

The Strategic for Formation of Inter-Organizational Network towards Global Market

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ABSTRACT

This paper examined the effect of cooperative strategy in improving the company's competitiveness in the globally targeted markets. The strategic management is essential for dealing with the continuous stream of changes that organizations face. The rapid increase of food quality and safety standards in developed nations can be stated as one of the major challenges of fish exporters. This paper is to apply networking concept for it enables the firm to obtain the required resources from external partners, gather the necessary information about their markets and customers.

KEYWORDS: *inter-organizational network, strategy, global market*

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1. INTRODUCTION:

The export of fish products to most developed countries requires compliance to their safety and quality standards. The fish exporting businesses need to have a clear understanding of the demands of their current and potential customers in terms of quality and safety.

The quality of fish is a function of all the activities performed and all the facilities and equipment used during harvesting, production and distribution processes. According to this the value chain analysis, which is essential not only to identify the potential hazards but also to discover the sources of the competitive advantage, is examined in this chapter. In addition, the importance of quality in fish exporting businesses and the different theories of inter-organizational cooperation or networking model which are important concepts for firms located in developing countries are also covered.

Consequently, the increased health awareness of consumers increased the demand for quality and safety of fish like in all other food products. Similarly, as the result of the increase in income,

consumers in developed countries started to be selective on the products they use. Thus quality and safety standards in the seafood sector have been an essential component of food consumption. With the intention of doing this, there needs to be a clear understanding of the strategic management for food safety towards global markets.

2. Literature review

The value chain and competitive advantages

A systematic way of examining all the activities a firm performs and how they interact is necessary for analyzing the sources of competitive advantage (Porter 1985). The value chain of a firm is composed of a series of distinct value creating activities including production, marketing, materials management, R&D, human resources, information system, and the firm infrastructure. According to Porter (1985) firms can gain a competitive advantage by performing these strategically important activities more cheaply or better than its competitors.

The concept of value system is more critical and relevant to firms involved in food businesses. The application of HACCP system, which is being mandated in an increasing number of developed countries, establishes process control through the identification of points in the chain of food production where the loss of control could result in unacceptable food quality and safety risk. Most of the points in the principles of the HACCP require a systematic way of examining all the activities in the vertical chain. The system identifies critical control points in the production process, thus food safety hazards can be prevented, eliminated or reduced to an acceptable level before they occur.

The value chain that shows the total value of the product consists the value activities and margin. Value activities are activities that are physically and technologically distinct to the firm. Margin is the difference between the amount buyers are willing to pay and cost of performing the activities (Porter 1985). The total value of a firm's product is a function of not only the value chains of a focal firm but also that of its suppliers and buyers. According to Porter (1985) suppliers and channel value chains include a margin that is important to isolate in understanding the sources of a firm's cost position, since supplies and channel margin are part of the total cost borne by the buyer.

The value creating activities are divided into two broad categories: primary activities and support activities.

The *primary activities* of a firm include the creating of the product, marketing and delivering the product to buyers, and providing support and after-sale service to the buyers of the product (Hill 2002).

According to Porter, the primary activities include:

In-bound logistics: - activities related to the receiving, storing and disseminating of the firm's products. Material handling, warehousing, inventory control, vehicle scheduling and returns to suppliers.

The in-bound logistics activities are vital for firms in food business. The perishability of many food products puts great demands on duration and conditions of storage, and conditions of transportation facilities at all stages of the supply chain. Therefore, the existence of proper way of receiving the raw products from suppliers on a timely basis and a sufficiently powerful refrigeration plant to keep products at prescribed temperatures may be

considered as some of the determinants for the quality of the final product.

Operations: - activities performed to transform the firm's inputs to outputs. Machining, packaging, assembling, maintaining, and testing.

This activity is a good source of competitive advantage for firm's involved in the transforming of inputs in to a final product like fish processing companies. A fish processing company can gain its competitive advantage by meeting the specifications of its customers in terms of size, hygienic standards (quality), packaging, and inspection process. According to the HACCP system, these firms need to follow the standards of operating under hygienic conditions during processing, in order to comply with the safety and quality standards required by their customers. Moreover, packaging of the products must be carried out under satisfactory conditions of hygiene to preclude contamination of the fishery products.

Out bound logistics: - Activities related to collecting, storing and distributing of the firm's output. Finished goods warehousing, material handling, delivery operations, shipping, order processing and scheduling.

Like in in-bound logistics, the outbound logistic activities have also a great impact for the quality and safety of products of food businesses. For example, the physical distribution and transportation of the final products in fish businesses is crucial not only in terms of time but also in maintaining and securing the quality of the products.

