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## **FROM SURVIVAL TO GROWTH: THROUGH NETWORK CONCEPT OF BUSINESS STRATEGY**

**Adaptation to market conditions: “survival” strategy**

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Despite of a so long inattention to real sector of economy in Russia, absence of precise industrial policy, as many researchers mark, real sector of economy demonstrates amazing survivability. The question is why in the face of such a deep, long and extensive crisis, some enterprises are still managing not just to make their ends but to stay in fairly normal financial conditions. According the observation of Russian Economic Barometer (REB) (1) the average number of enterprises which managers estimate their financial position as "good" or "normal", is rising from 20% (1998) to 55% (2000) and last years the obvious tendency to increase of this indicator is observed. The real increase of such enterprise share testifies the fact of their adaptation to complex and turbulent Russian environment. It is adaptation first of all to insufficient demand, shortage of financial resources, broken economic links, lack of market infrastructure institutes, constantly varying legislative base etc.

We'll consider separate directions of this adaptation and forms, which it accepts in different level, starting with adaptation within the enterprise, then adaptation on the level of inter-firm relationship, and at last adaptation to market infrastructure. The key issues of this consideration are to understand what enterprises have got from "survival" strategy, how can they move to growth.

The mane characteristics of organizational adaptation are changing role of sale's and financial departments, separate marketing department appearance. Thus the role of departments of selling is increased, as a rule, in organizational hierarchy. Especially it is appreciable in relation to departments of supply, which determined the direction of production in the certain sense in a planned economy. There is an obvious redistribution of roles. The departments of selling in most cases grow, they have very valuable information resources about clients, sales volumes, consumer's preferences. Their influence in making decision process grows. Some mechanism of a feedback reaction and adaptation to a market situation is formed through the relationship of sale's department with others.

Marketing departments with rare exception appeared on every enterprise. But most of them do not carry out all spectrum of marketing functions yet. Besides that in many cases they are strongly dependent on sale's ones. Overwhelming majority of enterprises is not ready yet to utilize marketing as a management system. They are not ready to organizational changes that marketing management system requires. One of the reasons is caused by simplified treatment of marketing popular among the real managers. Most of them have no idea about a changing paradigm within the marketing. The focus of modern marketing is moved to developing core competence and forming sustainable competitive advantages from one hand, and integration and coordination of various activity within the firm and among the market actors, to another. Secondly, even if such understanding exists, a resistance of the usual organizational structures and models of management is strong enough to permit an appearance of a new department at a high hierarchical level. Marketing department has not proved yet the importance, necessity, readiness to coordinating and it's role in reorientation on long-term priorities. These conclusions are made not only and not so much on the basis of the analysis of organizational adaptations of loss-making enterprises, but also proved by results of special observation of succeeding enterprises (for example, "Krasniy Oktyabr", Moscow, "Baltica" St.-Petersburg). But at the same time the

understanding of the necessity of changes in the existing models of management is growing up. And from this point of view now is the right time to educate people in new tendencies in marketing management.

The lack of financial resources increases a role of a finance administration, changes priorities of their activity. The investment crisis is not overcome. The period from 1990 to 1997 is marked more than five-fold reduction of industrial capital investments. Moreover, according to the data of the Russian Economic Barometer ( see Fig.1 ) the capital investment since 1992 has the steady tendency to fall, and the number of the respondents who are not investing at all is increased (from 30 % from general number of the respondents in 1993 up to 46 % - in 1998) At the same time, the lack of a working capital compels the enterprises to resort to various forms of transactions not served by money ( barter, borrow delivery and so on). Therefore in some cases priority of a financial department activity is displaced to development and realization of these forms. Below we shall stop more in detail on a role of these forms in inter-firm integration and networks activity.

Other way of adaptation to new economic conditions became the accelerating removing capacities from operation. Property taxation in conditions of periodic reassessment of a fixed capital became one of the reasons to remove capacities from action. The significant decrease of capacities operating ratio (in a manufacturing industry from 83 % in 1990 up to 39 % in 1996) is accompanied by increase of factors of their liquidating leaving. The opportunity to produce the competitive goods becomes a determinative factor on a conclusion to remove capacity from action. The growth of capacities occurs in those branches, manufactures, where the enterprises expect for selling of their products, scarce in the previous period or allowing compensate the broken economic links.

