BARRIERS TO THE DEVELOPMENT OF COOPERATION IN VALUE NETWORKS WITH A LOW LEVEL OF COOPERATION

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Abstract
In today's highly competitive market environment it now appears insufficient for a firm to endeavour to deepen and strengthen relations with direct customers only. It is increasingly clear that the higher effects can be achieved by engaging in value networks and by developing cooperation with other entities of the network in order to provide greater value to the end customer. However, this way of thinking has not been satisfactorily implemented in Czech industrial enterprises (including metallurgical and chemical ones) yet. The paper presents results of primary qualitative researches focused on capturing the present form and the way of cooperation in selected value networks. The paper first presents the form and current mode of operation of selected value networks, and subsequently barriers are specified for further development of cooperation in these networks. The research results are reflected in the draft recommendations for improvement. The proposed improvements should contribute to higher connectivity of entities and processes in the value network and to coordinated value creation management for all customers in the network. The proposed recommendations are generally usable, even in networks involving enterprises of metallurgical and chemical industries.

Keywords: value network, value network strategy, subjects of value network, cooperation.

1. INTRODUCTION
The current market environment can be described as highly competitive, globalized, increasingly based on knowledge and development of communications and information technology, etc. These facts lead ultimately to incessant changes in which businesses must react quickly and flexibly. In order to acquire certain stability in this turbulent environment, companies are focusing more than ever on creating powerful, personalized, long-term relationships with business partners. Even as ordinary consumers we are certainly aware of the shift in the behaviour of actors in B2C markets, rewarding repeat purchases and brand loyalty, not just new customers.

The basic prerequisite for the stability and development of relations is their advantageousness for both partners based on trust and strong emotional ties. Only then can the partners share information and collaborate in creating value so that the offer meets the customer's expectations as well as possible, flexibly and comprehensively addressing their needs and requirements, both overt and latent. Buyer-supplier relationships in current market conditions are often described as becoming closer and terms such as partnerships and alliances are being used to be contrasted with the traditional spot market exchange [1]. The aim is to achieve higher forms of cooperation that generate to both parties otherwise unattainable benefits in terms of strengthening their position in the market. Under current conditions, relations between the seller and the buyer actually represent some of the most important assets of a company and should be considered and treated as other types of investments [1]. Benefits derived from partnerships are those that support the realization of strategies designed to secure competitive advantage for both partners. The supplier’s competitive advantage is derived from supplying benefits that are valued by the client firm, which in turn
create commitment, while the client firm’s competitive advantage is derived from using those benefits provided by suppliers [2].

In these conditions, superior customer value is considered a key driver of satisfaction, loyalty and retention [3]. Value creation must therefore be seen as a problem-solving process that is co-created through interaction, where both parties contribute and integrate resources [4]. In order to co-create effective customer-focused solutions, firms need to create a fit between not only the offering and the customer need and value expectations, but also between the goals, preferences, and resources of the supplier firms [5]. The task of the customer is to contribute to the co-creation by communicating their needs and industry knowledge [4], as the customer's participation in the creation of value increases the likelihood that the customer will be satisfied/pleased, which creates conditions for further development of relations and desirable behaviour of the customer in the form of repeat purchases and increase in loyalty. The basic benefits of such a solution are, in addition to monetary benefits, also aplomb, reliability and usability, brightened image and compatibility of future solutions [4].

The need to better anticipate changes in the market environment and quickly adapt to them, however, requires multilateral cooperation among all those involved in the creation and delivery of value. It is from the uniqueness of the network of partners, their activities and relationships that much of the competitive advantage currently stems. Multiparty collaboration is critical to the effective solution of complex problems and continuous adaptation to changing environments. Further, new organization designs demand changes in managerial attitudes and abilities that historically have taken decades to gain widespread acceptance and implementation [6].

The aim of this paper is to describe the current form and way of cooperation in selected networks, specify the possible areas of cooperation and the main factors that hinder its further development, and outline possible ways for improvement. The aim will be achieved based on the literature search; also, the results will be presented and analysed of two primary qualitative researches in selected industrial enterprises.

2. VALUE NETWORK AND COOPERATION IN THE VALUE NETWORK

Strengthening the position of customers is reflected in the growth of their demands on the size of the perceived value with the current tendency to reduce their retention and loyalty. Only a closer cooperation will allow flexibility in responding to changing market demands while maintaining business efficiency. Development of relationships and growth of interdependence among businesses is therefore a characteristic feature of the current business world [7]. Offering superior value is a necessary but not sufficient condition for the development of relationships under these conditions. Satisfaction with the supplier will only translate into commitment if the purchasing relationship is characterized by trust [8].

2.1 Value network and cooperation in the value network – theoretical background

Customer value is created by a whole complex of different components in the form of product characteristics, service quality, employee behaviour and other factors that satisfy the wishes and needs of customers, and for which they are willing to pay. A tool that allows businesses to identify ways and means to increase the customer value, analyse the role of individual subjects in its design and delivery and set the optimum shape of their activities and relationships in order to generate the highest value is the value network. It is based on the assumption that total value creation will be greater and faster in organizations that create value collaboratively, both within and across firms [6].

