International Journal of Research and Review
Vol.7; Issue: 12; December 2020
Website: www.ijrrjournal.com
E-ISSN: 2349-9788; P-ISSN: 2454-2237

Case Study

The Business Networking to Entry Dutch Fish Market

Le Nguyen Doan Khoi

Assoc. Prof. Department of Scientific Research Affairs, Can Tho University, Vietnam

ABSTRACT

This paper focused on how to design a proper export networking, it would be important to look at the different entry strategies mostly practiced in the Dutch market. The fact that the Dutch importers have been importing seafood from Vietnam provides us a useful basis for analyzing the entry strategies applied in the previous years. Consequently, we can propose the various alternatives for entering into the Dutch fish market in the future

Key words: Dutch fish market, export market, business networking

1. INTRODUCTION

A great deal of attention has been paid by both economic and sociological scholars to develop relevant concepts of business relations that allow firms to gain a distinct competitive advantage (Williamson 1985, Hakansson and Snehota 1995, Contractor and Lorange 1986, Speckman et al 1998, Porter 1985). The economic and sociological approaches differ in their theoretical assumptions and concepts, and there has been a debate in an effort to bridge the gap between these two perspectives. A useful starting point in this debate concerns the comparison made between transaction cost economics and the networking theory, as developed by the Industrial Marketing and Purchasing group (IMP), by Johansson and Mattson (1987). Their findings show that the two approaches are useful for different purposes. For instance, they argue that while the transaction cost approach explains the existence of different governance structure, the networking approach is more appropriate for strategy analysis. However, their discussions focus more on the differences than the similarities of the two approaches. On the other hand, Nooteboom (1993, 1999) argued that both approaches offer useful perspectives and they should be integrated. He extended the discussions on transaction cost theory by considering the importance of embeddedness in transaction relations. Nooteboom's approach seems in line with Williamson's view (1992) in which he stated that transaction cost economics needs to be refined and extended.

2. LITERATURE REVIEW

As a continuation of this debate, we argue that the assumptions of transaction cost theory and other theories of business relations can be incorporated under the umbrella of networking theory. Hence, the main research question is that whether networking theory has a strong analytical and explanatory power in explaining the main concepts of Porter's value chain model, transaction cost theory and resource dependence theory (Porter 1985, Pfeffer and Salancik 1978, Williamson 1985, Hakansson and Snehota 1995). It is also argued that networking theory provides a better explanation to the problems of the seafood and other industries (Anderson, *et al*. 1994, Dryer 1996, Jarillo 1988, Gulati 1995, Sven and Gronhaug 1995, Mitullah 1999, McCormick 1999).

Networking and the Value Chain

Networking theory and the value chain model discuss similar points concerning the factors that affect the firm's performance and the development of inter-firm linkages. The value chain model assumes that a firm's performance depends on its capability to put itself in a better position within the industry. Similarly, the basic assumption of networking approach is that the individual firm is dependent on resources controlled by other firms and it gets access to these external resources through its network positions (Johanson and Mattsson, 1987; Forsgren *et al.,* 1995). In this case, network positions are the consequences of prior activities and they take time and resources to develop. The networking approach provides a detailed discussion on this aspect by considering the three substance layers of business relationships, namely activity links, resource ties, and actor bonds.

The amount of value created by a firm is determined by the linkages of the firm with its suppliers and buyers. Similarly, the networking approach states that inter-firm linkages are developed through activity links, where each firm's activities are classified into transformation related activity chains and transaction-related activity chains. The development of such linkages results in a more efficient coordination of industrial activities and most importantly in acquiring value-creating resources that are necessary for producing a unique product. Furthermore, the fact that networking approach discusses activity links in terms of both vertical and horizontal linkages broadens our understanding as to how to organize industrial activities.

Hence, the discussions of the value chain model concerning a firm's position in an industry and the value chain activities itself can be dealt with by using the underlying concepts of networking approach. Our conceptual framework considers these points and specifically presents the three layers of business relationships as the basis to analyse the various forms of organizing industrial activities.

Networking and Resource Dependence Theory

The fact that the theoretical foundations of resource dependence and networking theories are based on organizational sociology provides a strong basis for relating both theories. According to resource dependence theory, the key element to organizational survival is the ability of firms to acquire and control resources, which otherwise leads to dependence. Therefore, firms develop different forms of business relations.

In the networking approach, control over resources is dealt with in detail when discussing resource ties and resource constellations (Hakansson and Snehota, 1995:31). Through resource ties, different resource elements can be linked. However, resource ties do not only concern acquiring and getting access to resources. In a relationship some of the resources are brought together and combined. Over time, the interface between the resources of the companies can become broadened and can also embrace and activate different types of resources. As a result of this, various ties will emerge.

