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Networks with Cluster Stakeholders as a Business Strategy to Enhance Performance: A Conceptual Framework

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Abstract

The purpose of this study is to provide a conceptual framework related to business networks formed by firms with cluster stakeholders and explain the relationship between these networks and the performance of firms by examining the literature available on the subject. The study has explored the possible ways by which a firm can benefit by forging linkages with stakeholders. The study shall in particular be of immense use to policy makers and the managers working in a firm to understand the benefit of knowledge sharing with each other. Accordingly forums in a cluster can be created through which this knowledge can be transferred.

Keywords: Business networks, Cluster, Cluster stakeholders, Firm performance, MSMEs

1. Introduction

Networks within and between organizations are the basis for today's business (Connell et al., 2014). Networks refer to a group of firms that cooperate in order to achieve collective efficiency, penetrate and conquer markets, and overcome common problems beyond their individual reach (Ceglie and Dini, 1999; UNIDO, 2001). Networks imply inter-connections with industry associations, input suppliers, R&D organizations, business development service providers, relevant government and inter-government bodies, and trading agencies (Das, 2008). Lei and Huang (2014) define network as a multi-facet concept where different firms display different degree of involvement. Web of dense and overlapping ties where knowledge rapidly defuses is known as network of relationships among firms (Exposito-Langa et al., 2015). Ceglie and Dinni (1999) stated that collaborative actions involving enterprises, suppliers of inputs, business services providers, local and regional governments, and local policy makers help in improving their competitive position. Networking with other firms help SMEs to address their problems and improve their competitive position by improving their efficiency in production and capacity for learning and innovation (UNIDO, 2001). Gradual formation of networks of relationships among enterprises influences their collaboration activities (Felzensztein et al., 2012). A particular element which characterises a cluster and allow enterprises to create value and competitive advantage is the

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interconnectedness or the linkages between the firms (Connell et al., 2014). Inter-firm collaboration and networks with supportive institutions and government are important determinants for firm's innovativeness (Niu, 2010b). Firms in cluster should focus on building strong vertical inter-firm relationship to improve their marketing performance (Lamprinopoulou and Tregear, 2011). Networking approach adopted by micro, small and medium enterprises (MSMEs) in India has helped them to overcome barriers such as global competition, technological obsolescence, and investment shortages (IBEF, 2013). Networks developed with firms within a cluster strengthen the firm's competitive advantage and firms possess different degrees of networks which make their competitive advantages different from others (Lei and Huang, 2014). Firms' relationship with agents (business service providers) which helps cluster in connecting with external networks plays an important role in firm innovativeness and also the networking intensity which provides systematic resources to firms in cluster is an important determinant of firm innovativeness (Exposito-Langa et al., 2015). Despite of the benefits of networks to the firms present in cluster, one issue still need to be explored .i.e. different types of business networks which the firms form with the stakeholders and how these networks will impact the firm performance. Zhao et al., (2010) suggested that the main concern is how firms in cluster interact and how the networks formed by this inter-firm relationship influence overall business performance. There is a need to highlight the difference between the kind of relationship among firms and the stakeholders in cluster (Lamprinopoulou and Tregear, 2011). Industrial clusters differ with regard to networks .i.e. structure of networks is different in different clusters (Martinez et al., 2012). Thus due to the current trend of research on business networks in clusters, this study aims at introducing a conceptual framework which will try to incorporate firm networks with the stakeholders present in a cluster and also will try to find out the impact of these networks on firm performance. This paper consists of 4 sections. Section 1 is the introduction. Section 2 provides the theoretical background about clusters, stakeholders, and types of networks formed by firms in cluster. Section 3 gives the introduction of the conceptual framework and the prepositions. The last part concludes this study and offers some suggestions for future research and also some managerial implications.