One more way of adaptation of the enterprises to recession of manufacture was changes of capacities as a result of assortment changes of let out products. In capacities balances the change of the nomenclature reflects both to increase, and reduction of capacity. Till 1990 increase and reduction of capacities at the expense of change of the nomenclature were approximately equal and counterbalanced each other. But in the period from 1991 till 1996 the prevailing tendency became the reduction of capacities as a result of nomenclature shifts. That meant first of all adaptation of the enterprises to reduction of demand on their product.

The break of the previous economic connections puts before the enterprise a major task of a reconstruction of a technological chain (arm-lengths links). On the initial stage of firm's adaptation to market activity the tendency of returning to former economic links is observed. It is explained first of all by informational crisis caused by destruction of a hierarchical management system. By appearing in information vacuum and having the only information about previous economic links the enterprise could not act differently. Thus enterprises have overestimated the importance of the former links in transitive economy, by all means trying to keep and strengthen them. These connections with former counterparts and network activity become a kind of the insurance from an illegibility of legislative rules, instability of market situation, shortage of working capital and other problems of turbulent Russian economic reality.

Therefore the role of pre-reform economic connections has considerably increased in transitive economy.

However dynamics of mutual relation of the enterprises in a technological chain quickly varies. In the beginning of process of chains reconstruction major of manufacturers were anxious with restoration of connections with the suppliers of raw and semi-processed materials. But by 94 year it was traced the displacement of priorities of the manufacturer to distribution and marketing channels. This tendency is proved both by data of the Russian Economic Barometer, and individual inspections of the author. In particular, in 1992 more than 80 % of the respondents (enterprises) as a major factor limiting manufacture, has named « lack of raw and semi—processed material ». But by 1994 the importance of this factor obviously falls in comparison with “lack of financial resources” and sale’s problems (insufficient demand). Only 15% of general number of respondents considered this factor as the main limitation. While the number of the enterprises confirming priority of two other factors, continues to grow in an interval from 1994 - 1996, and to middle of 1996 achieves 78 % and 67 % accordingly (see the fig 2).

Dynamics of these factors as restrictions of production in interval from 1998 till 2000 is rather indicative. The importance of the factor « lack of financial resources » was stabilized and even has some tendency to decrease (from 73 % up to 60% from total of the enterprises). And the importance of the factor of insufficient demand at first is increased (from 50 % up to 63 %), then sharply falls. It is possible to explain these changes by August events, which have caused increase of demand of the internal manufacturers and, hence, have lowered for them the importance of demand factor as limit of production. At the same time the importance of the factor « lack of raw and semi-processed materials», grows in respondents opinion. This can be explained by the fact that the enterprises are compelled to reconsider linkages with the tradition suppliers, which importance was obviously overestimated on the initial period of reforms. Changing in assortment and quality as a part of increasing adaptation to requirements of the market, force the manufacturer to show the more rigid requirements to the suppliers.

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Most obviously, certain macroeconomic factors encouraged vertical integration:

- Every firm operated an extremely turbulent environment. There was a lot of upstream and downstream turbulence and an extremely unstable and unpredictable macroeconomic environment. This was not only due to high inflation, but also and in particular to frequent attempts of government to deal with this. Economic stabilization plans caused turmoil all across industry as firms tried to understand the new rules of the game; and even minor interventions like changes in price adjustment rules, foreign exchange regulations, or changes in interest rates and credit regulations used to cause a lot of trouble for firms. There was a strong incentive for firms to try to insulate themselves as much as possible from this environment, and vertical integration was one means of doing this.

- The regulatory environment used to be, and actually continues to be, complex contradictory, and not transparent. It is in fact almost impossible for an entrepreneur to be a law-abiding citizen, respecting all tax, safety, and other regulations that exist. This means that entrepreneurship in Russia tends to involve a certain degree of clandestinely, that is a firm has various things to hide at any given time. This creates a posture where firm owners and managers are conspicuous of any contact that goes beyond arms-length business transactions. Firms managers usually tell that this is one reason why they would not let anybody enter into their firm, or would not enter into any kind of information exchange with other businessmen.
- Competition was and continues to be fairly limited in most product markets, and where it exists the main competitive weapon is heavy advertising rather than good quality or low prices. In fact, low price strategies in final products markets are not feasible in the high inflation environment because customers just would not notice; shops adjust their prices at different point in time, so that there are vast price differences for a given product between shops anyway, and customers are already quit annoyed with that.

