Introduction: relationships and networks are us

Relationships and networks are everywhere. In business and life we cannot exist without or avoid relations with others. We are born into a relationship with our biological mother as the product of interaction in a relationship, however temporary, between a male and female. The rest is our history.

We are enmeshed in relations in life and business life, and the two interact. This book is about relationships and networks, interconnected systems of relationships, in business. I am interested in the opportunities and problems, insights and blinkered vision that arise through and about interactions with others. From a business perspective the focus is on the way collaborative advantage underpins competitive advantage: the way we compete to collaborate and collaborate to compete. I examine how firms and managers do and should manage their interactions and relations with other people, firms and other types of organisations, both internally and externally, be they direct counterparts or indirectly connected others. Even decisions and planning processes themselves are the product of relations and interactions among interested parties.

A firm, clearly, is not an island; it is embedded in a set of ongoing business, professional and personal relations that shape and are shaped by its actions and responses. Indeed, the firm is really no more than a construction or derivative of the pattern of interactions in which it is involved over time—a kind of connecting unit. This is what Håkansson and Snehota had in mind when they wrote:

A business enterprise looks more like a linking unit where its strategic attributes lie in how it connects other market participants to each other . . . The picture of both the possibilities and the means to manage the business enterprise become quite different. (Håkansson and Snehota 1995, p. 21)

Moreover, the firm itself is nothing more than a complex network of interactions and relations among people playing various roles, among departments and functional units, and among business units, subsidiaries and establishments.
The rich complexity and confusion of business networks is well illustrated in a depiction of the world’s product exports that recently appeared in the journal *Science*. In this diagram, which is shown in Figure I.1, a product is a kind of tree and all products together form a forest. Products or ‘trees’ are interrelated in many ways. This includes the input or output connections involved as raw material from mines and farms, for example, is processed, combined and recombined, and worked on by people to form various types of intermediate products and services, such as bauxite, to aluminium, to pots and pans. Products are also related because they are produced, bought or consumed together, and/or because they require similar technologies, people or places to produce and work with them. Two products are similar if they require similar inputs and support systems to produce them; they will tend to be produced together. If products are dissimilar, they are less likely to be produced together.

The similarity of products is used to form a proximity matrix as illustrated in part A of Figure I.1. This shows that some products are very connected, while others are not connected at all or are hardly connected. The pattern of interconnectedness can be visualised as a very complex network, as shown in part B of Figure I.1. This reflects the economic and production logics of business and the way value is created and delivered to intermediate and final consumers. The network depicts the pattern of exports, from 1998 to 2000, for 775 different types of products, defined in terms of the 4-digit Standard Industrial Trade Classification (SITC-4), which is used to combine trade statistics internationally. Links are shaded according to their proximity value and the sizes of the nodes (circles) are proportional to world trade value. Only the strongest links among products are used to construct the network picture; the technical details need not concern us here.

The resulting network has a core–periphery structure, with a core of metal products, machinery and chemicals, and a periphery consisting of four groups of products, as shown in the figure.

What Figure I.1 shows is the interconnected nature of business and commerce as products and services are produced and used. Underlying all this and responsible for the activities involved are all manner of business firms and other organisations that carry out the necessary activities involved, and interact and trade with each other. These interactions and transactions matter a great deal in getting the goods and services we value designed, developed, produced and delivered. This book is about how these interactions happen and how business relations and networks are formed and reformed from the ongoing patterns of action and interaction taking place over time.

My focus is the ‘markets-as-networks’ tradition developed in large part in Europe by the Industrial Marketing and Purchasing (IMP) group. Hence I
Introduction

Source: Hidalgo et al. (2007).

Figure I.1 The world’s export production network
view the problems of management in terms of relations and networks – whether one is a manager attempting to manage or being managed, a policy maker, a researcher or simply an interested observer. I will describe a framework of analysis and tools to aid decision makers, and link the discussion to developments in the business literature in marketing, management, economics, economic sociology, social psychology, philosophy and psychology. There is much communality here, even though cross-referencing among these separate domains and disciplines is often limited. In addition, there is a tendency among practitioners in different disciplines to use jargon and to attribute the origin of ideas and approaches to the founding mothers and fathers in their particular neck of the academic wood. I hope I can minimise this and draw on some of the best expositions of particular concepts from diverse fields – although I do not claim authority in all these areas.

I link ideas about business to biology and evolution because business is ultimately biological: it involves people doing things, thinking things and feeling things. None of us can avoid evolution: we are necessarily part of the ongoing process, both culturally and biologically, and theories and concepts from evolution and biology can inform and guide our thinking about business. These days models and concepts from many diverse disciplines are coming together in the form of complexity theory or the complexity sciences. This shows us, as general systems theory did many years ago, but limitedly, that the different worlds of ideas represented by different disciplines have a great deal in common. They face analogous problems and can use each other as metaphors to help advance thinking. As Steven Hawking says, this century is the century of complexity. And nowhere more so than in business.