2. Literature Review

Cluster Concept

The underlying concept of cluster which most economists have referred to as agglomeration dates back to 1890 in the work of Alfred Marshall. Alfred Marshall is among the first who examined the phenomenon of clustering in industrial organizations. Alfred Marshall in 1920 explained why particular specialized industry concentrate in particular locality through Industrial districts which he defined as concentration of specialized industries of similar kind in a particular locality. Marshall (1920) suggested that clustering of firms operating in similar industries creates externalities in the form of economies of labor and supply of specialized input materials. Poudel and St. John (1996) describe geographic clustering of firms in the same industry through hot spot which they defined as regional clusters of firms competing in the same industry which, as a group grow more rapidly than other firms in sales and employment levels. However, Michael Porter was the one who gave relevance to clustering of firms or cluster concept. Michael Porter, a leading authority on competitiveness of regions and nations and on company strategy introduced the term industry cluster in his book *The Competitive Advantage of Nations* in 1990. Porter defined clusters as geographic concentration of interconnected companies and institutions in a particular field which includes actors such as providers of specialized infrastructure, suppliers of specialized inputs for components, manufacturers of complementary products, customers, government and other institutions such as universities, think tanks, standards-setting agencies, vocational training providers, and trade associations which provide specialized training, information,

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education, and technical support (Porter, 1998). Later various other scholars and organizations worked in this area (Baptista and Swann, 1998; Morosini, 2004; UNIDO, 2006; Das et al., 2007; Planning Commission, 2012). Baptista and Swann (1998) defined geographic cluster as an intense collection of related companies located in a small geographical area. Clusters occur at several geographical levels .i.e. nations, states, and cities and in many types of industries either large or small which decreases the appropriateness in the definition of cluster (Porter, 2000). Morosini (2004) defined industrial cluster as a socioeconomic entity characterized by a social community of people and a population of economic agents localized in close proximity in a specific geographic region. Clusters are defined as sectoral and geographical concentration of enterprises, especially small and medium facing similar opportunities and threats (UNIDO, 2006; Das et al., 2007). Industrial clusters consist of firms in a region producing a particular product and facing favourable environment which help the firms in easily pooling the resources for them to become more competitive (Niu et al., 2008). A Cluster is a geographically proximate group of interconnected firms and associated institutions which share common markets, technologies, worker skill needs in a particular field and which are also often linked by buyer-seller relationship (Planning commission, 2012). Industry clusters are geographic agglomerations of enterprises which are specialized in one or more related industries (Giuliani, 2013). According to Fundeanu and Badele (2014) competitive and innovative industry which favours the emergence of new form of competitive advantages in the form of partnerships between businesses, research institutions, universities and states is called cluster.

Stakeholders in Clusters

Table 1 show some previous studies which have talked about different set of players or participants present in a cluster with whom firm form relationship.

Table 1: Summary of Studies on Stakeholders

S. No	Participants	Author
1.	Other supporting institutions / existence of local support institutions	Porter (1998, 2000), Morosini (2004), Tambunan (2009), (Niu, 2010a), (Fundeanu and Badele, 2014), (Hoffmann et al., 2014), (Li et al., 2015)
2.	Banks and other financial institutions / financial services	Das (2005), Tambunan (2009), (Fensterseifer and Rastoin, 2013), (Prajapati and Biswas, 2011), (Lei and Huang, 2014)
3.	Suppliers of inputs	Porter (1998, 2000), Tambunan (2009), (He and Rayman Bacchus, 2010), Giuliani (2013), (Fundeanu and Badele, 2014)
4.	Providers of business services / local consulting, marketing and distribution services	Tambunan (2009), (Fensterseifer and Rastoin, 2013), (Lei and Huang, 2014),
5.	Local customers and foreign customers	Porter (1998, 2000), Tambunan (2009), Giuliani (2013), (Fundeanu and Badele, 2014)
6.	Universities / public and private automation related institutions	Porter (1998, 2000), Morosini (2004), Tambunan (2009), (Fensterseifer and Rastoin, 2013), Giuliani (2013), (Fundeanu and Badele, 2014), (Lei and Huang, 2014), (Li et al., 2015)
7.	Training and R&D institutes	Porter (1998, 2000), Morosini (2004), Tambunan (2009), Giuliani (2013), (Lei and Huang, 2014), (Fundeanu and Badele, 2014)
8.	Traders / local trade	Tambunan (2009), (Fensterseifer and Rastoin, 2013),