There was also a meta level factor (2). Many firms owners which firms were extremely profitable in turbulent environment did not know what to do with those massive profits. The amount of money they could sensibly spend for consumptive behavior was limited but not enough. One option always is to acquire real estate, but apparently not too many firm owners opted for this. Another option is financial investment, but in situation of imperfect stock market it can not be so reasonable. It is difficult to verify this as firms are extremely unwilling to discuss their financial situation and publish data . The preferred option was to use the money to integrate vertically. So if a firm suffered, say, from unreliable suppliers , it would not necessarily make up a sound calculation whether it made sense to invest into this activity but rather decided that it would be a good and sensible thing to take last year's profit and build a weaving mill.

But vertical integration is rather restrictive externality in terms of flexibility and growth. According to experience of highly vertically integrated firms most of them suffer from their integration and has a size-related competitive disadvantage due to high overhead costs and reduced flexibility. And shift from vertical integration to different forms of network/clusters activity is quite obvious in integration evolutionary tendency.

. The interviewing of the separate chiefs of the enterprises confirms the fact, that most of them rely on their own financial resources and even begin to invest in the accessory manufacturers and distribution channels, strengthening integration processes across the chain of cooperating enterprises. Thus according to the results of special monitoring of 35 enterprises in Sibiria the best efficiency was demonstrated by enterprises invested to marketing, marketing channels, sales promotion, packaging, advertising.(3)

Such integration both upwards (with the suppliers) and downwards (with wholesalers and retailers) occurs first of all under the initiative of enterprises and is shown in the various forms: vertically

integrated structures, subcontract forms of easy integration, voluntary network associations. It is interesting to note that these forms were frequently used by the same non-market substitutes, which were mentioned earlier. The unprecedented growth of a share of barter operations - from 6 % in 1992 up to 54 % in the first half of 1998 is observed on the data of Russian Economic Barometer. By the way, by the end of 1998 the tendency of decrease of this parameter occurs, and proceeds in 2000, and to the end of the year it has achieved 19 % from a total volume of sales of the industrial enterprises (see fig. 1).

Among the basic reasons of using barter the respondents REB have named the following: lack of working capital - 47 %; aspiration to speed up selling of product - 39 %; the large tax payments - 17 %; other reasons - 9 %.(5) Though the motive to avoid from the taxation exists, but plays not the first role, as the estimations of the respondents testify.

Critical and negative attitude to barter operations is widespread enough. There are numerous recommendations to clear the emerging market from such a non-market substitute. But in our opinion, barter as well as mutual nonpayment, borrow delivery and so on can be considered as forms of adaptation and means to stay in business in imperfect market conditions. Besides that in this condition a new relationship among partners, based on mutual trust, obligation and commitment appeared.

There is a distinction between compelled and voluntary barter. Compelled barter assumes such exchange, when the enterprise receives a product not of the first necessity for their performance. Voluntary barter is exchange, when the enterprise receives a product, it would buy from the same suppliers in case it has necessary financial resources.

It is interesting to note, that according to REB's data in 1997, the most part of barter flows was directed on the same way as usual transactions would act. For the typical Russian enterprise only about 40 % of volume of barter trade have made the compelled bargains. And though the share of the compelled barter transactions is rather considerable, it confirms once again the fact, that the barter in general serves the usual connections and promotes their preservation. Sufficiently steady ratio in directions of use of production received on barter base also testify the legitimacy of such conclusion. The interrogations spent in 1995-1997 have shown, that 2/3 productions received on barter, are used within manufacturing at the same enterprise, 1/10 is used on needs of consumption and in social sphere, about 1/7 is intended for resale and other 1/10 for repeated barter. This data confirm the existence of new relationship and close links based on barter and other non-market substitute.

Those are the basic characteristics of "survival" strategy. What this strategy has given to the enterprises in terms of their future development?

What "survival" strategy has given to the enterprises in terms of their future development?

- The strategy of "survival" has developed particular skills of fast reaction on constant changes in turbulent environment. This flexibility, as well as fast reaction on changes are major components necessary for transition to strategic planning and shift from short-term to long-term priorities.
- The strategy of "survival" has put in pawn the basis for formation steady integrated groups - networks, as a new institution of market driven economy.

- The realization of “survival” strategy provides the bases and necessity of new management model, which can improve the feedback of final consumer to results of production (consumer driven economy).
- Through of priorities of collective “survival” enterprises is on the way to move to active integration process.
- Collective competitiveness of the enterprises incorporated in a network is appearing.

The message I put to you provides optimism and hope that in this cluster of the enterprises the preconditions for growth are created. What are directions of transition from “survival” strategy to growth? These directions will be considered within the framework of network model.

