

Indiscriminate actors in industrial networks: is there at all a role for government in the *industrially networked economy*?

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Abstract

Actors and institutions that have a recognised but indirect impact on business actors' behaviour in industrial relationships and networks are largely treated as exogenous to industrial networks modelling. Environmental impact on networks are internalised, contained and transmitted through individual relationships, whereas assumptions concerning network impact on environment are largely missing even if resulting from adaptation to environmental forces. Still there is an inclination towards including in particular government in industrial networks analysis. A normative responsibility to account for actors and institutions that could facilitate or prevent the production and distribution of eventual beneficial or detrimental welfare or societal effects in network models follows. Some possibilities and constraints for such accounting in industrial networks are discussed. It is argued that making the polity part of industrial network analysis introduces elements that supposedly shift the strength and direction of flows in the 'taken-for-granted' distribution system of networks by wedging into business relationships. It is the wedges and resulting shifts in the network distribution system that needs to be in the focus of an industrial networks perspective on government if to maintain and appreciate a distinction between business and governmental/indiscriminate actors and institutions.

Keywords: Government, indiscriminate agency, network distribution, industrial network modelling, environmental implications

Introduction

Do government acquire identity – a meaning in the eyes of others – as distinct actors in industrial networks? For industrial networks built over business relationships are usually not characterised as general and distanced, nor are business relationship behaviour primarily understood as rule-governed. Indeed, the basis for ascribing identity and agency as actors in business relationships (and subsequently industrial networks) is everything but *general* and *distanced*.

Generally, industrial networks research address business actors as the focal and usually only reference and determinant to business behaviour. (See for example Hadjikhani and Sharma 1999; Halinen and Törnroos 1998; Welch and Wilkinson 2004) Environmental forces, while generally impacting on networks, are “always transmitted within the network through individual relationships” (Halinen et al. 1999:788). Actors and institutions that have a recognised but indirect impact on business actors’ behaviour in industrial relationships and networks, i.e. through other means than exchange with business actors, are largely treated as exogenous to industrial networks modelling. Indeed, according to Welch et al. (2004), the interaction environment was perhaps one of the ‘losses’ as the ‘second-generation’ AAR model” took prominence over the ‘first-generation’ interaction model. Whereas actors and institutions in the ‘interaction environment’ may still be crucial both in a relationship and network context, they largely represent a kind of relationship relevant models are not set up to handle, neither structurally nor conceptually.

This does not imply that social, political or governmental impact on business relationships and industrial networks are necessarily neglected or understudied. Studies of how actors enmeshed in networks of relationships are affected, respond and react to exogenous impact in general and to governmental impact in particular are far from uncommon within industrial networks research. Indeed, studies of how, for example, dynamics within industrial relationships and networks are triggered and unfold may be more theoretically rewarding if leaving out particularities of what triggered or ended a chain of events per se, in particular so if the source of the trigger lies outside the domains of continuous business interaction. Systematic studies of exogenous impact on traditional indicators of business relationships may consequently be more rewarding than making the tradeoffs necessary to make the sources of impact endogenous to industrial networks models.

Many scholars explicitly (or perhaps more often implicitly) argue that notions such as strategic business alliances, industrial clusters, -districts or -networks are inherently beneficial also for a larger community than for those directly involved through exchange. Consequently, research based strategies and accounts for how to conceptualise, understand, build and support (and preferably host) the development of ‘real world’ alliances, clusters, districts or networks have paved their way into many research fields, also into industrial networks research. A vast body of studies and literature spanning various disciplines could be used to illustrate this tendency that often start out in very legitimate interests and/or empirical cases. Indeed, for all what we know, many of the cases frequently used to illustrate relationships and networks may result from such legitimate interests related to e.g. defence, energy, transport, etc. Beckett (2004) makes a good and explicit example of how such legitimate interests and cases may be expressed:

“For a variety of reasons some Australian local governments are seeking to encourage targeted types of business activity within their governance area, often in conjunction with adjacent local governments. This creates networks supportive of some, but not all business activities in the region that is additional to pre-existing business and market networks. The questions considered in this paper are – what kinds of strategies can be adopted by Local Government that will result in the desired outcomes, and what capabilities does local government need.”