9. Central and local government / Government agencies	Morosini (2004), Tambunan (2009), (Prajapati and Biswas, 2011), (Lei and Huang, 2014), (Li et al.,2015), (He and Rayman-Bacchus, 2010), (Niu, 2010a), (Fundeanu and Badele, 2014)
10. Competitors	Porter (1998, 2000), Tambunan (2009), (Fensterseifer and Rastoin, 2013), Giuliani (2013), (Hoffmann et al., 2014), (Lei and Huang, 2014), (Hsu et al., 2014)
11. Professional associations	(Fensterseifer and Rastoin, 2013), (He and Rayman Bacchus, 2010)
12. Technical human force	(Hoffmann et al., 2014)
13. Upstream firms	Barkley and Henry (1997), (Lei and Huang, 2014), (Hsu et al., 2014), (Lai et al., 2014)
14. Downstream firms	Barkley and Henry (1997), (Boari, 2001), (Lei and Huang, 2014), (Hsu et al., 2014), (Lai et al., 2014)
15. Regulatory institutions	Porter (1998, 2000), (He and Rayman-Bacchus, 2010)

Networks Formed by Firms Present in a Cluster

UNIDO (2001) defined two types of networks in cluster .i.e. horizontal networks (among SMEs) and vertical networks (among SMEs and larger enterprises). According to Yamawaki (2002) small firms in Japan's industrial clusters majorly follow two types of inter-firm cooperation .i.e. joint R&D collaboration and technological alliance. Bell (2005) suggested that firms and their managers are involved in two types of networks .i.e. a managerial network which is network of informal ties among managers and an institutional tie networks which is network of formal ties between the firms. Giuliani (2007) defined two types of networks in clusters .i.e. knowledge and business networks. Knowledge network are defined as the network which link firms through the transfer of innovation related knowledge (Giuliani, 2007). Business networks are set of relationships established by technical professionals while meeting or interacting with other firms on various business issues. They include market based transactions which are carried out on a cooperative basis. The formation of business networks is based on social and institutional relationships and is mainly shaped by unplanned interactions (Giuliani, 2007). Morrison and Rabellotti (2009) defined informal networks as linkages among firms via face-to-face contacts. Information networks are the networks which involve free available generic information flow between the firms (Morrison and Rabellotti, 2009). Knowledge networks are the networks which are intentionally formed by the firms and which involve specific problem-solving knowledge (Morrison and Rabellotti, 2009). Tambunan (2009) explained two types of networks in SME industrial cluster in Indonesia .i.e. internal networks which he defined as links among firms inside the cluster and external networks which involve firm's relations with institutions such as banks, government, university, research institutes, state-owned companies, business association and local associations. He further divided internal networks into horizontal and vertical, where horizontal networks are co-operation among SMEs present in same value chain and vertical networks as co-operation among SMEs along the value chain. Niu (2010a, 2010b) explained two types of industry cluster involvement .i.e. traded interdependency which involve sub-contacting, product imitation, and technological know-how and second as non-traded interdependency which are based on shared knowledge and involve cultural background, government support and supportive institutions. Prajapati and Biswas (2011) measured two types of networks .i.e. supportive and competitive in handicraft and handloom clusters of micro enterprises. According to them supportive network consist of NGOs, designers, banks, and government; and competitive network which shows the extent of competition with the rival firms in the form of copying designs, poaching of employees, price competition, and hiding information. Balland, Belso-Martinez, and Morrison (2012) conducted a study to investigate the drivers of technical and

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business network formation in a toy cluster of Spain. They distinguished between two types of networks .i.e. technical and business networks on the basis of two types of knowledge: technical know-how, which can be associated with procedural knowledge and require specific skills to be understood; market information which can be regarded as declarative knowledge and does not require specific skills to be understood. Casanueva *et al.*, (2013) studied two types of networks: tacit knowledge networks and explicit knowledge networks. Tacit knowledge network is related to social ties between organizations .i.e. relationships of cooperation, trust, and friendship. Explicit knowledge networks is related to market ties between organizations .i.e. commercial relationships. Li *et al.*, (2015) studied two types of networks in wine clusters of Australia. First, localised network which means networks formed within a cluster by the firms and second, external networks which involve networks with firms outside the cluster.