Marketing and sales: - Activities that inform buyers about products and services, induce them to purchase the product and facilitate the purchase of these products.

Marketing is about putting distinctive capabilities of a firm into an acceptable form and presenting them to selected market segments (Palfreman 1999). According to Palfreman (1999), the difficulty about marketing in the fish industry is, understanding the requirements of the market. The characteristics of fish products can be very subtle and it requires real knowledge and experience to be aware of these. On the other hand, the existence of assured markets is very important for food businesses because of the perishable nature of the products.

Service: - Activities required in keeping the product or service of a firm work effectively for the buyer after it is sold and delivered. Training, consulting, installing, repairing, supplying parts.

This activity is also essential for fish exporting firms, which are required to meet the strict rules of their importers like HACCP System. This is because, training and education are important elements in developing and implementing of quality procedures and HACCP program. Employees who will be responsible for the application of these regulations need to be adequately trained in its principles. In addition the HACCP system requires the food businesses to increase the customers' awareness and knowledge on how to use their products, through the instruction of use given to them.

Although almost all firms perform all the primary activities, the emphasized activities are dependent in the nature of the business that the firm is involved. However, all the categories of the primary activities are present to some degree and play some role in competitive advantage.

Support Activities: -Support activities provide the inputs that allow the primary activities of production and marketing to occur (Hill 2002). These activities can be divided into four generic categories (Porter 1985).

Procurement: - Procurement refers to the "function" of purchasing inputs used in the firm's value chain, not to the purchased inputs themselves. It refers to the acquisition of inputs or resources for the firm. Although it is the designated function of the purchasing department, procurement is also carried out by every employee who purchases equipment, arranges for financing, gathers information, completes a real estate transaction, or acquires any but human resources for the firm (Rowe 1999).

The procurement activity of a firm has a large impact for the firm's cost of production and its ability to differentiate its products. For example, the cost position of fish processing firm is determined by its ability to procure low-cost raw materials like fish from its suppliers. Moreover, in order to ensure the quality of the final product, the purchasing of packaging material for fishery products must comply with all the rules of hygiene. The materials must not be capable of transmitting to the fishery products substances harmful to human health and must not be such as to impair the organoleptic characteristics of the fishery products. Thus, improved purchasing practices can strongly affect the cost and quality of purchased inputs, as well as of other activities associated with receiving and using the inputs, and interacting with suppliers (Porter 1985).

Technology development: - Technological development pertains to the equipment, hardware, software, procedures and technological knowledge

brought to bear in the firm's transformation of inputs into outputs. Its most important component is knowledge. According to Porter (1985,1991) technology development consists of a range of activities that can be broadly grouped into efforts to improve the product and the process. It takes many forms, basic research and product design, media research, process equipment design and servicing procedures.

The fish businessman has to recognize that the market is always changing and these changes need to be identified (Palfreman 1999). Important factors include: technological change, which alters fish catching and fish farming as well as fish processing and transport in dramatic ways; the regulation of fisheries, much of it emanating from the EU macroeconomic changes, the economy is always on the move in developed countries usually implying gently rising living standards for most people. Therefore, as a result of these market trends in the fish business, some processors of fish have made a very substantial investment in state-of-the-art processing equipment. For example filleting and skinning machines, flesh-bone separators (to maximize the yield of flesh), belt-freezers, spiral-freezers, regulation reforming presses, continuous battering, breeding, and deep-fat frying equipment, have in most cases, become essential items in securing profitability (Palfreman 1999).

Human resources management: - Human resources management (HRM) consists of all activities involved in recruiting, hiring, training, developing, compensating and (if necessary) dismissing or laying off personnel (Rowe 1999). According to Porter (1985,1991), this category of support activities supports both individual primary and support activities and the entire value chain.

Human resources management affects competitive advantage of any firm through its ability to determine the skills and motivation of employees and the cost of hiring and training (Porter 1985). However this activity may be critical for some businesses in particular. For example, in order to meet the HACCP standards, the fish exporting businesses need to have personnel of the highest possible standards of cleanliness working in the preparation, processing and packaging premises. Personnel of these businesses are required to take the requisite measures to prevent contamination of fishery products. Thus, the HRM activities of these businesses should be designed in a way that provide them with highly motivated and committed employees at the work-floor, who are willing to comply with the company rules and regulations. Moreover, the successful

application of HACCP requires the full commitment and involvement of the management. It requires a multidisciplinary approach, which should include as appropriate expertise in agronomy, veterinary health, microbiology, public health, food technology, environmental health chemistry, engineering etc. according to a particular situation.