#### **From "survival" - to growth**

Certainly, the transition from “survival” strategy to growth depends on a number of meta, macro, meso and micro economic factors. But rigid resource restrictions of growth of manufacture actually are absent. The main obstacles of activation of available resource potential, are insufficient demand, both consumer and investment; lack of working capital, high price of the bank credits, and also inaccessibility of long-term borrowings from national sources. However at easing and removal of these restrictions (industrial growth in 1999 on 7% testifies that this process has started) is very important to know what direction of development to follow, where to invest to enhance the growth, how to find the points of growth. In this connection it is especially important, that the development of real sector would follow those evolutionary changes, which are revealed in sphere of real business and prove to be true by the diverse forms of practical experience demonstrating the viability and efficiency. In this respect the target investment directed on creation market networks and clusters, to support relationship of counterparts can be considered as some kind trajectories to growth in market driven economy.

#### **Cluster and network development**

For over a century organizations were based on ownership. Independent suppliers and distributors existed, but they were “outside”. The company itself was based on command and control, anchored in ownership. That is still the structure of traditional business, but increasingly, command and control is being replaced by or intermixed with all kinds of relationships: joint ventures, alliances, partnerships, marketing agreements, network groups – all relationships in which no one controls and no one command. But it does not mean anarchy . The relationships have to be based on a common understanding of objectives, policies, and strategies; on teamwork. And where the old command-and-control organization based on ownership was meant to be permanent, many of new relationships a temporary and ad hoc (5). We are moving toward a network society. And new approach is emerging, not replacing the older approaches but being superimposed on them: it says that the purpose of organizations is to get results out side, that to achieve performance in the market.

The network model leads to quite a different view of the range and role of the business organisation. The emphasis on the linking of activities and resources within a network as a primary task

of the business organisation seems to suggest that enterprise should be conceived as a transaction function rather than a production function (6). Such a concept of enterprise could lead naturally to a shift in focus, away from the control of resources towards the integration of resources, and away from the management of acting towards the management of reacting. (H.Hakansson I. Snehota, 1989). This shift will be considered as one of transition trajectories to growth.

There is an institutional shift within the framework of network approach. This shift is from separate firm as a starting point of market activity to a group of firms with rather strong links. The term "network" refers to a group of firms that cooperate on a joint management (development project, strategic program, coordination of programs) complementing each other and specializing in order to overcome common problems, achieve collective efficiency and conquer markets beyond their individual reach. The term "cluster" is used to indicate a sectoral and geographical concentration of enterprises which produce and sell a range of related or complementary products and are, thus, faced with common challenges and opportunities. This concentrations give rise to external economies ( such as the emergence of specialized suppliers of raw materials and components or the growth of a pool of sector-specific skills) and favor the emergence of specialized services in technical, managerial, marketing and financial matters. Cluster are also a conducive ground for the development of a network of public and private local institutions which support local economic development promoting collective learning and innovation through implicit and explicit coordination (7). The concept of "networking", finally, refers to the overall action of establishing the relationships characterizing both networks and clusters.

Within new framework to be "good" firms would have to score high on four criteria: productivity, i.e. cost efficiency; quality, i.e. consistently high product quality and low cost of quality control; variety, i.e. the ability to cope with differentiated customer demands; and agility, i.e. the ability to react quickly to specific demands.

One option how firms in the clusters could increase their competitiveness would be to use the advantages that clustering can offer, i.e. to de-verticalize and outsource. This reason is based on two arguments. First, current wisdom in management science suggest that being good is to certain degree a function of the ability of a firm to concentrate on its core competence. This view is supported by findings from industrial economics that the density of externalities is a key factor in explaining innovativeness and competitiveness(8). Moreover, the discussion on clustering and industrial district emphasizes that specialization and close interaction among firms can substantially increase their overall competitiveness, particularly under the conditions of spatial proximity and a reduction of uncertainty and transaction costs due to trust-based transactions. Therefore, the high degree of vertical integration and lack of integration among firms in clusters appear quite irrational under the new conditions

Let's formulate the basic directions of transition from survival to growth based on network approach.

