

# Models of Network Structures used in the EU

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## Abstract

In the article we deal with the network-organization structure as a possibility to integrate small functional units to a stronger complex, which is able to compete with large companies. A good communication among territorial detached units is supported by modern communication technique. The units are managed in the interest of business, research and distributional activities from a one centre.

## Keywords

Networks, Network structures

## 1 Network

It is known that the firms can have a considerable success in innovation, by creating an innovative culture or by development of a modern high-technological production. At the same time the traditional managerial methods has been changing because of the unstable external environment – fluctuation of energy and raw material prices and inflation, variation of exchange curses, changes in the economic state policy, technological environment transformation and harder competition. Under these conditions the small and middle enterprises (SME) are trying to use not only the advantages of their specialization but also the possibilities, given by cooperation in production, production expansion, common research and development and also the splitting of a finance risk. The SME can achieve to have a stable economic situation for them and to be a good competitor

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to large firms only through common cooperation in many field of theirs business activities.

Entrepreneurs in the Czech Republic realize two models of entrepreneurial behavior:

**Classic** model - oriented on the highest possible profitability of a firm's resources.

**Innovative** model - all sources for the development of the production and the products are exploited (although own resources are not sufficient).

## 2 Characteristics of Business Networks

The networks could be defined as a longterm deals among mutually linked firms, these deals help the firms in the network to gain a competitive advantage to the firms which are not involved in the network. In the network model, the management rise in the cooperation process of all structural units. The managers are nominated on the consensus basis. The responsibility is splitted among all units. In the network princip of cooperation there si no centralized management of production activities. The leading firm takes the control over the plans and business, as in the network deal stated. The leading firm is also an organizer of information management. In some detail the two opposite principle are put together – competition and cooperation.

In the praxis network-organization structures assume various forms, which are as follows: **internal networks, static networks and dynamical networks** of small- and medium sized enterprises. Nowadays a number of other typologies of entrepreneurial networks is on the increase. Particularly we can mention networks, which are based on personal or ethnical relations, networks of firms in a particular geographical area, networks of firms covered by an organization or institution and networks built on the supplier-customer relationship.

A specific issue as the modification of network structures are holons, franchising, cell organizations, the network structure "Ameba" and others.

**Internal network** means that the firm limit outsourcing of own business activities and try to get a market utility. The condition for it is that the firm owns all or the majority of resources, which it needs for doing the business. The idea is to create an internal market where is bought and sold for real prices. Thanks to this market, the units and pushed to be competitive and the units can offer their products also out of the internal network. This is a motivation for being innovative of the network units and the power of the whole firm can grow. The General Motors' components business can be a good example of an internal network. The internal networks are typical for multinational firms such as oil industries etc. Through the contact with the firms out of the internal network the real price on the internal market can exist. This makes it possible that the network-firms are doing business in the network and also out of the network.

**Static network** uses partly an outsourcing and it is a way how to make the value chain flexible. In this case the assets are owned by a few firms and all the assets are put into a business project. Usually the group of suppliers are settled down in an area of a large firm. The suppliers supply a certain product to the main firm. This type of a network we can see by the firm BMW. In the BMW 55 to 75 % of whole production costs is outsourced. As well as in the GM the network units are viewed on the basis of real market standards. Moreover BMW keep pace with the development of hi-tech through its own units and also through partnerships with other firms. This form means a split of assets and risk into more units.

#### **Dynamic network**

According to a fast development some firms are pushed to outsource a lot. This is mostly in clothing, film, toys and biotechnology industry. Under such conditions it is better to create a dynamic network. For this type of network is typical that the leading firm is using resources, which are owned by other firms.

### **3 Factors influencing the success of production networks**

The creation of the networks among SME is always often. The question is, what are the key-factors for success of a network. The two important factors are **trust and involvement**. The firms should be involved to solve the small problems in order to reach the long-term goals. In studies about success of strategic alliances there are two characteristics important – **reputation of a firm** and **similarity of partners**. The reputation of a firm is close to the trust. With the trust we understand mostly the willingness of sharing information. In resources about a virtual firm theme there is also **IT system** as an important factor stated. The IT systems support the communication of the firms. The list of factors was completed with a case study about SME. These factors are: geographical situation, economic conditions, customers and effect of middleman. The effect of middleman is for example in Danish firms needed, because the traditional family contacts are missing. The network in Denmark can serve as a middleman. On the other hand in Italy is the effect of middleman not so strong.

### **4 Survey experience**

An illustrative example of an effective network structure and contract is the organization of textiles in Germany. This industry is considerably booming thanks to its complex system of alliances, which connect small- and medium sized companies not only among themselves, but also with research and technological

institutes, centers for personal development training, consulting firms and marketing agencies. The narrow specialization of the network-forms determines their mutual dependence. The members of the entrepreneurial textile network are also connected with inter-branch networks of suppliers of raw materials, materials, colors etc. So complex networks of networks are created.

For creating entrepreneurial networks in traditional industry branches in Germany there are a lot of objective prerequisites – association of family enterprises, reliability, professional devotion and perfect reputation of chiefs. Network structures in Italy develop effectively as well. Their main characteristic feature is an extraordinary small size of most firms, which make network agreements (they have, on average, up to ten employees). The majority of the firms are highly specialized and no internal vertical integration exists. Only a very small part of firms pursue sales or marketing of finished goods independently. Owners usually prefer outsourcing to expansion and integration. Using satellite firms enables them to hold a small range of their companies and to use the law and organizational advantages of the small enterprises. Regardless of close mutual relations and cooperation the companies stay independent. The fact of keeping the traditions of the large and together knitted Italian families creates a big trust in relationships among the small firms. Thanks to the friendly and amicable relations and recommendations is the recruitment- process in these firms easier. Such a trend has not taken place in the Czech Republic. The Czech small- and middle sized enterprises do their business secretly and are not willing to cooperate.

**The experiences with networks in highly developed countries allow us to draw a few conclusions:**

1. The creation of business networks is a natural phase of the economic system evolution. The conditions for it are: acceleration of the scientific and technical progress, new technique and technology, increase of resource accessibility and deep changes in social-psychological facts in the society.
2. The networks, which were established in a uncoordinated way, are becoming an instrument of coordination.
3. The networks should not be considered as an ideal model, which changes the old organizational forms. It is about the development and market transformation traditional structures and the fact, that they should gain a new quality.

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