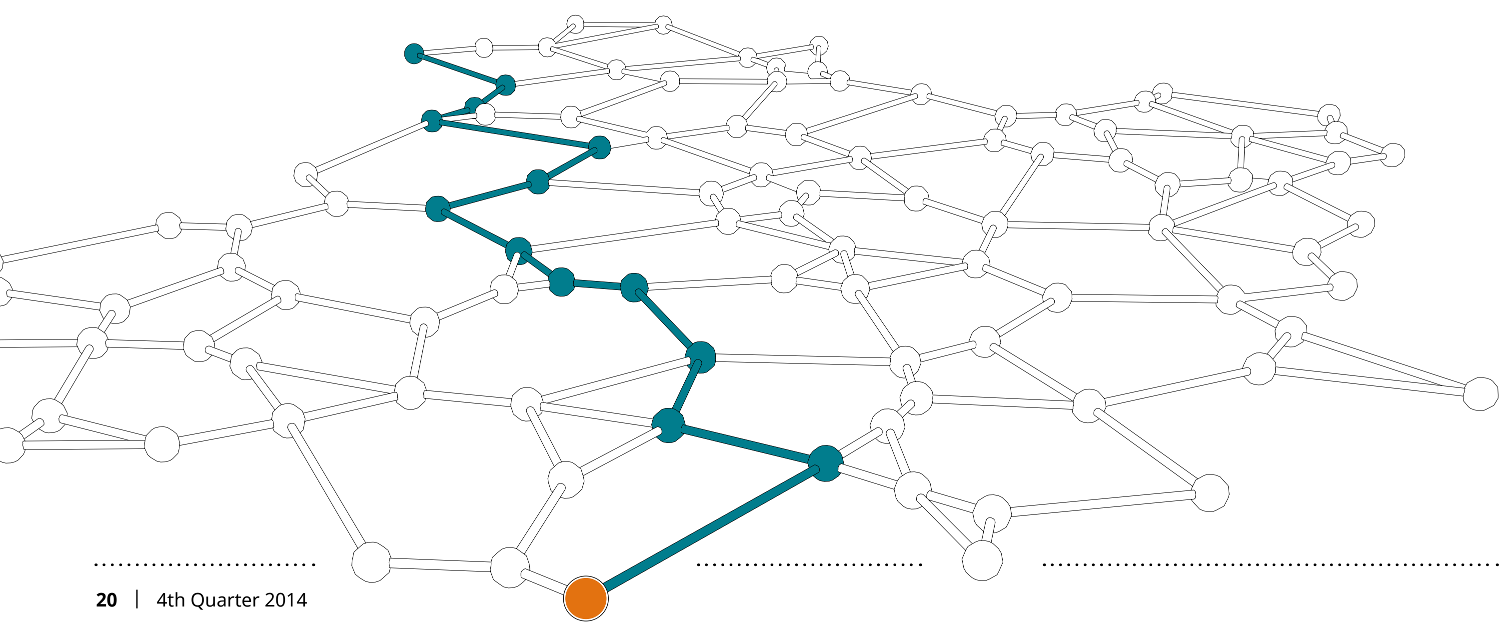
A common goal

Business networks come in all shapes and sizes and do not necessarily share the same governance structure. The one of most interest to both academics and practitioners (but also the most potentially complex one) is of a non-hierarchical variety – a "hub firm" coordinates activities but there is no sense of a vertical hierarchy, meaning all member firms are working together in pursuit of a common goal or goals, including cost efficiency, customer satisfaction and a quality product or service, but remain separate, legal entities who "simply" rely upon the skills and know-how of partner institutions to deliver the goods.

To the aforementioned names of Apple, Nike and Ryanair you could also add the likes of Dell and Toyota, as well as Li & Fung and Bharti Airtel. The lattermost is the fourth largest telecom operator in the world, but it has achieved this position partly by outsourcing its core cellular operations to Ericsson, Nokia and Siemens and its IT services to IBM. Working in tandem within this network of experts, they currently boast 250 million subscribers.

Re-appraising performance

From a conceptual and practical perspective, what is most fascinating about these networks is that the focus shifts from the individual firms within the network towards the processes adopted to



work together and the eventual collective outcome, not forgetting how satisfied consumers are with this outcome. For their performance as a whole, partner firms rely on each other and also can benchmark in relation to other, "rival" business networks.

Consequently, by no longer "going solo" (ie, dealing with their own decision making, actions and performance), they are now inclined to re-appraise their way of working from multiple angles – themselves (the firms), their target (customers) and their way of working as a whole (the system). By the same token, a firm already involved in such a network or considering integrating one should also take this broader view when anticipating or measuring the success of this network approach to doing business – the firm, the customer and the system are important and distinct lenses through which success or failure can be evaluated comprehensively.