The enterprises, basically have learned to adapt to demand. A strong relationship between financial conditions of enterprises and fullness of their order-books and level of their stocks of final

products is observed. But they need to do their best to set up **long term relationships with clients and ultimate consumers**. We have already now some successful cases in this area such as organization of a special holiday of the confectionery enterprise « Krasniy Oktyabr» in the historical center of Moscow (1998), “Days of beer” on the central stadium (1999) with a plenty of promotion actions. But while it seems to be exception, than rule. In this correspondents, it is necessary to promote the new focus of marketing within the framework of network approach. Strengthening of these relationships will be the base to enhance feedback of ultimate consumers, and to move towards principle working within the framework of Global Commodity Chains.

Frequently quite successful results of activity of one enterprise in a chain of interaction are brought to nothing by the accessory manufacturers or intermediaries. So for example, one of the most vulnerable places of a textile/clothing industry is the insufficiently high quality of the goods made for mass consumption. The reason it is the imperfection of domestic technologies as at a stage of processing of raw material (absence of processes of washing of a wool and subsequent bleaching for reception of brighter and sated colors). The absence of such link in a technological chain does not provide a desirable packaging and quality of a final product. The ready goods, as a rule, are not competitive on quality to foreign analogues made from our raw material.

The basic problem of the Soviet food-processing industry was chronic lack of refrigerating capacities and their low technological level. In particular, home made equipment provided average temperature -18 \*, while the foreign standard was -30\*. The packaging of final product was and is in great dependence of import equipment.

The given examples confirm necessity of **technology upgrading along value added chain** and introduction of **total quality management system** to the hole cooperating partners.

**The transparency of the results and clear responsibility of all cooperating partners** are needed to manage all network activity.

The **strategy network development** should be carried out on the basis of the joint decisions of all participants of a network in terms of priority of future investment and targeting final consumers needs. The definition of sustainable competitive advantage is based on high achievement of participants of network, of their core competence, which are directly reflected in results of all network activity and form the basis for differentiation of its product by ultimate consumers.

The process of developing new **norms and rules of behavior have already** started within the new network institutions. To ensure that all parties of a transaction are fully aware of their responsibilities, a professional **code of ethics** can play an important regulating and moderating role (while at the same time contributing to the economic development of the enterprises concerned), by recalling certain general principles of good business conduct inspired by some of the best practices in various countries.(9)

The important factor of preservation of a network group is the strengthening **of discipline of the orders / contracts relations** in terms of time size and quality within the framework of “Just-in-time” delivery system.

It is obligatory for dynamic development of a network to have **an innovation component** which directly included in a network and makes a basis for strategic network development.

**The information component** forms the basis to control all kinds of network activity, to accept coordinated decisions, to stimulate activity of the separate participants of a network.

**A combination of private and public investment** appears to be the best way to finance networking development services. The networking development services aim at balancing some market failures, and, therefore, the market cannot be expected to entirely cover their costs. Such a realization should not, however, lead to believe that networks need to rely entirely on public funding. The elements which diminish the appeal of exclusive reliance upon public funding are first, the limits it is likely to impose upon the accountability of market feedback, and, therefore, clients’ satisfaction; secondly, the fact that clients’ co-financing ensures selectivity of clients on an objective basis.

The key resource in networking initiatives is the **people involved** (policy makers, brokers, marketing and other services providers). As UNIDO experience shows(10), the most effective incentive for network brokers has been training – such as the study tours. Study tour, and the possibility to learn from successful experiences of other countries and regions, has proven to be, especially among young professionals, a very positive stimulus to improve performance. A less tangible but effective motivator is simply the existence of a framework that allows network participants to work together and exchange ideas thus fostering a sense of teamwork. The elements of supporting, encouraging and motivating each other create the positive atmosphere within this teamwork.

As an example of companies’ adaptation to market changes by using network relationships model we ‘d like consider the development of foreign company on the local market of FMCG (especially, personal and oral care products).

For the most part of companies the strategy of foreign market entry presents a very difficult task. To overcome these difficulties some companies start to develop the business through network concept. Network can be described as relationships between a producer<sup>1</sup>, an official distributor (representative office in the country), local country distributors and retailers. On the market of FMCG, such as personal and oral care goods, one of the most important factors to be considered in order to raise sales volumes is stable relationships with the distributors. The issue relevance can be proven by the fact that on such markets the volume of particular producer in distributor’s sales volume is no more than 15%. It means that an every distributor has business connections with more than 8 producers (but at average this number turns to be around 12) with rather homogeneous products. Due to this reason the increase in producer’s sales via particular distributor depends to a great extent on the quality and character of the

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<sup>1</sup> Further by a producer I will mean not only the company-producer (plant or factory) but also subsidiary companies dealing with the product distribution in different countries.

relationships between a distributor and a producer. Each producer on local Russian market can have up till 200 distributors. At the same time each distributor can deal with up to 20 producers – so we get network structure of this market ( $200 \times 20 = 4000$  direct connections).