3. Conceptual Framework and Development of Propositions

The literature on networks in cluster focuses on localised network which means networks formed within a cluster by the firms and second, external networks which involve networks with firms outside the cluster. Within localised network it talks about internal networks which are links among firms inside the cluster and external networks which involve firm's relations with institutions such as banks, government, university, research institutes, state-owned companies, business and local associations. Within internal networks there are horizontal networks (among SMEs), competitive network which shows the extent of competition with the rival firms and vertical networks (among SMEs and larger enterprises). In context of external networks it talks about supportive network which consist of NGOs, designers, banks, and government. Thus we can say that we did not find any study which explores the types of business networks which a firm could form with each of the stakeholders present in the cluster. Thus, to our knowledge, there is a need to explore in depth the different types of networks which a firm forms with the stakeholders present in a cluster. Table 2 shows the possible networks formed by firms within a cluster with the stakeholders and also possible linkages within these networks.

Table 2: Possible networks and linkages formed by firms within a cluster

Possible Networks with Stakeholders	Possible Linkages
Networks with R&D institutes	: Access to latest technologies; help in meeting specific requirements of the firm, cutting cost by sharing facilities with R&D institutions, learning new product design and joint introduction of new products and filing of patents.
Networks with suppliers	: Access to joint Research and Development, information related to equipments, markets, and consumers
Networks with local associations	: Collaboration in purchase of specific equipments, purchase of raw materials, and purchase of machines; help in using internet and e-commerce successfully
Networks with competitors	: Access to talented human resources and technical information related to new machines
Networks with buyers	: Help in increasing R&D capability, solving work problems by communicating with them, and obtaining talented individuals / professionals
Networks with educational and financial institutes	: Help in carrying out market surveys so to be aware of customers demand; access to workshops on skills enhancement of employees, entrepreneurship programs and getting help in learning new technical skills
Networks with government agencies	: Getting help in marketing of products, entry into new markets, sharing distribution channels, increasing their exports and joint participation in industrial fairs

Also there is a need to carry out an empirical research to examine the impact of these different types of networks on performance of firms. Figure 1 show the conceptual framework developed for exploring further the different types of networks which a firm can form with each stakeholder separately and the impact of those networks formed on firm performance.

