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## **Network organizations and outsourcing as forms of partnership relations**

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### **1. Introduction**

Modern enterprises must search for possibilities, ways and methods to improve and develop their activities. Various forms of partnership, co-operation and contract relations between companies are some of such possibilities, particularly important for small and medium enterprises. Relations between material and service suppliers and producers, co-operation of several companies on bigger projects or assigning certain phases of technological processes to subcontractors are the well-known forms of co-operation between enterprises. Recently, additional solutions increasing the synergy of economic activities such as strategic alliances, franchising or community interest companies have also occurred.

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Enhancing the economic power of co-operating enterprises, the exchange of unique resources, bigger flexibility of action and resistance to crises, spreading risk as well as better standing in environment are main advantages of partnership structures, which foster the growth of individual enterprises.

Pointing out that ventures based on partnership have numerous advantages for the development of individual companies, it should be also stated that they are quite difficult in running.

Basic signs of obstacles which can inhibit the development of co-operating enterprises are (Kozłowski 1999, p. 129 and next):

- mismatch between partners, discrepancy in organizational cultures in particular;
- mutual limitations in the access to information, ensuing from communication obstacles or lack of trust;
- fear of losing independence;
- change in functioning conditions (e.g. macroeconomic, political or legal conditions).

The ability to choose a proper organizational link with external economic entities is therefore significant in the light of the above mentioned formulations. It is an important task for the owners and management of enterprises who decide to make such connections. They must evaluate them according to proper criteria as well as predict certain advantages and faults in relation to the situation of an enterprise that functioned individually before.

Later in this article, the comparison of two solutions of this type, similar in some spheres, i.e. network organization and outsourcing are presented.

## **2. Advantages and disadvantages of network organization and outsourcing**

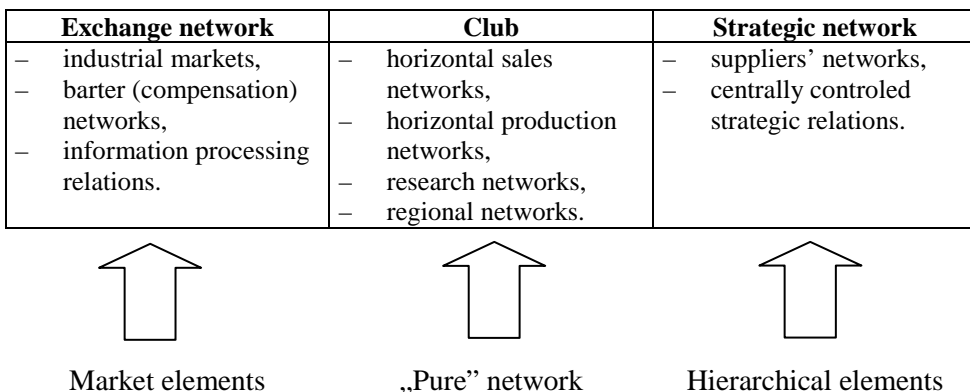
A network organization is a structure that has occurred more and more often in Polish economy in recent years. A network organization is usually defined as the agreement of partnership units joined by various bilateral and multidirectional dependences enabling decentralized planning and control over network elements. A network's coordinator (managing unit or network centre) has certain co-ordinating and strategic powers and is the organizer of financial and non-financial assets in the network's structure. Partnership units provide resources, information and ideas. The exchange happens in the form of transaction and is therefore much faster than in the case of other structures.

One of the main goals of network organization is obtaining synergy effect as the result of co-operation of many partners. Therefore, a network members' overall or partial resignation from activities not being their main specialization as well as adjusting activities to the needs of mutual co-operation is a common practice in a network organization. Such situation is not to be observed in a classic form of co-operation in which each partner plays certain role, in accordance with their own strategy.