### Research Base

International corporation with the strategy of geographical expansion creates on a local market its affiliate with 100% property and assign to this company the task of distribution network development on this market. The very affiliate and all its relationships with local partners were considered as an object of the research. So after deep analysis of internal and external questionnaires the following results have been obtained.

### Research results

As a result we got a model (see diagram1 below) which nowadays really can be used by the companies in order to improve partners' relationships and find out their own place within the business network on the markets like this.

The given model consists of the detailed examination of the relationships between a company and its partners, the ranking of the partners and the discovering of the factors that are significant for each partner.

The primary data to be used in the model can be obtained by means of the descriptive marketing research in the form of personal interview.

The procedure is the following:

- 1) First of all, the current relationships situation should be defined by the researcher. These relationships are considered from the both sides: interviews are carried out with both distributor's employees and producer's ones. And usually two levels of communication between employees are pointed out: 1-direct relations with a partner's employee/department, 2 – mediate/indirect relation with other company personnel (via other own departments).
- 2) After those interviews the relations should be evaluated and the result should be presented in the quantitative form (all qualitative parameters should be transferred to quantitative characteristics).

In order to understand who is the subject of the relationships (who is the partner in the business relationships) we should describe it precisely. It looks to be a very simple task but further consideration will show a problem: either each partner looks like the other one or all partners are completely different – so it will be impossible to create any classification. But the very classification of network members is a main tool in the process of the network development.

Of course there must be a different approach for a different partner, but it should be pointed out that in order to minimize the costs of working with that particular partner a company may use ready forms and behavior models for each type of partners. The very approach gives an opportunity for the company

to do the business with the same effectiveness but with the different partners (both with the large distributor who provides the company with the largest share of volume and small one).

The example of network we have found is the best: the distribution network of independent companies (independent from each other and from a producer as well).

So to find out the right partner or just to examine the current relation's status a member of network should go through the following procedure:

- 1) To describe a partner impersonally (in this case company use characteristics like these):
  - Sales volume of producer's goods in the previous year;
  - Period/duration of the relationships with the given producer;
  - Share of the producer's goods in the assortment of the distributor;
  - Profit share which is provided by the producer's goods;
  - Regions where a distributor does his business with the producer's goods;
  - Shares of different distribution channels in the partner's business;
- 2) To find the co-operation factors considerable for partners and the company itself (in other words, the criteria of relationships)
- 3) The partners themselves should give an estimation of the factors importance while dealing with the company-producer.
- 4) The partners will estimate the satisfaction level of one and other factors while dealing with the company-producer.
- 5) The partners will estimate the satisfaction level of one and other factors while dealing with the company-producer in comparison with other companies-suppliers.
- 6) At the same time the company-producer estimates the points 3, 4, 5 from the own internal point of view.
- 7) After that the researcher can get the picture of the discrepancies-contradictions between the company's perception of the network and the network's perception of the company. So from this moment the company and its partners can start to overcome these contradictions and strengthen the network relations.

As you can see a company which tries to understand the network development process should examine in detail the essence of such a notion as "a relationship with a business partner".

### Conclusion

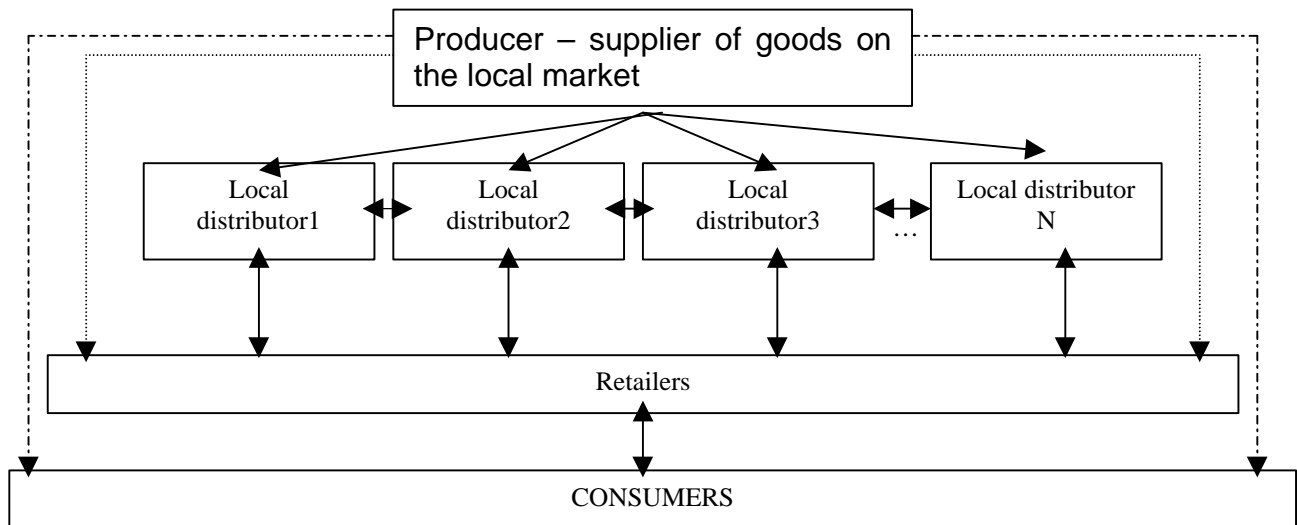
The development of the network relationships and customer-oriented business style could lead a company to a new higher level of a performance.

