The role of strategy in business network

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Abstract. The focus of this paper is the conceptualisation of strategy and strategy development in the philosophy of IMP (Industrial Marketing and Purchasing) Group - a research group which examines business organizations from the network theory perspective. The most important factor of the IMP strategic approach is that it talks about actors embedded in business networks through their business relationships and therefore they’re in mutual dependence. The main purpose of the paper is to better understand the strategy, namely, ‘strategizing’ activity through using the mentioned theoretical approach and analysing two customer relationships of a Hungarian contract manufacturer by using case study research. After the theory interpreting the paper is presenting a research framework which is adapted to the empirical findings. In the strategy of contract manufacturer it is important to realize how partners are able to synchronize key activities, resources and actors while taking the network of the companies into consideration.

1. Introduction
The conceptualisation of strategy and strategy development in the philosophy of IMP (Industrial Marketing and Purchasing) Group - a research group which examines business organizations from the network theory perspective – is the focus of the paper. The basic question is that the strategy process of companies is best described by the approach of traditional strategic management or by the IMP network approach. Although in strategic management it is recognized that the resources between organizations play important role in strategy [1], the fundamental difference compared to the IMP concept is that in strategic management (1) the network consists of the relationships between actors within the industry and (2) the relationships and so the network is managed by the managers. In contrast, according to the IMP approach, the network means the network of relationships, it is not an industry-related one, and the relationships and network can not be controlled by a single actor. The inter-relationships within the network are important resources, but none of the companies own them. [2] Consequently, business activities - see strategy creation or strategizing - are not limited either to one or the other party in a diad [3] or in the network. The process of strategizing in business networks can be interpreted as attempting to select, develop, control and manage the interdependencies of oneself and others, the relationships in which they work and the resources they derive from. [4] Therefore the most important difference between the strategic management and IMP network approaches is that while the former assumes independent company [5], the later talks about actors embedded in business networks through their business relationships and therefore they’re in mutual dependence. [2] [5] [6] [7] [8]

The main purpose of the paper is to better understand the strategy, namely, ‘strategizing’ activity through using the mentioned theoretical approach and analysing two customer relationships of a Hungarian contract manufacturer by using case study research. After the theory interpreting the paper is presenting a research framework which is adapted to the empirical findings. The conclusions presented in this article are largely related to researches in a similar topic in the Hungarian IMP Research Center (hIMP), [9] [10] [11] [12] [13] [14]
2. Strategic approach of business networks

To understand the strategic approach of the IMP (Industrial Marketing and Purchasing) group, it is important to clarify the following. The network approach focuses on business relationships. Business relationships are embedded in a network, where nodes of the network are companies, and relationships between them are bonds, which ties to companies with opportunities but also constraints. [2] The network does not have a well-defined boundary in their view, and the network is continuously shaped by the relationships and interdependencies between the actors involved. [4] The processes of the network are both conscious and non-conscious interactions between actors. [4] Accordingly, interaction and interdependence are the decisive starting points for IMP strategic approach. The strategy focuses on the ability of business or organizations to build and maintain a relationship with each other. [15] It is important to note that strategy and strategy creation in the IMP approach has not yet resulted in similar definitions as Chikan [16], well-known from strategic management saying that "the strategic planning is an integrated unit of strategy implementation and feedback based company management "or Hamel’s statement. [17] The latter describes strategizing as a discovery, a work of art, and planning for programming to technocrats. Design is thus a rigid, repetitive process, as opposed to the flexible, plastic work. It is no coincidence that the IMP group never uses the word design, but uses terms of creation and development in the context of the strategy.

In recent years, however, IMP researchers are increasingly addressing the issue of strategy building. [3] [4] [18]

Table 1. A matrix for analysing strategy in business networks

|                | Existing process                      | Evolving process                        |
|----------------|--------------------------------------|-----------------------------------------|
| Existing structure | 1. review                           | 2. change relationships                 |
| Evolving structure | 3. establish new relationships       | 4. change network positions             |
| Source: [4]   |                                      | Source: [4]                             |

The network structure, network process (consists of interactions), network position and the network picture are essential terms to understand Ford and Mouzas [4] approach to strategy development. "The network picture is a picture of the network in the minds of the network's managers" and the network position "shows the network situation of a particular company". [19] Based on all these, Table 1 illustrates a system of context, in which Ford and Mouzas [4] investigated the change of relationships in a network. They compare the process and structure dimensions by which they distinguish between (1) review (existing process and structure), (2) change relationships (evolving process and existing structure), (3) establish new relationships (existing process and evolving structure) and finally (4) change network positions (evolving process and structure) strategy. It is important to emphasize that the strategy is not connected to the company, but according to the changes in network structure and processes it is understood on the network level.