Performance drivers

My dissertation research, which focused upon the business network that lies behind vehicle breakdown recovery services, also incorporated conceptualisation analysis and laboratory experiments. What emerges are four main factors that can drive (or indeed impede) the success of a business network – the structure of the network, the internal processes adopted, the context in which it works and, crucially, how information is shared and applied within the network.

A field study in road assistance examined these factors by assessing just how effectively one links up the call centre contacted in the first place, the service that arranges for assistance to be sent, and then the actual professional providing the on-the-spot help required by the customer.

Research into what drives the business strategy of the networked businesses pinpoint two main mentalities – the push towards attaining particular financial goals or the prioritisation of customer satisfaction. These mentalities ultimately impact all four main factors, making one thing clear – the perceived success or failure of a business network depends upon which of the three perspectives (the firm, the customer or the system) are used to measure results.

Is talk cheap?

Of the four main factors mentioned above, arguably the most interesting but also complicated from a research and practical point of view is the notion of information sharing, or what is otherwise known as the "network information architecture". The issue is far deeper than mere internal communications within the network – the information in question covers anything of direct relevance to decision-making processes and actions undertaken by any of the organisations comprising the network. Consider the importance of information on the mentalities that drive the strategies of partner organisations mentioned above.

A supply chain designer and manager such as Li & Fung would have great difficulty in dealing with its network of 15,000 suppliers across 40 countries in order to ensure a professional clothing delivery and supply service without vital information-sharing within the network. Talk, therefore, is not cheap in terms of time and energy investment but it could prove a great deal more expensive to firms that do not give due importance to the transparency of information in their business network. The potential return on investment, however, could prove a winner in the long run.

Understanding network logic

This consideration of how businesses might work in tandem, the factors for success and the ways of measuring that success also shed light on a certain kind of logic behind business practice and the choices that firms are

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Understanding collaborative business networks *(continued)*

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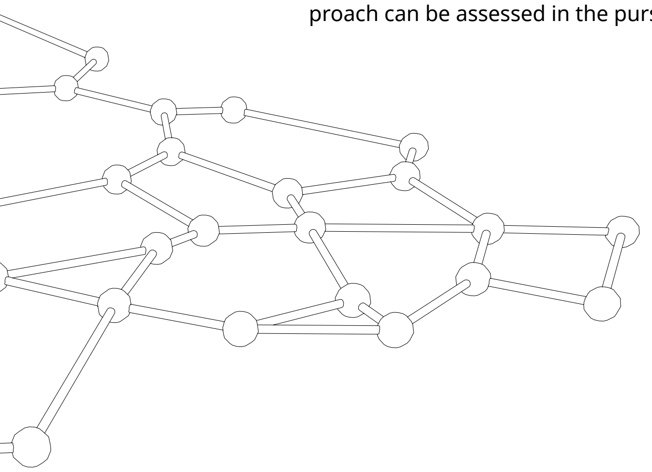
faced with and eventually make. Some opt for an overtly industry or market-driven approach, where value appropriation and financial performance are king. Others may veer more towards the customer and the profession, placing the provision of a customised service that "respects the trade" before profit margins.

Neither are 100 per cent guaranteed of success. However, the business network offers an alternative approach, where resources, knowledge and information are pooled together and where, by taking a more multi-dimensional approach to measuring business performance (the firm, the customer, the system), the respective strengths and weaknesses of each approach can be assessed in the pursuit of a collaborative success. Firms that are "in it for themselves" may as well go look elsewhere, for business networks are not necessarily easy to control and manage; and outsourcing, by definition, implies a relative loss of control but no lower a level of accountability, if operations go belly-up.



Food for thought

Previous research into business networks has been very much focused upon processes and outcomes of individual firms, dyads and chains that, although not to be neglected when assessing the viability of this collective approach, are not the be-all and end-all. Structure, context and information-sharing and application on a network level are also key and should all be assessed from the tripartite firm-customer-system perspective. However, the debate by no means ends here.

Within existing business networks, governance models vary, information architectures are rarely the same and networks are in differing states of infancy or maturity. Other, more hierarchical types exist as well, and these are worthy of comparative research with the "autonomous yet inter-dependent" model currently under the microscope.

In all scenarios, though, businesses should consider very seriously both the pros and cons of this collaborative way of doing business and, above all, arm themselves with the tools to measure all dimensions of success. ■

RSM Discovery videos

Watch a video of Sarita talking about this research at* WEB *http://bit.ly/1xa1eM4

This article draws inspiration from the PhD thesis *The Information-Based View on Business Network Performance – Revealing the Performance of Interorganizational Networks*, written by Sarita Koendjbiharie. http://repub.eur.nl/pub/51751

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