The given model of the examination and the strengthening of the relationships between the network partners should be treated as an example of a practice existing on Russian market. That is why it has some restrictions. First of all, it cannot be used for the detailed examination of the partners' financial performance. Secondly, it focuses on the qualitative study of the object but not on the

quantitative one. (In spite of the fact that the method of the scientific research is a measurement, quantitative research can provide only an opportunity to describe the qualitative characteristics).

Thus, the model that has been shown in this example represents a tool for high level managers that will help to define the problems in the network relationships.

Diagram1. Marketing relationships within the distribution channel



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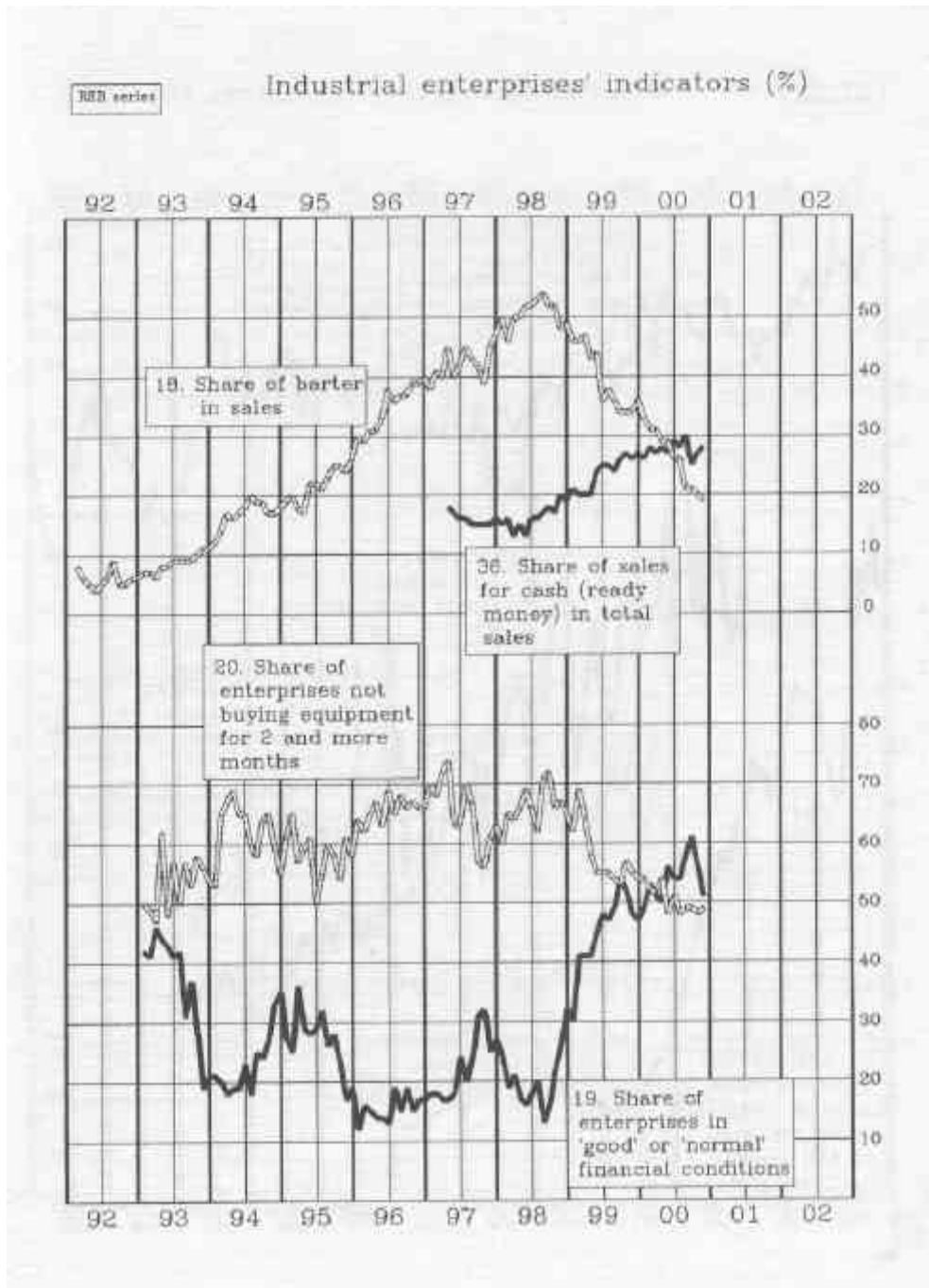