According to K. Łobos (after M. Ebers), a network organization is characterized by the fact that(Łobos 2000, p. 97):

- decisions concerning resources are made not only integrally by transaction sides (as is usually the case on the market), but also jointly by co-operating sides;
- the flow of resources between co-operating partners is repetitive not occasional;
- mutual expectations of co-operating sides concern longer time period,
- information available for the sides are much exhaustive than in the case of market co-ordination;
- negotiations and agreements are the forms of co-ordination of activities between sides, not competence.

The scale and intensity of occurring of the above mentioned features depend greatly on type of network organization. In literature many typologies of network organizations are mentioned. One of them is presented in Picture 1.



*Picture 1. Forms of network organizations of enterprises.  
Source: Miroschedji (2002, p. 38).*

In the course of research conducted by workers of Faculty of Management and Organization at Technical University of Lodz in 10 network organizations (50 surveys from respondents representing companies belonging to these organizations were collected), four types of networks were distinguished<sup>1</sup>. They were defined as:

- networks based on brand, i.e. relations of enterprises functioning mainly on the basis of franchise agreement that defines the rules of co-operation between the so-called franchise givers (mostly large enterprises) and franchise receivers, i.e. enterprises selling product or service represented by franchise giver, in a defined way or in a given form of decor of a shop, a restaurants or production venue (46% in the researched group);
- networks based on business-science co-operation (centres of technology transfer, innovation incubators, technology parks, etc.), whose main aim is joining scientific research (patents, licences, laboratory works) with economic activities (16% in the researched group);
- networks created in the form of economic chambers and societies that constitute voluntary relations of enterprises, employers or individuals, created to represent branch, occupational or council interests (28% in the researched group);
- networks based on clustering, i.e. functioning as clusters gathering interrelated enterprises and institutions belonging to a given sphere of economic activity (10 % in the researched group).

The representatives of the researched organizations were mainly asked about advantages resulting from their being in a network structure. Their answers are presented in Picture 2.

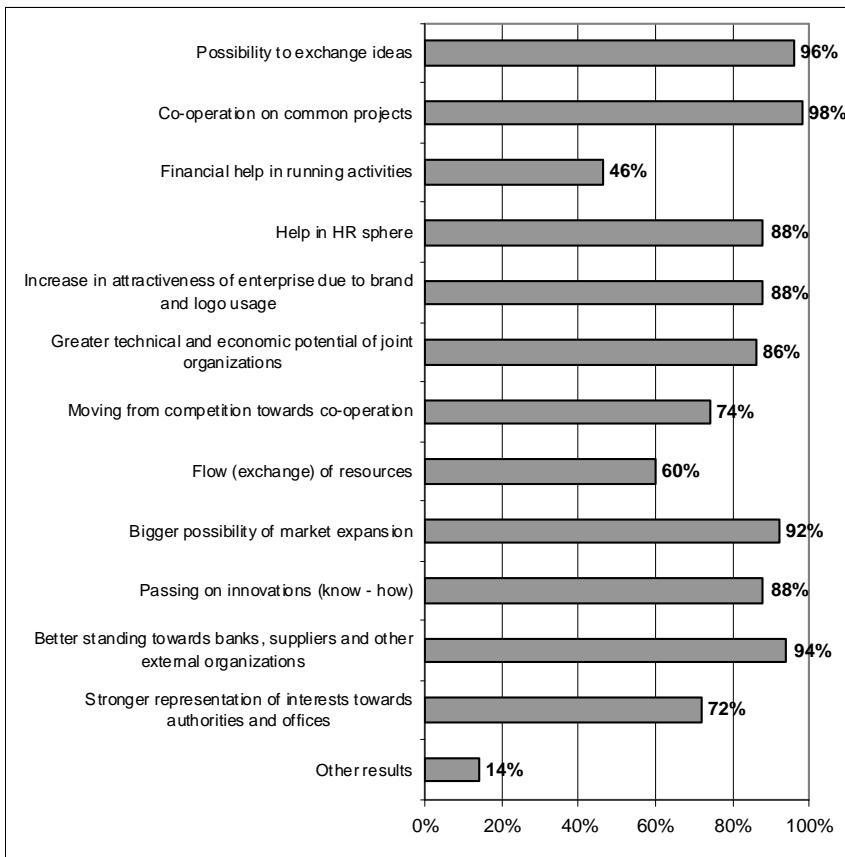
The biggest number of answers concerns the following advantages:

- the possibility to co-operate on common projects;
- the possibility to exchange ideas between partners
- better standing towards banks, suppliers and other organizations;
- the biggest chance of market expansion and the increase in the company's attractiveness due to the usage of product logo and brand;
- help in the field of HR and conveying innovations.

