Chapter V

Networks, Ecosystems, and Clusters

Introduction

“Vertically integrated manufacturing firms are morphing into internal and external networks.” (Achrol & Kotler, 1999, p. 161)

In the previous two chapters, we have reviewed various types of coordination mechanisms and discussed issues related to the boundaries of a firm. Different kinds of collaborative and network relationships have been presented as a means to increase cooperation between different players in an industry. Now is a good time to go a little bit deeper into the philosophy of networks. We will also familiarize ourselves with two interesting concepts of intercompany networking: business ecosystems and clusters.

According to Achrol and Kotler (1999), traditional hierarchical organizations are “disaggregating into a variety of network forms, including internal networks, vertical networks, Internet networks, and opportunity networks” (p. 146). As the role of networks has increased, scientists have also learned to better map
interconnectivity (Barabasi, 2002). By mapping interactions between species in the ecosystem, they have realized that these maps follow a common blueprint. Barabasi points out that “simple and far-reaching natural laws govern the structure and evolution of all the complex networks that surround us” (p. 6). This raises an interesting question as to whether similar laws also apply to business networks.

According to Blomqvist (2003), being innovative and having excellent technological skills are not enough in a networked economy. She refers to extensive research, which indicates that around 50% to 70% of network relationships fail. One of the most common reasons for high failure rates is the lack of trust (we will return to the issue of trust as we analyze the success factors of the Japanese mobile industry). Blomqvist notes that in efficient networks enabled by modern technology, it is more and more difficult for companies to protect their innovations. At the same time, it is more and more difficult to hide unethical or defective procedures from the participants of the networks. She concludes by stating that trust and the ability to work in close collaboration with others are essential sources of competitive advantage in the network economy.

**Review of Network Research in Management Literature**

According to Borgatti and Foster (2003), the amount of network literature is growing exponentially (they actually counted the number of publications indexed by Sociological Abstracts containing the term “social network” in the abstract or title, and the result was that the growth is in fact exponential). They see this growth as part of the general shift “away from individualist, essentialist and atomistic explanations toward more relational, contextual and systemic understandings” (p. 991). This trend has been clearly visible in the analysis of vertical integration strategies and value creation in the previous two chapters as well.

The rapid increase of network research in management inspired Borgatti and Foster to conduct a review and classification of research done in this field. Next, we will go briefly through what their analysis reveals. But before we go any further, let us familiarize ourselves with the key terminology of network research. Borgatti and Foster (2003) define a network as “a set of actors connected by a set of ties” (p. 992). These actors, often called “nodes,” can
Related Content

Determinants of Goal-Directed Mobile Ticketing Service Adoption Among Internet Users: The Case of Taiwan
www.igi-global.com/chapter/determinants-goal-directed-mobile-ticketing/65939?camid=4v1a

Technology Adoption and Educational Change in Turkey
Serhat Kurt (2013). Implementation and Integration of Information Systems in the Service Sector (pp. 70-80).
www.igi-global.com/chapter/technology-adoption-educational-change-turkey/72544?camid=4v1a

Strategic Marketing: Models and Plans
www.igi-global.com/chapter/strategic-marketing-models-plans/61888?camid=4v1a

Survey of the State-of-the-Art of Cloud Computing
www.igi-global.com/article/survey-state-art-cloud-computing/60407?camid=4v1a