Let alone epistemological and ontological issues and problems raised by this development there is a normative responsibility for taking into account societal or macro consequences and implications of industrial networks following such beliefs and arguments. Hence, accounting for actors and institutions that could facilitate or prevent the production and distribution of eventual beneficial or detrimental welfare or societal effects of industrial networks becomes an implied issue to be dealt with by industrial networks modelling and thought. Surely, if arguing for the economic salience of relational exchange it would be an odd assumption to make that the wealth resulting from it were to be (Pareto optimally) allocated and distributed as if it was provided through market exchange. There is every reason to

assume, as is by those relying on implications for production and welfare from the market mechanism, that relational exchange has the potential to quite fundamentally alter not only allocation for production purposes, but also the distribution of welfare resulting from it. Implications related to allocation and distribution resulting from for example relational exchange (i.e. market failure) account for government in the market model, and certain features of government is pointed to. What accounts for government (governance of relational exchange) in network models, and what features of government can be derived? To what extent, or under what constraints, do the purposes and basics of industrial networks research allow accounting for actors and institutions that could facilitate or prevent the production and distribution of eventual beneficial or detrimental welfare or societal effects?

Industrial network accounting for what facilitates or prevents the production and distribution of beneficial or detrimental welfare or societal effects

First, industrial networks literature focusing on production and distribution of beneficial or detrimental welfare or societal effects is scarce. The industrial networks approach was never set up for or intended applied to this end. Rather, appreciating the empirical finding that business actors are engaged in business relationships was what the approach was set up to study and intended applied for, primarily within an industrial marketing setting. The effects primarily looked for applies to relationships, to actors involved in relationships and to networks of interconnected relationships. As expressed above, attempts to account for various sources of exogenous impact on business relationships (and networks) do not breach with this. Going the other way, however, accounting for how business relationships (and networks of such) impacts on the 'external environment', is less straightforward.

Halinen et al. (1999) describes how environmental forces function and affect business relationships, maintaining that individual relationships are the transmitters of such forces within the network. The forces are 'one-way' from environment to network. That the resulting changes in networks may alter the distribution of profits or welfare not only within the network is of less concern.

Harrison (2004) studies a court decision in disfavour of equalling the long-term business relationship between Marks & Spencer and William Baird where no written contract existed as an implied contract. This decision clearly carries implications far beyond the particular (ended) relationship, some of which are pointed to in her conclusions. Hence, law and law enforcement through courts may change the pattern of interaction between business actors (whether engaged in relationships or not), business relationships as such, and networks of interconnected relationships. The process of business actors embedding certain interpretations of law in businesses relationships and networks may also be well fit for studies within this approach. However, if approaching the case by making it starting point for a discussion over industrial law and policy from a lawmaker or governmental perspective, things could look very different as it implies extending mechanisms governing business relationships and networks to also apply for courts and matters of law and policy, or for such to 'appreciate' a relational approach to various exchange.

Hallén & Johanson (2004) use the term fragmented relationships to describe a situation where there is a split between the exchange level and the use level of relationships. The Russian transition exemplifies a development from fragmented towards integrated relationships, from a situation where the state attended to the exchange level and businesses to the use level, towards a situation where businesses attend to both. The state governed exchange level is associated with 'corrupt' network effects. Networks with integrated relationships can supposedly mobilise more resources and handle both exchange and use processes more effectively. The article demonstrates how networks change as a result of environmental impact, and it also makes clear that changes in relationships and networks effects distribution. It substantiates that integrated relationships (taken for granted in market economies) are likely to be more efficient in producing welfare to be distributed, but it makes no suggestion other than the market as defined by exchange as distributor of that welfare.