Value network is a system of a number of enterprises or their parts that are collectively trying to gain a competitive advantage by creating relatively stable relations among legally separate, but usually economically dependent entities for the purpose of joint creation of a higher value [9]. Characteristic features of the value network are cooperative activities and relatively stable relationships between the entities. It is a
set of relatively independent units that can be controlled independently, but operate together under certain rules [10]. Networks are therefore referred to as specific relations between entities, whereby the usefulness is determined by a common goal to create the customer value, they are a system of partnerships and alliances, based on varying degrees of integration.

Construction, efficient functioning and stability of the value network requires a shift in thinking of their members from a focus on self-interest to considerations of each member’s contribution to maximize economic, environmental and other benefits for all members of the value network [11]. The aim of the connections is to achieve the best outcome for the entire network, including the final customer [12]. Enterprises must therefore consider which links could benefit from the product offer and also add a certain value, while the other links should be excluded from the network [13]. Value network should be organised to ensure the best resource combination for each customer project, avoid conflicts or turn them into fruitful sparring, and respond to varying customer preferences in a flexible manner [5].

The basic prerequisites for effective functioning of value networks are mutual trust, equitable division of benefits and tasks among partners and fair behaviour of stronger partners towards the weaker [14]. Therefore, value creation in a relational context can be characterized as a process dependent upon interaction and dialogue between buyers and sellers that builds and sustains mutual commitment [15]. The shift from the ordinary cooperation lies in the fact that each link focuses on its most important qualifications while relying on the network of its partners in other activities. This should lead to the optimal fulfilment of the interests of all participants [12]. The effective functioning of the value network requires a qualitatively higher level of cooperation that is based on openness between partners and sharing of information necessary for achieving a common goal. Therefore, all the actors in a business network should have a shared view of the type of solution needed, the operations and processes required for its creation as well as the intended outcome [5]. It is argued that close and stable relations facilitate sharing of knowledge and risks [16].

Development of cooperation in the value network gradually passes through qualitatively different stages, which differ in the extent of cooperation closeness from communication based on information sharing, through coordination of regular decision-making processes to make them faster and more accurate, through deepening coordination including strategic decisions and promoting of innovation, to partnership which involves extended financial linkages, such as sharing of investments and profits [17].

There are many reasons why businesses get involved in value networks. By engaging in an interorganizational network, firms gain access to new knowledge, resources, markets and technologies [18, 19, 20]. It is primarily to increase the chances to successfully introduce new products, expand markets and gain access to new markets, reduce production costs and investment risks, improve know-how and image or take advantage of joint purchasing and logistics. Information sharing and other forms of cooperation not only allow businesses to better understand customer needs and requirements, use experiences, practices and solutions of partners, but also to compare and analyse the results in order to improve their own performance within the network.

Effective cooperation is not possible if there is no integrative link that integrates appropriate entities (the strategic level) and coordinates the activities of individual members to achieve a common goal on the principle of profitability for all members. System integrator integrates components, technologies, skills and knowledge from various organizations into a unified system [16]. Relationships in the network must be focused on cooperation and collaboration rather than domination and control. A lack of trust is among the most frequently cited reasons for failures in organizational cooperation [18].

2.2 Cooperation in the value network - practical examples

The primary qualitative research focused on the shape of the value network and extent and preferred forms of cooperation among its members and barriers for further development was realized in the first half of 2012
in selected enterprises of various industries. The presented research results are related to two companies, whose basic common features are these facts – they carry on business in the fields significantly regulated by legislation, they are not key players in the market in the line of business and they are not interconnected with their business partners in terms of assets.

The first research was conducted in a relatively small company with almost 20 years of experience, which makes freely available pharmaceutical products (medical preparations, cosmetics and health supplements), i.e. products for final consumption. The range of its products comprises nearly 200 products that are sold in pharmacies. Competition in the field is considerable. A competitive advantage is the ability to respond flexibly to the demands and needs of customers in a wide range of products produced in small quantities. The company normally collaborates with suppliers, in terms of research and development with a university and a hospital. Products are sold to distributors of pharmaceuticals that provide the physical distribution according to the needs of pharmacies. To a small extent, the sale is carried out through an online shop or direct sale in the company outlet. Sales representatives play an important role, providing a direct link between the company and pharmacies.

In relation to suppliers there are no deeper forms of cooperation based on, for example, sharing information about customers or inventory, or cooperation in marketing communications, staff training, etc. Distribution of products is provided by large pharmaceutical distribution companies. Closer cooperation takes place with the distributor, with whom the enterprise has a consignment store. The company regularly receives information from distributors about the size of sales by pharmacies, additional information is not shared, and neither is any joint action carried out towards the end customers. Distributors independently of the manufacturer prepare their own sales support programs. The company cooperates with pharmacies through sales representatives. They provide not only special offers and orders thereof, but also communication with customers (pharmacies), sales promotion (samples for end customers), etc. For the physical distribution of such goods, a distributor of consignment stock is preferred, which brings benefits to both parties (security of supply to pharmacy for the manufacturer, sales growth for the distributor). The cooperation in this case is narrower than with the other distributors, where the level does not exceed normal commercial relations. The value added of the distributors is in a quick and flexible response to customer demands, which brings savings in inventory costs to the pharmacies without compromising the satisfaction of end customers. With the exception of samples and promotional discounts to the pharmacies (which are provided to final customers), the enterprise does not participate in strengthening the customer-pharmacy relationship. The enterprise communicates with end customers only when they buy products in the company outlet, online shop or through the website. The company offers these customers a loyalty program. The company gets feedback in surveys with distributors, from the pharmacies through sales representatives. The company does not perform researches focused on satisfaction and preferences of end consumers, it obtains direct consumer response only from the company outlet and the Internet, indirectly also from pharmacies.