Firm infrastructure: - Firm's infrastructure consists of a number of activities including general management, planning, finance, accounting, legal, government affairs and quality management (Porter 1985). The firm's infrastructure supports the entire value chain rather than the individual activities. Though they are often referred as, "Overheads" these functions are the glue that holds a firm together (Rowe 1999). For example the concept of quality management is crucial for fish exporting firms, which have to upgrade their quality control standards in order to avoid any kind of rejection from their customers. Hence, since the entire business is heavily dependent on the issue of quality, the industry has to familiarize itself with the prevailing quality control norms in the respective countries of export and ensure strict adherence of their standards.

To summarize, how value chain activities are carried out determines costs and affects profits. A firm that seeks a cost leadership position reduces the amount of resources it consumes and the price it pays for them. Decisions governing each activity in the value chain determine the nature and quality of the output. A firm that seeks to gain an advantage through the differentiation does so by performing its value chain activities, particularly transformation of the input, differently from or better than its competitors. Improving value chain functions is one of the means of achieving competitive advantage. This idea is especially more important and applicable to firms involved in food businesses. For example, the value chain analysis is helpful for quality assurance of fish and its products, which requires an organized way of investigating all the activities in production process of the product.

Theories of inter-organizational network

Resource dependency approach (RDA): Since the early eighties, the RDA has become a very popular theory of competitive advantage in the strategic management literature against other alternative explanatory frameworks (Grant 1991).

This theory emphasizes on the importance of firm specific resources and capabilities in the generation and maintenance of a sustainable competitive advantage, which allows a firm to earn abnormal economic profits. This means that, the successful performance of a firm depends on certain resources or

distinctive competencies. These resources especially for small firms are controlled by outside actors. Thus firms are linked to their environment by federations, associations, customer-supplier relationships, competitive relationships, and social-legal apparatus that define and control the nature and limits of these relationships as well (Butler and Sohod 1995.).

To this approach, in order to survive, any organization requires some sort of transactions with its external environment. Organizations exchange and carry out transactions with other groups or organizations (Pfeffer and Salanick 1978). The exchanges may involve information, monetary or physical resources because enterprises are not self-contained or self-sufficient. Thus, organizations generally rely upon the environment to get supported. This is because a single firm does not have all the necessary resources at its disposal. . For example, the formation of inter-organization relations of a fish processing company located in developing nations with the EU wholesalers is crucial for its success. This means that, the firms in developed nations generally have good expertise or skills in fish processing and marketing, thus they can provide the firms in developing nations with the technical expertise required in fish processing and enable the firm to gain access to markets in the counterparts' country of origin. In addition to this, the firms in developed nations can also provide their exporters with experts to ensure quality standards are met in the firms. However, this approach indicates that due to lack of coordination of activities among social units, interdependence can create problems of uncertainty. According to RDA, one way of solving these problems is merger and other way is coordination, it also indicates that coordination through inter-firm linkages depends on voluntary behavior.

According to Pfeffer and Salanick (1978), the linkages to other organizations provide three primary benefits to organizations in managing their activities related to environmental interdependence. Firstly, a linkage to another organization provides information about activities of that organization which may impinge on or affect the focal organization. Secondly, it provides a channel for communicating information to other organization on which the focal organization depends. For example, through linkage between a fish processing firm in LDC and EU wholesalers, information concerning demand flows upstream from the market place and ultimately to the raw material supplier. Finally, it provides an important base to ensure a commitment of support from the parties in the network. Therefore, a firm's coordinating

relationship with other organizations helps to reduce its uncertainty.

In summary, the major emphasis of this approach is on the importance of formal and informal relations of a firm with its external environment. Since important resources are controlled by other actors in the environment, a firm must ensure a smooth and predictable flow of these resources through cooperative strategy.

Transaction cost approach (TCA): The TCA explicitly views the firm as a governance structure. One of Coase's (1937) initial propositions was that firms and markets are alternative governance structures that differ in their transaction costs. A transaction means a transfer of a good or service between technologically separable interfaces (Williamson 1985). The basic premise of transaction cost analysis is that the firm will internalize activities that it is able to perform at lower cost and will rely on the market for activities in which other providers have an advantage. Thus, this theory argues that firms reduce transaction costs through inter-organizational cooperation. For example, the integration to quality assurance system is especially important for fish business based in developing countries and exporting to developed countries where food quality and safety standards are rising continuously. In this case, the transaction cost between buyers and sellers have three dimension, information search for quality assurance and food safety, negotiation cost and monitoring and enforcement costs. Thus, the firms can integrate themselves to quality assurance systems to reduce these transaction costs.