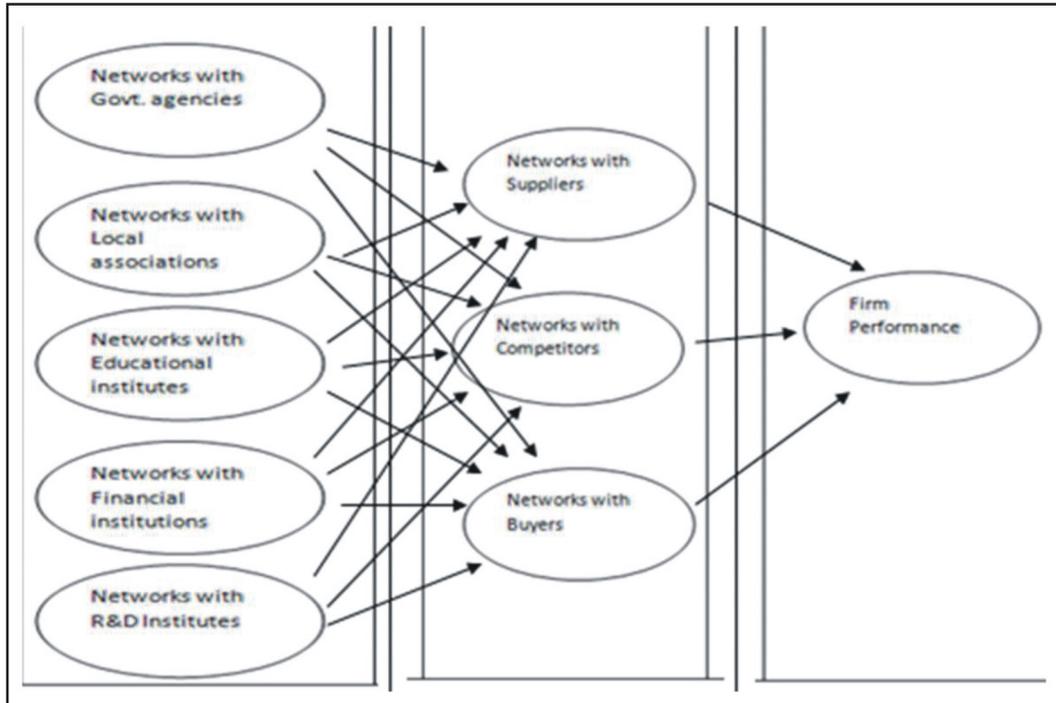


Figure 1: Conceptual Model

Literature in Support of the Conceptual Framework

The literature mentioned here support the idea that networks formed by firms in cluster with the stakeholders helped them in enhancing their performance. Research scholars have supported the idea that the more the firm is embedded in a cluster higher will be its innovativeness and market performance (Porter, 1998; Giuliani, 2013). Bell (2005) investigated the relationship among clusters, networks, and firm innovativeness in an industrial cluster of Toronto and found that managerial network centrality enhances the firm innovativeness. Networking firms were more likely than non-networking firms to engage in new product development, information sharing in marketing, and technological upgrading. Networking firms also reported that inter-firm cooperation and collaboration enhanced profitability and competitiveness (Barkley and Henry, 1997). Lerch *et al.*, (2008) concluded through their empirical research on photonics clusters of Germany that network integration among firms is strongly related to firm-level innovative performance. Firms in cluster work together for enhancing their competitiveness and networks formed by firms in clusters carry potential advantage for firms' innovation and competitive advantage (Niu *et al.*, 2008). Tambunan (2009) concluded that networks with traders, foreign tourist, and trading houses are important for performance of export oriented SME clusters in Indonesia. Inter-firm collaborations are important determinants for firm innovativeness (Niu, 2010b). Firms within a cluster pursue partnerships and such partnerships are key determinant of cooperation and innovation, promoting learning, and competitiveness (He and Rayman-Bacchus, 2010). Stronger

inter-firm interaction leads to high level of operational efficiency (Oprime *et al.*, 2010). Network openness and strength are the building blocks of competitive advantage in clusters (Casanueva *et al.*, 2010). Stronger the relation between firms within a cluster, greater would be the marketing performance of firm (Lamprinopoulou and Tregear, 2011). Competitive networks are positively associated with subjective performance of enterprise in handloom and handicraft clusters since competition among firms increases the product quality and enhance innovative activities which positively affect performance (Prajapati and Biswas, 2011). Martinez *et al.*, (2012) suggested that inter-firm linkages help in maintaining long term competitiveness of firms. The inter-firm networks stimulated by the MSME clusters have helped these MSMEs to move up the value chain and gain competitiveness (IBEF, 2013). There exist a positive and strong relationship between firm performance and the factors such as proximity to companies and business environment (Singh and Shrivastava, 2013). Competitive advantage of firms will be enhanced through the development of relationship among firms (Lei and Huang, 2014). Connell, Kriz, and Thorpe (2014) conducted a research to examine how knowledge sharing is facilitated in industry clusters of Dubai and Australia and concluded that ability of a firm to connect effectively with other firms is a key to support knowledge sharing among the firms and to promote innovation in a cluster. They also suggested that if firms in clusters lack strong networks among them then it can lead to lack of knowledge sharing among the firms. Clusters helps in network formation with supporting institutions which further lead to market development, product development, and increase in sales, (FMC, 2006). Networks with supportive institutions and government are important determinants for firm innovativeness (Niu, 2010b). Localised networks and external networks of firms in a cluster directly influence firm market performance of firms in wine clusters of Australia (Li *et al.*, 2015). Bell (2005) found that institutional network centrality has no relation with firm innovativeness in an industrial cluster of Toronto.