It should be stated here that these advantages are vital for the efficiency of functioning and development of the researched organizations.

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<sup>1</sup> The research was conducted in 2007 by Ministry of Science and Higher Education as part of the project called: Internal communication in network organizations



Pict

ure 2. The advantages of functioning of an organization in a network.  
Own source, on the basis of the research.

Next, the respondents were asked about faults (weaknesses) of functioning in network organizations. Picture 3 presents answers to that question.

The biggest number of respondents from the researched companies indicated two basic barriers:

- reluctance to co-operate among partners of a network;
- excessive pursuit after operational autonomy, thinking set on one's own interest exclusively.

These two faults in organization networks' activities are mentioned most often irrespective of the time of their functioning in a network. They are

interrelated and they can inhibit the development of the whole network structure and their individual members.

Conflicts between a network center and partner companies, reluctance to pass on innovations, ideas and powers as well as excessive growth of a network and co-ordination hardship due to that are also seen as important. The occurrence of the above mentioned faults and different responses as regards given advantages or barriers indicate that individual organizations make a kind of resume of good and bad sides of being in a network structure. In some situations the resume is favourable, other ones show that „getting out of” this structure might be a more advantageous solution regarding further functioning and development of a given unit. It is often the big cost of such ”getout” that prevents such decisions and low satisfaction may significantly hinder co-operation within a network.

When asked about the decisions the respondents would make if they could join a network organization again, 36% answered they would enter the same network again. 26% of them declared, in turn, they would come into co-operation with the network on more flexible terms . Excluding several wavering answers or the choice of other indefinite options, it can be assumed that 2/3 of the researched organizations declares the wish to remain in previous network structure, noticing the possibility of further development within this structure.

Two standpoints can be seen in the group of respondents reluctant to join the network they currently belong to (if given the possibility to decide on joining it once more):

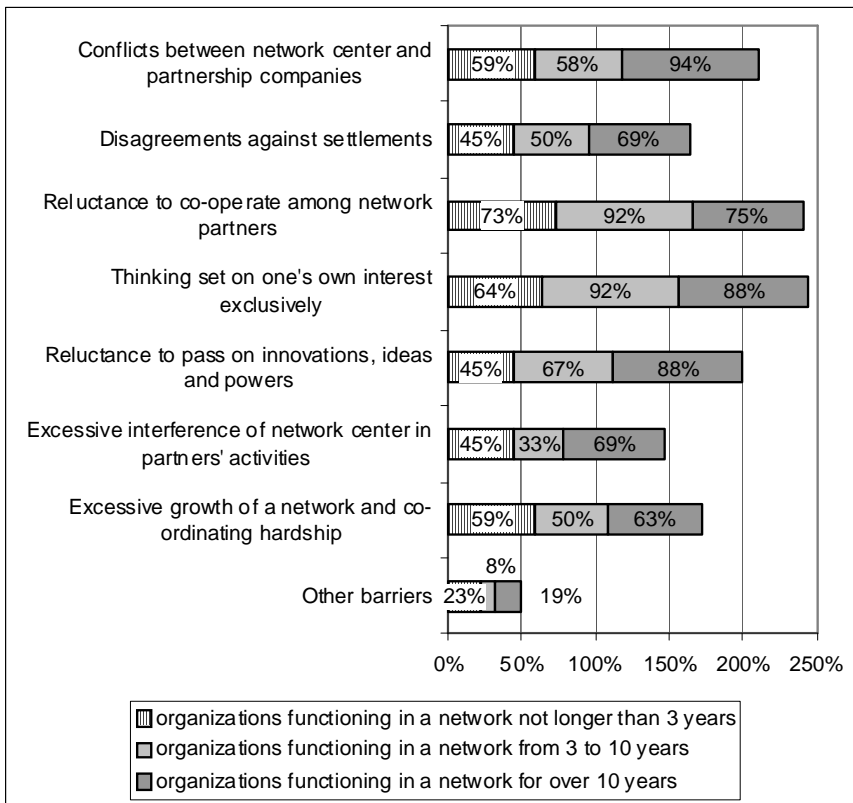
- an intention to join other network structure (18% answers),
- an intention to function individually, not belonging to any structure network (12% answers).