Williamson's micro-analytical framework rests on the interplay between two main assumptions of human behavior, i.e. bounded rationality and opportunism and three key dimensions of transactions, i.e. asset specificity, uncertainty and frequency. This means that, members are assumed to be subject to bounded rationality and at least some actors are assumed to be opportunistic (i.e. having a tendency to cheat other parties) if given the chance. Imperfect or asymmetric information may give such actors an exploitable advantage in their dealings with other parties. In addition to this, the specificity of assets required for a transaction, the uncertainty surrounding it and the frequency of the transaction determine the firm's decisions of whether to internalize its activities or rely on outsiders.

Transaction costs (i.e. the costs of governing the system) tend to be low in highly competitive markets, thereby providing little or no incentive to substitute internal organization for market exchange. In contrast, when faced with an inability of markets to

impose behavioral constraints and enforce simple contracts, firms are expected to internalize transactions to reduce costs of exchange. A limit on integration is the fact that organizations are not perfect and transaction costs also are present within them.

Transaction costs are very difficult to measure because they represent the potential consequences of alternative decisions. Researchers examining transaction cost issues almost never attempt to measure such costs directly, but rather test whether organizational relations align with the attributes of transaction as predicted by transaction cost reasoning (Williamson 1985).

In summary, the major objective of inter-organizational cooperation to this approach is minimization of transaction costs. Firms attempt to overcome transaction costs by vertical integration or by looking for other alternatives to the market. Under conditions of uncertainty, high asset specificity and small number bargaining power, firms look for inter-organizational cooperation because of high transaction costs.

Social Network Approach (SNA): This theory was emerged from anthropological and sociological studies communities. The theory suggests that all businesses interactions, all economic actions, are embedded in social relations (Granovetter 1995). Thus social ties are crucial for establishing relations or transactions. They create opportunities to identify new business ideas, new products, new markets, etc (Gulati and Gargiulo 1999). Moreover, embedded social ties encourage firms to take risks and innovate, and enhance business success under conditions of uncertainty. According to Granovetter (1995), the problems of uncertainty and distrust that often disturb market exchanges can be solved through the use of social networks, thus social networks help to reduce the transaction costs. These ties also provide benefits such as, joint problem solving, information exchanging, resources sharing, etc. to actors in the network (Uzzi 1999).

Fish is mostly marketed in its fresh form, but the uncertainty of catches, geographical dispersion of landing points and consumption centers, preferential habits of consumers, heterogeneity and high perishability of the product are factors that make the trade complex and full of risks, uncertainties and difficulties. With such a highly heterogeneous and non-standardized commodity, inter-organizational cooperation among fish traders based on friendship and mutual trust is crucial for their performance. Through social ties, these firms can solve the

problems of uncertainty and distrust, so as to reduce their transaction costs and improve their performance.

In summary, the basic premise of this theory is that firms gather scarce resources from the environment through their personal networks. These resources include not only tangible resources like finance and other material resources, but also intangibles like information, ideas, etc. According to this approach, the inter-organizational cooperation has communication content, exchange content and normative content.

3. The strategic for formation of inter-organizational network towards global market

It is a current issue for strategic writers to argue that competition is dead (Moore 1996), or that co-operation rather than competition is the way forward (Branderburger and Nalebuff 1996). The basic argument of these writers is that, business success will be derived from companies managing the enhancement of the total performance of the relevant organizations, so that it can deliver improved value to customers. Some of the major objectives of the network formation include: gathering of information, response from external environment, canvassing and looking for customers and suppliers, enrichment of own knowledge, psychological significance and sources of finance, exchange of technology.

In general, the cooperative strategy is very crucial to food businesses. Some of the arguments for cooperative strategy in food business include. According to Eastahm et al. 2001, the firm is able to focus on its core business, for example food processing. This is a very important reason of cooperative strategy since some operations from a strategic standpoint are non-core activities for such business. For some types of food business, for example, involving home deliveries, distribution is clearly part of the core business. Capital investment in non-productive assets can be reduced: Valuable business capital can be tied up when it might be better employed in developing the core business. Better budgeting control: costs are known and budgets can be prepared once the terms of a contract have been signed. Leading edge IT systems can be provided and used by the contractor. Operational efficiency will improve: The expertise of some actors in the network will bring significant benefits in the performance of other actors.