Hakansson and Johanson (1992:28-34) provide a further explanation concerning control over resources. They state that the less available a resource is, the more important control over it is and the more efforts will be spent on getting control over it. This is observed in the interaction between the network elements, namely actors, resources and activities. These three network elements are bound together by forces in which the total network is analysed in terms of functional interdependencies and power structure. The network elements together form a system where heterogeneous demands are satisfied by heterogeneous resources. This in turn causes the network elements to be functionally dependent with each other.

The power structure determines the role and position of the individual firm in relation to other firms in the network. The perception of the firm's role and position in the network defines the firm's strategic identity as it is shaped and developed through interaction with other firms. Hence, power structure explains the mutual interaction between the strategic identity of a firm, the development of the firm's industrial activities and its relationship with other firms in the network. Similarly, control of activities and resources may lead to a power imbalance between the network actors. As a result, the performance of the activities is to some extent organized on the basis of those power relations. However, imbalanced power is characterized by less cooperation, more dependence and greater conflict (Dwyer *et al*., 1987; Stern and Reve, 1980). In order to develop strong network relationships, the network actors need to develop balanced power over the control of activities and resources.

Hence, like resource dependence theory, network analysis considers the problems of resource control, firm dependence and power structure. These determinants are explicitly taken into account in the conceptual framework of the study. They are considered to be part of the key features that shape business relations.

Networking and Transaction Cost Theory

The basic concept of transaction cost theory concerns efficiency. In this case, three elements are crucial for understanding business relationship: asset specificity, uncertainty, and frequency. We noted several deficiencies of this theory in the problem under study. However, we share the opinion that efficiency can be taken into account under the umbrella of networking theory.

To begin with, networking theory distinguishes industrial activities into those activities related to efficiency, namely transfer activities, and those activities that are related to effectiveness, *i.e.* transformation activities (Hakansson and Johanson, 1992). This approach is similar to the classification made by North and Wallis (1994) who describe marketing activities in terms of transformation and transaction activities. However, the networking perspective indicates that instead of considering minimizing the cost of one transaction alone, the efficiency criterion should be based on a *set* of transactions between two parties or should be aimed at maximizing the joint transaction value of a given transaction among several value system actors (Zajac and Olsen, 1993). In this case, the unit of analysis concerns the relationship rather than discrete transaction, which provides a strong basis for understanding the coordination of industrial activities in a broader context.

We also see that the network influences not only suppliers and customers but also their suppliers' suppliers and their customers' customers. In such case, the competitiveness of a firm depends not only on how efficiently it cooperates with its direct partners but also on how well it cooperates with indirect partners. Hence, the network approach considers the transaction costs as a subset of the total network relationships. These costs must be compared with the total advantages from the cooperation to achieve an overall assessment of the network relationship.

TCE posits that the choice of governance structure is determined by the attributes of transaction and the assumptions on human behaviour. The discussions on TCE also show that a high amount of asset specificity leads to high sunk costs. It further implies that firms are likely to stick within a particular operating structure and therefore will not be able to respond to strategic changes in market expectations or competitive conditions. Due to the sunk costs, asset specificity can also be viewed as a variable that has a negative contribution towards the development of long-term business relations. From the networking perspective, the concept of asset specificity is very closely related to the discussion of heterogeneity, mutual adaptation, power and market assets (Hagg and Johanson, 1982; Johanson and Mattsson, 1987). These factors indicate the strategy through which the problem of asset specificity is reduced.

According to the networking approach, investment is realized as a result of a mutual adaptation process and is positively related to the development of closer relationships. It is argued that firms in the network are engaged in exchange processes, and every transaction made is considered an investment. This investment concept is integrated in the conceptual model as part of the key features of relationships.

The networking approach deals with the problem of uncertainty when discussing actor bonds. The approach states that the nature of bonds and the extent of the network structure influence the degree and type of uncertainty. Through the adaptation process, the network actors form strong economic, informational, knowledge, technical, social and commercial bonds which will minimize uncertainty. Similarly, frequency is described as one characteristic of the market in networking perspective. This is because the network actors adapt their needs by carrying out several exchanges through time, which can be characterized by high frequency of transactions. In the networking approach, the concept of bounded rationality is an implicit assumption, in the sense that actors need to handle information and learn by experience. In this case, much emphasis is given to the formation of new knowledge concerning the handling of resources.

Many exchanges are based on a gradual development of trust that helps exchange partners to lower transaction costs by safeguarding against opportunism. The implications of the effect of trusting behaviour on governance structures are generally ignored in TCE. This limitation of social embeddedness of economic actions and trust is best dealt with in networking theory. From a networking perspective, opportunism is not considered a basic characteristic of the actor. Instead its correlate trust is an important concept in the networking approach.