Summarizing in Table 2 the differences between strategy and strategy creation, namely, 'strategizing' in strategic management and IMP network approaches, the following can be observed:

Table 2. Comparison of strategy and strategizing with strategic management and IMP network approach

| Subject of comparison | Strategic management | IMP network approach |
|-----------------------|----------------------|----------------------|
| Unit of analysis      | market (company)     | network              |
| Participants          | seller, buyer etc.   | participants (actors)|
| Center of strategy    | seller’s, buyer’s etc. relationship with the market | participants (actors) relationship with the network |
| The company’s dependency | independence        | dependency           |
| The nature of the process of creating a strategy | prescriptive         | evolving             |
Strategy creating and Strategizing According to Contract Manufacturers

The process of strategic planning, its individual steps, environmental analysis (e.g. STEP, STEEPLE, etc.) or SWOT analysis related to a particular company can not be interpreted in IMP's understanding. [21] This is due to the fact that "interaction with others limits the freedom of management and the ability to create strategies independent of others". [3]

3. Strategy and Strategizing According to Contract Manufacturers

Since the analysis of the strategy creation in this article is done in the network approach of the Hungarian automotive suppliers, it is indispensable to take into account specific characteristics of the relations in automotive industry. One of the key pillars is contract manufacturing (CM), whose conceptual clarification is primarily sought in the supply chain management literature. Numerous studies on contract manufacturers (including [22] [23]) start from the strategic capabilities of Original Equipment Manufacturers (OEMs). Consequently, one of the main objectives of contract manufacturing is to determine the reduction of OEMs' costs.

Sodhi and Tang [24] treat the strategy of contract manufacturers and OEMs separately/compared, and conclude that strategies lead to 'cooperation', 'competition' and mixture 'co-opetition', where companies cooperate and compete simultaneously. [22] Using the game theory in supply chain management, the authors have created the value network of contract manufacturers and OEMs, where each connection between each player shows the potential presence of 'co-opetition'.

Obviously, looking at the strategy of the contract manufacturers, partners can not be considered as independent companies. [14] Regardless of the fact that we are analyzing the original part manufacturers or the contract manufacturer's point of view, relationships between partners play key role in strategy building. At the same time, in the strategic management approach the strategy puts the company in the center, as opposed to the IMP network approach, according to which the strategy can only be created when the company takes into account its business relationships. However, in practice, business executives are well aware of - and apply - the mainstream interpretation of the concept of strategy. Accordingly, the main aim of this research is to understand the strategy of companies (contract manufacturers, suppliers) especially in terms of IMP network approach.

4. Empirical Research

In the following section the framework and method of the empirical research is described, as well as the case of the Hungarian contract manufacturer (CM).

**Figure 1. Research framework**
Figure 1 illustrates the research framework which incorporates the CM with its strategy, customer(s). The framework also contained a certain degree of cooperation through key activities, resources and actors. [7] Key activities, key resources and key actors themselves are also common elements in the strategic management approach of the strategy and IMP theory. [14] The research framework also includes the features of network, because relationships are embedded in networks. [14] Customers are indicated with a dashed line because business models can be modified through the acquisition of new customers, hence this represents the dynamics of the business model. Through comparing theory the research framework is adapted to the empirical findings. In the strategy of contract manufacturers it is important to realize how partners are able to synchronize key activities, resources and actors while taking the network of the companies into consideration.

The next step is to present the case of the Hungarian contract manufacturer (CM) called Videoton as the primary information of the empirical research. The case study research method was chosen to reveal the role the strategy in business network of the CM. In IMP industrial marketing studies the case study research is widely used [25], and the theoretical contributions of case studies are generally accepted in the literature. [26] [27] [28]

The results presented here are parts of the results of the comprehensive research carried out about Videoton Holding and VT Automotive Electronics Ltd. (the research was about the company's historical development and business relationships). In the framework of qualitative research, deep interviews were conducted with 23 mid- and top managers of Videoton in 2012 and with the two CEOs of the company in 2013. For the analysis primary qualitative datas are used from five deep interviews, including the two company CEOs, the vice president of business development, the director of international projects at Videoton Holding and the managing director of Videoton Automotive Electronics Ltd. In addition to the primary informations, the company's datas, internal publications, and the company's website are also used as important secondary informations for the results. These interviews were chosen because the respondents are responsible for the strategy-related tasks in the company.