Sacchetti & Sugden (2003) "emphasise the nature and the implications of different types of networks with respect to socio-economic development from a distributional point of view" (p.669), suggesting a "need for policy-makers to be discriminating in their promotion of particular networks, so as to ensure that their aims are attained rather than undermined" (p.670). Outlining aspects of governance in terms of power in production networks is the basis for the suggestions. Network relations are seen as channels for exercising power. The authors distinguish between *power as mutual dependence in*

networks of interdependent actors and power as uneven concentration of strategic control in networks of direction. The tradition of industrial networks research belongs in the former category where “power is distributed amongst participants on the basis of the pattern of interdependencies amongst actors’ resources and activities” (p.674)¹.

The implications these two forms of networks have on local industrial development are argued to differ. Contrary to directed networks, it is argued that actors in networks based on mutual dependence are “interested in an advancement of the whole network organisation” as a result of interests being balanced by interdependence. It is further argued that within such networks interests, objectives and strategies of firms and localities can be harmonised and made compatible, and that “public agencies”, therefore, “can directly act to promote and enable the creation of new opportunities for firms” [in the locality]. (Sacchetti and Sugden 2003:684-685) The general idea as to how to promote networks on a national level is exemplified by research centres, public agencies, conflict identifying and resolving entities (e.g. courts). On a local level, appropriate structures to facilitate “the development of networks where actors participate in strategic decision-making” are proposed without much further specification. (p. 686) One can assume, nevertheless, that various association-like structures come close. Foray & Teubal (1999) refer to similar structures as industry-specific public goods (resources that are public in that they are shared by a community of agents, and industry specific”), focusing on how or through what kind of policy process the production of such goods may be supported and facilitated. National level structures are very similar if not identical to those suggested by the market model explaining power asymmetries with the notion of market failure. Their analysis offers some guidance as to how and subject to what criteria policy-makers shall prioritise and ‘legitimately’ discriminate in their promotion of particular networks, but they do not say much about the distributional effects of such promotion and therefore not about the legitimacy of governance by those not promoted.

Sacchetti & Sugden’s (2003) approach seems largely to concur with Evan’s (1996) program seeking synergy between the public and the private sector that simultaneously maintains a distinction where the roles are fairly clearly divided and defined. Evan’s argue that synergy can be constructed – “that active government and mobilized communities can enhance each others’ developmental efforts”, and that societies characterized by egalitarian social structures and robust, coherent state bureaucracies more easily foster synergies created over a ‘not un-deliberate’ combination of complementarity and embeddedness. It is the government’s role to pursue and create the condition for this synergy. It is not clear why for example *subsidies are bad*, or why government cannot directly seek influence related to achieving their aims through e.g. ownership or control over vital assets. Any clear distinction between types or characteristics of relationships, as in Hallen and Johanson (2004), is not discussed.

Ansell (2000) pursues the idea of the *networked polity*, “a distinctive form of modern polity that is functionally and territorially disaggregated, but nevertheless linked together and linked to society through a web of interorganizational and intergovernmental relationships”. Cooperative exchange relationships links organisations, and “the role of the state is to empower stakeholders and facilitate cooperation among them”. Ansell extensively reviews literatures seeing governance “as operating across a more or less disaggregated field of organizations linked together in a loosely coupled form of collective negotiation and collaboration”. Because of the various specific foci, only certain features of Ansell’s networked polity are identified within each branch of literature².

The networked polity concept seems at first sight largely compatible with a general industrial networks view of the world with the important exception for how and the extent to which the world ‘external’ to networks is attempted understood as embedded in or with the network (or vice versa). Ansell distinguishes networks from markets (both differing from hierarchy as organisation of exchange) along two dimensions relating to the nature of exchange. First, the nature of network exchange is diffuse (“goods have ambiguous values and unclear dimensions; a multiplicity of actors with unclear jurisdictions are involved in the exchange; and the time frame is poorly specified and long-term”) as contrasted to the discreteness of market exchange: “The conditions of diffuse exchange are

¹ Works of Thorelli (1986), Håkansson and Johanson (1993) and Powell (1990) are used to exemplify a *power as mutual dependence in networks of interdependent actors* view.