The other research was conducted in a large chemical company with a long history, which produces a wide range of products in many lines of business. The research results are presented for production of pigments for printing inks. The company's products are intended for further processing, most of the production is exported. The products are supplied as a feedstock to manufacturers of printing dyes; printers are another link in the processing chain, being followed by manufacturers of products for final consumption (furniture, flooring, food labels). It is a line of business in which quality service and application consultancy has a significant impact to the size of the value perceived by the immediate customer. Merits of the company may be seen in its flexibility, complete quality service, wide range of applications and technological know-how. Between direct purchasers and the company there are material and information flows, between the following articles in the network there are only material flows, and between the company and government institutions and research groups there are only information flows. The products are delivered direct to immediate customers primarily through distributors. The company stands at the beginning of a relatively long processing chain, but with the exception of the immediate customers, it is not in contact with the adjacent
links, it does not know their problems and needs and does not cooperate with them and, therefore, it is not able to effectively influence the creation of value for the end customer. With its suppliers (mainly foreign), the enterprise cooperates normally.

In terms of strengthening the competitive position of immediate customers in the market, cooperation is significant in research and development to address specific customer needs and service, which results from the nature of the products supplied. In terms of strengthening long-term relationships, it is also important to adapt the packaging to the customers’ needs. It increases the perceived value for the customer as a result of the cost savings; the enterprise benefits from greater customer’s dependence on the supplier. The relationships are also strengthened through communication with customers, co-operation in the field of quality management, inventory management (offer to create reserves for unexpected customer orders), or in the transportation of products.

3. DISCUSSION OF RESULTS

The advantage of the first company is that it is the next manufacturing link in relation to the customers. The managers believe that the degree of cooperation with suppliers and customers corresponds to the market conditions. The management evaluates the level of cooperation with distribution links relatively positively. The consignment store allows the company to monitor the level of consumption and the amount of company inventory of products at the largest distributor. Sharing other information is not possible in the managers’ opinion, nor is it desirable under current conditions. The company gets important market information by itself through its sales representatives. Similarly, in relation to the suppliers, the company sees no sufficient potential in the benefits of sharing information (for example on the demand for their own products) or a space for collaboration beyond the level of normal commercial relations. The company focuses on strengthening relationships with pharmacies, which represent a direct link between the company and the end customer. Although the company is under intense competitive pressure, it sees no opportunities for closer cooperation in the creation of value either in relation to suppliers, or customers. Relationships between the entities are not good enough to share sensitive information; the company does not have the economic strength nor the ambition to integrate the entities with the aim of achieving higher forms of multilateral cooperation.

In the case of the other company, the situation is more complicated. Position in the supply chain, together with a large share of exports to relatively anonymous markets (the company knows, in many cases, only distributors, not users of its production), worsens conditions for multilateral cooperation and promoting deeper forms of integration at other than the bilateral level with the immediate customers. The company sees barriers mainly in the lack of trust among the partners (it is not possible to share sensitive information, as it can be misused), in the threat of damage to the reputation of the company (thorough improper use of products or poor quality production of the buyer) or in the legislative restrictions to mergers. The REACH legislation and other restrictions relating to the protection of the environment worsen the position of European exporters and create additional barriers to multilaterally beneficial cooperation with suppliers and customers. Relationships among the entities are not good enough to share sensitive information; the company does not have the economic strength to integrate the entities with the aim of achieving higher forms of multilateral cooperation.

4. CONCLUSION

The main reasons for joining the network are the expected benefits arising from access to new knowledge, resources, markets and technologies that the partners share, that is why value networks are characterized by cooperative activities and relatively stable relationships among the entities. However, as mentioned above, it requires trust among members, equitable division of benefits and responsibilities among partners and fair behaviour of stronger partners towards the weaker ones. The results of the research, however, show
that in the examined companies cooperation is developed essentially only at the bilateral level. However, the degree of interconnection does not reach the level of information sharing. For development cooperation, there are a number of barriers, many of which the missing coordination link would be able to remove, which would create an integration strategy and network on the principles of mutual benefit. The perceived need for greater multilateral cooperation on the principles of the value network is inherently superior with an entity being at the beginning of the supply chain, which is typical not only for most enterprises of the chemical, but also of the metallurgical industry. In them, it is therefore also greater potential for increasing the provided value thorough integration into networks.

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REFERENCES


