Chapter 18
Strategic Networking Behavior of SMEs: Practical Considerations from Bulgaria

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ABSTRACT
Strategic networking behavior of SMEs is an issue that has not yet been thoroughly studied in the context of emerging market economies in Eastern Europe. No doubt, through strategic networking, SMEs could gain access to valuable resources – information, know-how, technologies, finance, etc., needed for strategy development, and building and maintaining competitive advantages. In addition, the networking of Bulgarian firms operating in a limited domestic market can be viewed as a tool for gaining access to external markets. On the other hand, intensive collaboration and networking creates problems and challenges for the SMEs and places new requirements to their strategic management. Therefore, this chapter draws upon the data and results of three researches which investigated strategic networking behavior of Bulgarian SMEs in order to reveal the specific benefits and challenges of SMEs involved in networks and to examine the impact of networking activities on SMEs strategic development. Finally, recommendations for the strategic networking behavior of Eastern European SMEs are formulated with a view to improve their results from networking and hence their competitiveness.

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INTRODUCTION

Significant changes in the global competitive environment, which we have witnessed in recent decades, have led practitioners and researchers to examine contemporary business as not functioning in the well-known traditional market and industrial structures but in networks of interconnected firms. Assuming that firms operate in such a complex and dynamic environment, their business behavior should be analyzed with a view to the dynamics of their relationships with a wide range of stakeholders and other organizations – distributors, suppliers, competitors, and customers as a way of extracting strategic benefits and increasing competitiveness (Jarillo, 1988; Hekansson & Snehota, 1995; Gulati, Nohria, & Zaheer, 2000). Effects of networking on firms' performance and competitiveness may vary depending on the context, including characteristics of the industry, characteristics of the network – configuration of links, partners’ and firm’s profiles – e.g. age, size (Gulati, Dialdin, & Wang, 2002, p. 294).

In response to the growing demands of competitive environments, SMEs obviously need to form and develop supportive and strategically focused partnerships and networks aimed not only for their survival, but also for increasing competitiveness. Therefore, cooperation and networking emerge as a preferred small firms’ strategy (Pichler, 2007, p. 111). Formation, involvement, and location in networks express the strategic networking behavior of SMEs in case they search for strategic benefits from cooperating with other firms. In turn, partner relationships, networking, and related challenges set certain requirements for the strategic management of SMEs. In line with the growing trend of inter-firm cooperation, in recent years researchers shifted their focus from just the need to understand the nature and functioning of business partnerships and networks to the strategic aspects of firm behavior towards networking. This interest in strategic management of firms, operating in network environments and particularly in strategic aspects of firms’ development in a network, can be defined as a relatively new one (Ritter, Wilkinson, & Johnston, 2004, pp. 175-183). It is noteworthy also that the studies on this topic focus mainly on the review, modeling, and analysis of behavior and management of firms in networks or the networks themselves in the context of developed countries such as the model of “managing in networks” proposed by Ford, Gadde, Hakansson, and Snehota (2003) which is illustrated by a case study on a famous retailer IKEA.

On the other hand, there are few findings on the strategic aspects of SMEs' networking behavior in different regions and at different stages of economic development, for example in Eastern European countries. Accordingly, there is no critical mass of research studies and findings that support entrepreneurs and managers from Bulgarian SMEs in the process of their business development in network context (Todorov, 2005). In this context, this chapter aims to reveal and examine some strategic aspects of SMEs' networking behavior in the specific conditions of emerging market economies in Eastern Europe and particularly in Bulgaria in order to formulate recommendations for improvement of their competitiveness and networking results. A better understanding of the strategic networking behavior of SMEs in this specific context can also be beneficial for companies in the developed economies, especially in terms of improving their cooperation and networking with Eastern European small businesses. Important characteristics of these firms are their smaller size, in comparison to the average size of Western European SMEs; insufficient managerial and business experience, due to their short history; access to insufficient and very often inadequate public support; often operating in relative high isolation, and yet trying to create strategic partnerships and networks in order to build potential for growth and development. Moreover, their strategic networking behavior is related to exploiting growth opportunities through internationalization (involving in foreign business
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