4.1. **About Videoton**
The Videoton was established in 1938 in Székesfehérvár in Hungary as a private company in the military mechanics industry. After the Second World War it has been nationalised. Over a forty years period Videoton has been operated as one of the most important and largest Hungarian state-run company. It has changed its profile and became a huge electronic consumer goods company covering the big part of the Hungarian market and making an important export activity to the neighbouring socialist countries and to the USSR. Just after the political transition of 1989, the state-run Videoton underwent a major crisis and was ultimately privatized in 1995. The new owners had immediately stopped all the money loosing activities, it means most of the manufacturing activities and carefully analysed and used Videoton's old capabilities and began to rebuild a completely new industrial complex.

Today the vertically integrated Videoton is the largest Hungarian industrial group in local private ownership offering manufacturing and related services for industrial firms. The company has nine locations in Hungary, one in Bulgaria (Stara Zagora) and one in Ukraine (Mukachevo). Employing 7600 people, Videoton's turnover was 326 million EUR in 2011. Videoton is a professional, regional, integrated supplier and contract manufacturing company being the 4th most significant European EMS provider and the 26th largest globally at the same time. The company is also a competent multi-commodity supplier of parts, assemblies and modules, a professional regional EMS provider with extended engineering services, a turn-key contract manufacturing partner for outsourcing and transfer projects and also a complex service provider for the establishment and operation of industrial parks.

According to the purpose of the paper, in the following two different relationships of Videoton will be introduced. In the case of these two relationships with customers named Company A and Company B (the names of the companies are not relevant to the research), the interesting point is that both of them are milestones in the development of Videoton's story. The process of developing from an Original Equipment Manufacturer (OEM) to a CM is illustrated through Videoton (more precisely through the presentation of Videoton's most important subsidiary, Videoton Automotive Electronics Ltd.) and its
two important relationships which commenced in the 1990s. Figure 2 illustrates the relationships of Videoton as a contract manufacturer where the Tier1 mark (used in the automotive industry) means direct supplier to the manufacturer (OEM), Tier2 is the key supplier of Tier1 suppliers, Tier3 companies are suppliers of Tier2 companies.

Figure 2. Business relationships of Videoton with Company A and Company B

Source: author’s own construction

4.2. Videoton and Company A

Videoton’s 25 specialized medium sized subsidiaries provide a complete solution to its business partners from Automotive Industry (39%), Household Appliances (22%) and Industrial Applications (29%). One of the major activities of Videoton is supplying for automotive companies which is provided by VT Automotive Electronics. The subsidiary’s main cooperation began in 1998 with the French company, Company A which is a Tier 1 supplier in the automotive industry and still the most important partner for VT Automotive Electronics and Videoton Holding as well. At that time Videoton already had several years of experience in supplying to the automotive industry. It means they were aware of the strict quality requirements of the industry and they had the expertise, the manufacturing facilities and the human resource as well. The whole business of VT Automotive Electronics was based only on one customer. But in 1998, this relationship stalled, they could not develop further, so VT had to look for new customers. The truth is that the relationship with Company A wasn’t created from a natural step in the company's life. In 1998, the company still did not have adequate capital, liquidity; the financial risk was on the highest level. The managing director was careful and restrained with the establishment of the French relationship; however, the two CEOs of Videoton have supported it. In fact, the Company A found VT and not inversely. VT sent approximately 180 proposals to Company A to differ...
to us. I always say that marketing and sales are about that I have to sell my capability which doesn’t yet exist but I’m surely able to develop it when there will be demand for it.” First of all they negotiated about the switches and contacts, than electronic components. Since 2002 the VT Automotive Electronics has been delivering to 22 of Company A’s sites (e.g. Argentina, Brazil, Mexico, China, Turkey, Portugal, Spain, Poland, Czechoslovakia, Czech Republic, and Romania).