² Industrial networks, ‘analysing strategies of [intergovernmental and interorganizational] network management and governance’, again with reference to Håkansson and Johanson (1993), are here related to the ‘policy networks’ body of literature on multiorganizational and intergovernmental coordination.

particularly prevalent in politics and public administration". Second, networks may – but need not be – characterised in terms of more social content. (p.308) Thus, differences between public and private actors, between industrial networks and policy networks, principally relate to the diffuseness in exchange, but can be characterised by more or less social content.

Ansell (p.309-311) implies by extending the network metaphor to apply for the polity that "the unit of planning and administration in the networked polity is the multiorganizational project". In this project the state may not play the leadership role, but it may also with a high degree of network centrality operate at the nexus of a web of networks enabling the state to "adopt a critical brokerage role in bringing actors together". Through what mechanisms relationships are created, maintained and developed over time is not all that explicit³. As opposed to the traditional notion of public service bureaucracy where interdependence between programs and organisations are as far as possible made distinct and corrected for, shared jurisdiction and diffuse authority is taken for granted in the networked polity. Ansell applies the notion of the networked polity to illustrate various regional Western European development strategies. He does not, however, say much to guide the networked polity in terms of what projects to engage in, how, where engagement begins and ends, etc. Power, distribution and allocation within or between regions are issues largely left unattended. The government is, it seems to me, left with a residual role to play where the multi-organisational interdependent network commune finds it opportune.

Brief discussion

The above articles illustrate some points concerning possibilities and limitations for industrial networks research to account for actors and institutions facilitating or preventing the production and distribution of eventual beneficial or detrimental welfare or societal effects.

First, industrial networks are from the outset delimited to not attend to issues extending networks beyond open boundaries defined by exchange. Secondly, as illustrated by Harrison (2004), Halinen et al. (1999) and Hallén & Johanson (2004), what is beyond exchange networks impact on networks through for example courts and law enforcement, economic recession or transition. Implications may also be drawn to how environmental decisions or changes get interpreted, reinforced or counterbalanced within and between actors that may or may not be relationally interconnected. You find, however, no real attempt to imply what the court could or should have ruled other than indications that a ruling from a system or court enforcing laws where for example 'good faith' is socially and legally sanctioned could possibly have produced a different result. Implications for the 'environment' of industrial actors' adaptation to environmental forces are not focused. Nor is any strong opinion expressed as to how the transition from fragmented to integrated relationships affect the distribution of welfare that partly justified the fragmenting role of the state in the Soviet economy. Any opinion as to implications relevant to allocation and distribution on a level of aggregation higher than one where the firms involved are directly engaged is generally avoided, but is also scarce on the relationship and network level. Conservatism, if not sound caution, with regard to how far to draw implications, I would say, is characteristic for much industrial networks research.

Thirdly, Sacchetti & Sugden (2003) opens up for what the above do not by accepting the "need for policy-makers to be discriminating in their promotion of particular networks, so as to ensure that their aims are attained rather than undermined" as a starting point, thereby adding a policy dimension. To some extent the authors reopen what was discussed by Hallén & Johanson (2004) in terms of fragmented business relationships. It is difficult to see, however, how policy can find a space in networks of supposedly integrated relationships as what define networks (here: exchange and use) are internal to networks. Thus, it may seem that the locality can enter into relationships and networks on a discriminatory basis in terms of engaging in exchange and use. This would come very close to the traditional understanding of subsidising (that the authors seem not to favour) or a socially based discriminatory practice, so on a practical level they adopt the instruments suggested as indiscriminate by the mainstream market approach. To the extent that local firms are embedded in relationships and