Moreover, networking is a powerful and cost-effective way of sharing information and achieving various other goals that individual organizations cannot achieve alone. The food quality and safety, that is an important issue for seafood businesses is an example of information asymmetry between sellers and buyers.

Sellers know the quality and safety attributes of their products much better than buyers, and it is hardly possible for buyers to fully assess these attributes during transaction. With these features, this issue falls into the boundaries of adverse selection problem (Akerlof 1970). According to him, adverse selection refers to the fact that buyers may buy low quality or less safe food items because of lack of information. In addition, the existence of asymmetric information increases the transaction costs and hence generates private incentives to decrease such costs (Holleron et al.1999). Akerloff (1970) showed that, institutional warranties such as quality assurance standards play an important role to solve such problems. The food quality and safety standards, which are voluntarily accepted and applied by firms to improve their competitiveness, guide them towards quality assurance systems. Fundamental operations of most food quality and safety assurance institutions include the documentation, third party control and accreditations.

Quality assurance systems (QASs) aim to increase the competitiveness by providing confidence on quality and safety in the food production chain (Morris 2000) hence, the integration of firms in seafood business to quality assurance systems leads to the reduction of transaction costs which may include; information search cost for quality assurance and food safety, negotiation cost and monitoring and enforcement cost (Hobbs 1996). In addition, Mazzocco (1996) and Bredahl and Zaibet (1995) show that most of the firms integrated to QASs have seen not only declines in the cost of transaction but also have experienced improvements related to their production process and final product. Among these, increases in productivity, better management, improvements in consumer relations, elimination of deficiencies in production processes, better adaptation of new personnel, and the conservation of current customers. Bredahl and Zaibet (1995) showed that total cost of integrating to QASs for the firms they studied was less than the benefits acquired directly or indirectly. Consequently, they state that integrating to QASs with consideration of quality and safety standards is an important strategy for firms. This strategy is especially crucial to seafood business located in developing nations and exporting to developed nations where the food safety and quality standards are rising continuously. In addition, forward integration of firms in food businesses gives them better or more timely access to market information allowing a more rapid or specified adjustment of product characteristics, and backward integration may allow these firms to obtain a specialized inputs through which they may improve

or at least distinguish their final products (Porter 1985).

To conclude, the cooperative strategy is decisive to seafood business because success of these companies is derived from managing the enhancement of the total performance of all related organizations, so that value to customers can be improved. Networking is useful to ensure seafood quality and safety in that it enables the buyers to fully assess the quality attributes of the products of the sellers during transaction. In addition the integration of firms in seafood business to quality assurance systems leads to an increased competitiveness by providing confidence on quality and safety in the food production chain.

One of the aims of the networking model is to provide a basis for studying the roles of actors and sets of actors in the performance of firms. This model helps to understand how firms mobilize the support they need in order to maintain successful business ventures. The basic elements of the network concept are the actors, resources, activities, and linkages. These elements of the network are related to one another. The actors can be individuals, organizations, firms, or government agencies. In this research for example, actors include all firms or institutions that have a significant contribution to the quality of fish exports.

Export firms in the developing countries can use the formation of networking as a means of ensuring seafood quality and safety. This helps to avoid the information asymmetry between the buyer and the seller regarding the quality of the product. This lowers the transaction cost which may include the information searching cost for quality assurance, negotiation cost between the actors and control costs of maintaining the relationships.

4. Conclusion

The concept of the network theory implies cooperative efforts among persons, business firms, government bodies, other organizations, and other entities that are interconnected through activities and resources. This means that, the network concept provides a support environment for all the actors and provides them with all the resources that are essential for their competitiveness and survival in the market.

The nutritional properties, hygienic properties and organoleptic properties are some of the determinants of quality of fish and fishery products. However, the compliance to EU regulations including the HACCP system is used as a prerequisite to exporting to most attractive markets like EU and the USA. The value chain analysis is essential for the application of the

HACCP system, which establishes process control through the identification of points in the chain of food production where loss of control could result in an unacceptable food quality and safety risk.

The export of fishery products, which meet international quality and safety standards, is essential to improve a country's level of foreign exchange revenues and income and security of employment in the fishery sector. However, most fish exporting firms located in the developing countries have a problem of meeting the requirements and overcoming their quality related problems on their own. These firms can use the formation of the networking model as a means of ensuring seafood quality and safety because this strategy provides a support environment for all the actors and provides them with the resources that are essential for their survival and competitiveness in the global markets.

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