4.3. Videoton and Company B

The story of this relationship started in 1995. The antecedents of the relationship go back to 1988, to the Videoton before the transition in Hungary. At that time one of the subsidiaries of Videoton, dealing with audiotechnics, was in for a fruitful relationship with Sony Vega. The responsible person at Videoton was the same manager who is the business development director of Videoton today. They were already near to sign the contract about manufacturing sound box for radio cassette players, but in 1990 when the political situation in Hungary became troublous, Sony finally stepped out of the business. After the transition the director started to reveal the old relationship. Sony showed interest and the sales leader of the component manufacturing division in Japan visited Videoton. He wanted to sell components for manufacturing CD players. Videoton had business in this field but they had commitments to other suppliers. The Japanese sales leader was so enthusiastic that he had frequent visits – twice in a year – to Videoton to check the opportunities. The last visit occurred in the beginning of 1995. The CEO’s of Videoton did not support these visits, but the business development director kept open house. He remembers: „A manager from Sony used to visit us regularly he wanted to sell us CD pick-ups. We have said him that we were producing CD players but that was the client who determined what kind of pick-ups must be used, thus we couldn’t buy from him. Never mind he came every year and checked how we had developed. A day he played golf together with the European boss of Company B, an other Japanese who asked him whether he knew an Eastern-European company to manufacture car radios. This manager gave him my visit card.” In September 1995, the business development director at Videoton got a phone call from the European boss of Company B. He explained that he was looking for a partner in Eastern Europe for manufacturing car radio. He also promised to send products by mail and they arrived within 2 weeks. The relationship with Company B emerged, the first personal meeting occurred in October 1995, and manufacturing started in March 1996. In that year out of the 12,000 employees of Videoton 300 worked in this project and this number increased up to 550 employees (out of a total of 19,000). This relationship was significant in terms of added value for Videoton and lasted until 2002 (Company B had to finish the project because its European audio division closed).

5. Findings and conclusions

The purpose of the paper was to analyse two different but determinative relationships of Videoton by which the process of developing from an OEM to a CM is illustrated.

The Videoton’s strategy through the relationships with Company A and Company B is also illustrated. The time dimension is so important in the company’s strategy development because what Videoton learned from their relationship with Company A was capitalized on in its relationship with Company B. As an interesting point of the research, according to the deep interviews with the top management the word strategy often appeared in connection with opportunity. The opportunity in this context appears in the attempts to balance key activities, key resources and key actors – which elements should be investigating when the relationship between the partners is analysed – between the CM and its customers, taking the business network into consideration.

Let’s see the two relationships as milestones in the Videoton’s strategy development. As the first milestone Videoton’s transformation occurred when a subcontracting relationship with the Company A began in 1994. This relationship ultimately led to the foundation of Videoton Automotive Electronics Ltd. The company shipped automotive electronic controls, wiring harnesses, relays and distribution boxes as a subcontractor (these correspond to key activities of the Videoton). One year later, production was moved from Ireland to Hungary together with supply, meaning that the former suppliers were replaced by Hungarians. Company A also transferred technical documentation (corresponding to key
activity of the Company A) and technology (corresponding to key resource of the Company A), from Ireland to the factory installation in Hungary. The raw material, storage and continued delivery or return of processed products was guaranteed by the partner (also corresponding to key activities of the Company A). On the other side the experience in military electronics and professional leadership are in line with key resources of the Videoton. As key actors in the relationship the ongoing learning played an important role at Videoton, as well as the managing processes at Company A.

As the second milestone the Videoton took action without specific customer demand because it believed in the potential for development (corresponding to key actor from the side of Videoton, on the other side the ongoing learning is in line with key actor of the Company B). This was not a common habit at the company, because the risk management at the company is always associated with conscious and systematic decision making. The relationship with Company B emerged. First of all, negotiations were held about switches and contacts, than about other electronics (corresponding to key activities of the Videoton). As key activities in the relationship the production and feedback played roles at Company B. The management of Company B was constantly changing throughout those times, while Company A’s leadership remained intact (corresponding to key resource of the Videoton, on the other side the technology corresponded to key resource of the Company B) during the entire period of the development of the relationship. This period of cooperation with Company B clearly helped to transform Videoton, formerly a product manufacturer into a highly developed contract manufacturer in the electronic manufacturing service (EMS) industry. This involved a major change not only in its mode of operating, but primarily in the culture and the identity of the company. Today, Company B is one of the 10 most important customers of Videoton.

After examining the two relationships, it can be stated that there is a clear difference between pure subcontracting and EMS activity. At the pure subcontracting, Videoton as a supplier is responsible for the following issues: facility, regional know-how and contacts, production and management team, quality control, maintenance and logistic services. The customer (Company A) is responsible for quality assurance, technology, new product introduction, procurement, and sourcing. In its EMS activity Videoton is responsible for all of these issues, except for logistical services, the responsibility for which varies according to each relationship. It can be said that the Videoton’s transformation involved a shift from classic product-oriented industrial activity to customer-oriented, service-based activity [14] and this case illustrates that the company’s success came from its strategizing [18] activity, and not as outcomes from a planned and deliberate strategy.

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