Fig. 11.

1993 series

### Limits to production, present situation, industry, share of enterprises (%)

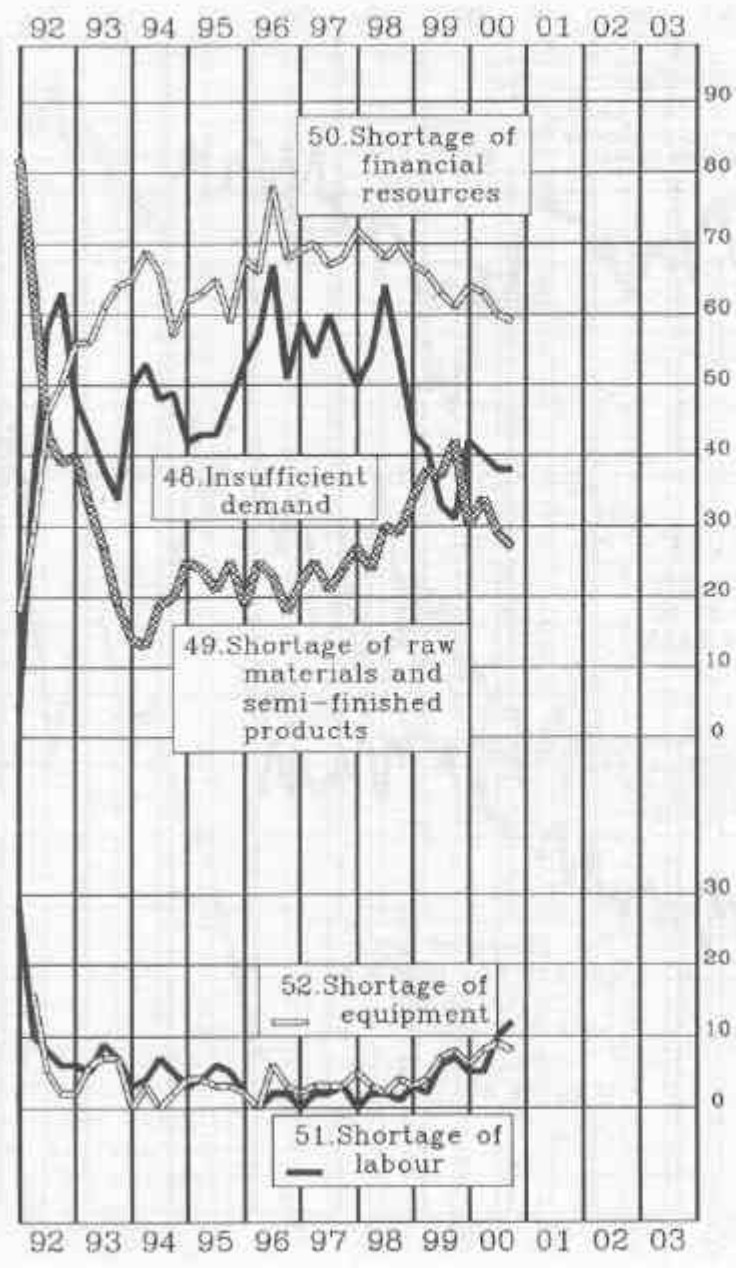


Fig. 1 2