In marketing, my home discipline, you are relatively free to read anything you want, because the boundaries around the discipline are rather ill defined; marketing is an example of applied social science. In other disciplines, such as economics (my original training), there seems to be much more emphasis on feeding on and developing ideas within more narrowly defined academic boundaries in terms of journals, books and authors. But the focus here is more concrete; it concerns the different types of relations and interactions in business.

The organisation of the book is based on a course I have taught over the years in marketing and business-to-business marketing, and more recently a course devoted specifically to managing business relationships and networks. The book is targeted at upper-level undergraduate and postgraduate courses in business or industrial marketing, supply chain management, customer relationship management, relationship marketing, marketing channels and the like. It is also relevant for courses in industrial sociology and economic geography.
I am unashamedly an ‘IMPer’ in outlook and philosophy. I go to most IMP conferences and have done much of my research with people associated directly and indirectly with this group. They have strongly influenced my thinking. But I do not claim that this book is an IMP book. It reflects my personal views developed over many years of teaching, researching and consulting in the area. I have a great respect for and am strongly influenced by many research streams from the North American tradition, and by researchers in other parts of the world, including in particular Asian scholars and ideas.

I like to think of Australians as the ‘between’ guys: friendly and non-judgemental, but robust thinkers. I have even drawn parallels with Australia and the Medici. The Medici, as John Padgett and Christopher Ansell (1993) tell us, married members of the aristocracy from different districts of ancient Florence. These were largely not the people from the same district as them. However, the Medici developed close personal and business friendships with people from the same district – merchants and others. I don’t want to push the analogy too far, but Australians have until quite recently focused marriage links on Europe and North America, but to a large extent live and work in the Asian region. Here we have friends and business partners. Thus we are in a sense a link between East and West, not a threat to either and (I hope) trusted by both sides. This gives us many opportunities, but also problems and responsibilities.

This book is designed to bridge the gap or occupy the space between Eastern and Western, European and American, approaches to business understanding and practice. So I hope it will appeal to all these groups and not just other Australians. This is the very essence of the book – managing interactions and relations directly and indirectly with others.

Lastly, the writing style adopted here is not the usual formal style of a textbook. It is rather the style of serious but popular science, social science and economics books in an active and sometimes informal voice. To improve readability I have kept referencing to a minimum. I draw on many previous papers I have published and indicate in endnotes where sections are based on particular papers. Additional references not directly cited in the book are given in those papers and the bibliography.

I owe a great debt in writing this book to many who have influenced my thinking, educated and informed me. These include, in particular, and in no particular order, Don Dixon, Roger Layton, Geoff Easton, Stan Glaser, Fred Emery, Lou Stern, Stuart Kauffman, David Kipnis, Stu Schmidt, Jim Wiley, Håkan Håkansson, David Ford, Lars-Gunnar Mattsson, Thomas Ritter, Per Freytag, Michael Kleinaltenkamp, Jan Johanson, Bob Marks, Lawrence and Denise Welch, and of course all the IMPers I have debated and drunk with at numerous IMP conferences and meetings. My
colleagues at the University of New South Wales have been a source of inspiration, information and friendship over the years, and have shaped my academic persona in many ways. I have also profited much from time spent at various universities discussing and refining my ideas. These include the University of California at Berkeley, Temple University, the University of Cincinnati, the Stockholm School of Economics, BI (Norwegian School of Management) in Oslo, Lancaster University, the University of Bath and in China at Fudan University and the University of International Business and Economics in Beijing. My students, especially the research students I have had the privilege of supervising, co-supervising or generally annoying, have been a constant source of challenge and inspiration over the years. Much of the development of the ideas in this book is due to them. I would like to single out a few who have made significant contributions to my thinking and whose research is reflected directly in chapters in this book. They are, again in no particular order, Catherine Welch, Van Nguyen, Gary Buttriss, Ross Cameron, Charles Wong, Baiding Rong, Stephanie Huang, David Darby, Virpi Havila, Pierra Morlacchi, Kevin Yeogh, Yanto Chandra, Marie-Celine Chery, Neeru Sharma, Georgina Georgieva and Sara Denize. I am sorry if I forgot a name or two – there have been so many!

But of course my greatest debt and gratitude and stimulation is to Louise Young, my wife, colleague, best friend and protector. Without her, life would be very different, and I dedicate this book to her and to our co-produced relationship asset Melanie, who continues to delight and surprise me, and to the relationship that conceived and raised the relationship-specific asset that is me.