Propositions

P 1: Firms present in cluster form strong business networks with other stakeholders

P 2: Firm networks with other firms like competitors, suppliers, and buyers have a positive impact on firms' performance

P 3: Firm networks with government agencies, educational institutes, financial institutes, and local associations have a positive impact on firms' performance

P 4: Firm business networks with stakeholders have a mediating effect on the relationship between cluster presence and firm performance

4. Conclusion and Managerial Implications

The study clearly brings forth the importance of business networks to educate the managers of firms on different aspects of cluster. The investigation of different types of firm networks with the stakeholders of cluster is of particular interest because it will offer new insights regarding how these firm form networks which could be used to complement the firm business performance. There could be variety of networks that a firm can form with each stakeholder in a cluster. Mentioned below are few such possible networks.

- **Network related to information exchange:** This kind of network would help the firms in exchange of information related to equipments, markets, and consumers with the stakeholders, in obtaining data required for work from databases of stakeholders, in solving work problems by communicating with workers of stakeholders, and also help the firms in taking advice from other stakeholders present in the cluster.

- **Network related to technological collaboration:** In this network type firms may get opportunity to engage in joint R&D with the stakeholders, to introduce new products with support of stakeholders, to work on new patent(s) with support of stakeholders, and also get opportunity to use technologies developed by other stakeholders.
- **Network related to sharing of human resources:** This type of network would help the firm in obtaining talented individuals from the other stakeholders present in the cluster, in joint recruitment of new employees, and also in pooling human resources from other stakeholders in order to solve a technical issue when it faces any.
- **Network related to joint procurement:** This network would help the firm in collaborating with stakeholders for purchase of specific equipments, purchase of raw materials, and purchase of machineries.
- **Network related to training:** This kind of network would help the firms in comprehensive training of employees with support of stakeholders, carrying out joint entrepreneurship programs, get opportunity to learn technical skills from members of other stakeholders, and also get opportunity to organise workshops on skills enhancement of employees with support of the stakeholders present in the cluster.
- **Network related to marketing:** This type of network might help the firms in marketing of products with the stakeholders, entering into new market with support of cluster stakeholders, sharing distribution channels, jointly participating in industrial fairs, and finally also in carrying out frequent market research so to be aware of customer needs.

This conceptual analysis has several managerial implications to both academics and practitioners. First, it explains that firms present in a cluster are more able to experience higher innovative or market performance, improvement in product quality, huge benefits in production and sales that would not be available for an individual firm present outside the cluster. Second, it explains that firms present in a cluster form strong business networks with the stakeholders which an individual firm would not be available to form outside the cluster. Third, this explains that these formed business networks with the stakeholders would improve firms' competitive position, enhance their growth and performance. Firms with a high level of business network perform better over their competitors. The value of this study lies in the development of a holistic framework for empirical testing of the conceptual framework developed. The next step for continuing the current study is to explore the different types of business networks which a firm forms with each stakeholder present in a cluster to bring in the importance of these networks. Secondly since in India most literature on clusters have mainly focused on benefits of cluster approach (Narayana, 2007; Das and Das, 2011; Planning commission, 2012; IBEF, 2013; Singh and Shrivastava, 2013) and on factors that may facilitate the development and growth of industrial clusters (Das, 2005; Gulati and Sarkar, 2006; FMC, 2006; Khomiakova, 2007; Varman and Chakrabati, 2011; Venkataramanaiah, 2011) however there has been no study on different types of business networks which a firm form with other stakeholders. Thus if this once successfully done, the results may reveal interesting findings due to the different backgrounds, technological sophistication, and regional development of different clusters present in India.

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