To indicate the importance of the social context, Nooteboom (1999) also suggests that buyer supplier exchange often has a social dimension (intrinsic utility) in addition to an economic dimension (extrinsic utility). Referring to intrinsic utility, the exchange process itself matters, in addition to the economic surpluses and its division that the exchange yields. Nooteboom maintains that intrinsic utility is largely neglected by TCE. Ring and Van de Ven (1992) also conclude that the significant social component in economic action is often ignored in TCE explanations of exchange/transaction activities. We also argue that informal networks reduce transaction costs because of the high level of trust in the relationships. The high level of trust enables firms to reduce negotiation costs, it helps to reduce transactional uncertainty and it creates opportunities for the exchange of goods and services. Hence, the conceptual framework focuses on the instruments that build trust. The detailed discussion on this issue is presented in later sections.

To conclude, the relevant theoretical and practical aspects of these theories are explained from the perspective of networking approach. Therefore, networking approach provides a strong basis for developing a conceptual framework that is suitable for analysing the coordination of industrial activities and developing long-term business relationships.

3. *Possible entry strategies for exporting fish products to the Dutch markets*

A case study interview was conducted with both exporting firms and Dutch importers. The first entry strategy considered by Vietnam exporting firms was the formation of two joint ventures with Dutch importing firms. The joint ventures were formed to deal with marketing and financial problems of the shareholders. In both cases, it is shown that at the beginning the joint venture was successful, but the progress made was short lived. This was due to the lack of trust and problems of balanced control over resources. It is found that the Dutch partners exclusively monopolized the export market distribution channel and in particular, in one of the joint ventures, the Dutch partner had a triple responsibility, acting as a shareholder, manager and importer from a company he has a share in. To analyze the future possibility of developing business relations between Vietnam exporting firms and Dutch importers, we conducted a case study interview with two Vietnam exporting firms and five Dutch importing firms, of which three of them used to import seafood products from Vietnam. The findings reveal that the exporting firms are still interested in developing sub-contracting or joint venture agreements, but stress the importance of balanced bargaining power between the exchanging parties. On the other hand, Dutch importers prefer to limit their relationship to entering flexible contracts and do not want to share risks by putting significant investments in the relationship. Although the importers acknowledge that the indicative fish prices of Vietnamn exporters are competitive, they also give more value to reliable exporters who regularly deliver quality fish in large volumes and also exchange relevant information on their supply and demand conditions. They also underlined that exporters should be able to fulfil packaging requirements and agree on payment procedures and means of delivery. It is concluded that flexible contracts is the most applicable form of organization through which both exporters and importers can develop commercial and information ties.

4. CONCLUSION

The case study indicated a number of findings. The results show that both fish suppliers and buying firms acknowledge the importance of developing business networking to get access to resources and markets controlled by one another. It also denotes the importance of making both market-specific and relationship-specific investment in realizing each other's objectives. It also indicates that through time the relationship between both actors is influenced by the level of trust and extent of resource control exercised by each one of them. Managerial and technical competences of partners, obedience to formal and informal mechanisms of enforcing laws and the existence of balanced bargaining power were also stated as the major factors for maintaining the relationship. The same factors were also found instrumental in designing flexible supply contracts between fish suppliers and export firms.

REFERENCES

1. Aldrich, H.E. (1979), Organizations and Environment, Prentice-Hall, Englewood cliffs, New Jersey.
2. Anderson, J. and Narus, J. (1990), "A model of distributor firm and manufacturing firm working partnership", Journal of Marketing, Vol.54, pp. 42-58.
3. Axelsson, B. (1995), "The development of network research – A question of mobilisation and perseverance". In Moller, K., and Wilson, D.,(eds.), Business marketing: An interaction and network perspective, London: Kluwer Academic Publisher.
4. Bain, J.S. (1968), Industrial organization. Second Ed. John Wiley, New York.
5. Boersma, M. Buckley, P. and Ghauri, P. (2003), "Trust in international joint venture relationships", Journal of Business Research, Vol.56 No.12, pp.1031- 1042.
6. Cannon, J. and Homburg, C. (Jan. 2001), "Buyer-supplier relationships and customer firm Costs", Journal of Marketing, Vol.65, pp. 29-43.
7. CBI (2004), EU market survey: Fisheries products, Rotterdam, The Netherlands.
8. Dyer, J.H. and Chu, W.C. (2000), "The determinants of trust in Supplier auto-maker relationships in the U.S., Japan and Korea", Journal of International Business Studies, Vol.31 No.2, pp. 259-285.

9. Eisenhardt, K. (1989), Building theories from case study research, Academy of Management Review, 1989, Vol. 14(4), pp. 532–550.

How to cite this article: Le Nguyen Doan Khoi. The business networking to entry Dutch fish market. International Journal of Research and Review. 2020; 7(12): 140-145.

******