³ Van Hooydonk (2002:106), on the possibilities for municipal undertakings to participate with other undertakings, refer to Belgian law saying that public undertakings may participate with other actors where objectives correspond, but that the municipal undertaking must hold a majority of votes and have the chair on the board irrespective of their share in the partnership.

networks transcending the jurisdiction of administrative units or polities, it is also difficult to see how the effects of discriminatory support for particular networks can be contained within the domain of the administrative area (as the mechanisms for distribution within the network do not rest with any one particular actor, unless perhaps in the case of a directed network with a favourably located network distribution captain). It is also a question of what other localities hosting other parts of the network respond with in order to shift the benefits in their own direction, preferably leaving many of the negative sides on other localities. They do also rather one-sidedly emphasise the cooperative and consensual side of networks of mutual interdependence. Klijn & Koppenjan (2000) list this as one typical criticism of network approaches to networks that include policy.

Another criticism that should concern Ansell (2000) (as well as Sacchetti & Sugden (2003)) is that government organisations are made to look like any other organisation, neglecting “their role as guardian of the public interest”. (Klijn and Koppenjan 2000:137) The only difference between business and government organisations, it seems, is that public organisations are engaged in even more diffuse exchange than business organisations engaged in relational and network exchange, but the exchange are of the same principal kind. The distributional effects of the polity’s ‘diffuse exchange activities’ in industrial networks are indeed diffuse, and the multi-organisational project may concern whatever activity. To the extent that it is based on social interaction it runs into legitimacy issues related to the corruption and rent seeking type, to the extent that it is based on ‘physical interaction’ in terms of for example construction projects it fails to address what projects are in accordance with the interest of the polity as well with the interest of the public. The time horizon and the further administration, coordination and management of what results from these projects can also be questioned.

Conclusion

What is the ‘taken-for-granted’ distribution system of networks that government action is supposed to control, stimulate or generally intervene in? Does this distribution system differ from how market based distribution systems supposedly function?

The problem facing an industrial networks perspective on government is quite accurately described by Evans (1996:1120), “public agencies are not directly linked to societal actors”, therefore, government has no clear identity as a distinct actor in industrial networks (Harrison (2004), Halinen et al. (1999)). When they have an identity, however, as exemplified and described by Hallén & Johanson (2004), they fragment relationships between actors with an identity in networks along various relationship levels (in the case of Russia splitting the exchange level from the use level)⁴. Making the court, the government or the polity part of industrial network analysis introduces elements that shift the strength and direction of flows in the ‘taken-for-granted’ distribution system of networks by wedging into business relationships. It is the wedges and resulting shifts in the network distribution system that needs to be in the focus of an industrial networks perspective on government.

The implications of such shifts may basically concur with a ‘market generated welfare optimum’, and the distributive consequences of networks may not be a matter requiring separate theoretical attention. This is what is at least implicitly suggested by Hallén & Johanson (2004). Alternatively, government induced wedges into business relationships are believed to positively/negatively affect productive features of networks by fragmenting various relationships levels, which seems close to what is assumed by Ansell (2000) and Sacchetti & Sugden (2003). In the latter case government aims at increasing or temporarily stop the flow running through their locality, impact on the direction of flows in the network so that supposedly more ‘valuable’ parts flow through the locality. In either case it is implied that it will affect the distribution of welfare. It is here that lessons must be drawn from critics of network approaches to policy when attempting to embed them into the understanding of production systems, to appreciate that government organisations differ from business organisations, and that distributive implications from their intervention are required dealt with when making them endogenous to models of production systems. Focusing on wedges into business relationships and the distributive implications within and outside networks rather than making policy part of it may be a way to maintain a balance between what the industrial networks approach does well and at the same time leaving space for a general perspective on government in industrial networks.

⁴ A variant of this is also attempted illustrated in a paper written for IMP 2004 on a faculty – industry relationship in Bosnia and Herzegovina (Hatteland et al. 2004)

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