Fragmentary results of the research and the analysis of more detailed correlations between single answers presented above indicate that the form of network organization is favourable and it makes possible for small and medium units to develop. It is particularly valued by entities having lower technological potential, in the initial phase of existence or almost unable to finance its development. It is also a good solution for entities where people having little experience in running a business are in charge, companies with low standing on the market (lack of strong brand) and those functioning in the fields where close economic partnership, e.g. technology parks, economic chambers, is an essential condition.

In other cases search for a different formula of enterprises’ relations should be considered. Outsourcing, defined as the activity that consists in extracting from organizational structure of a mother entity spheres in its control and giving control over them to external service entities in the scope of capital or contract

relations (Trocki 2001, p. 13), is one of such solutions.

As a result of outsourcing, specific outsourcing structures defined as relations between one or more independent entities in which one enterprise provides services or certain products on the basis of the agreement for the other one (Niemczyk 2002, p. 484) emerge. In such structures, partnership relations are particularly observed and a network type of co-operation is emphasized. Within distracted structure of a given enterprise, many outsourcing companies with various specializations may function. They perform functions of the enterprise (e.g. related to logistics, marketing and sale, supply or book-keeping), becoming thus virtual organizations



Picture 3. Barriers in the development of activities of the researched organizations, considering the time they have been in the network. Own source, on the basis of the research.

(Krupski R., Przybyła M. (Eds.) 1996, p. 208). Co-operation in outsourcing is yet most often characterized by fewer co-operating entities and lower organizational complexity than partnership within organization networks.

The processes of exchange in outsourcing structures develop thus from traditional purchase-sale transactions, the concept of strategic creation of business activity structures to strategic partnership relations. Clients and suppliers are treated as partners who exchange important information, especially the ones regarding costs and attempt to solve problems of the other side on a par with their own problems building competitive advantage in this way. (Krejner-Nowecka 2002, p. 131). This co-operation formula allows access to resources or skills which either are not in the structure of an enterprise, an enterprise cannot afford or it is not economically justified to obtain them. In this case, strengthening of spheres of activity identified as key ones, lowering functioning costs resulting from scale advantage, improving quality of function performance, or share of risk between partners become main effects of synergic co-operation.

Thus, outsourcing becomes a form of development of some spheres of an enterprise that do not involve investment. Supplier of a service alone invests in technology and organizational solutions that enable providing services. Outsourcing, characterized in this way, may complement network solutions indicated before as respondents rarely pointed to advantages in the form of financial help in present activity and those related to resource flow and exchange (picture 2). On the other hand, research conducted in SMEs group applying outsourcing<sup>2</sup> show that mother companies most often pointed to elimination of costly appliance and investment into equipment as one of advantages, which directly affects economic effects of activities. Moreover, entities co-operating with account office in the scope of accountancy and tax advisory outsourcing also mentioned advantages in the form of shifting responsibility for performing function and improving quality of accounting services to external supplier, which is related to share of resources between partners.

Analyzing the activity of participants of outsourcing structures, it should be stated that 85% of respondents from SMEs sector intends to co-operate further with account office in the same scope, 14% intends to expand co-operation with suppliers to new scopes in the course of the next 2-3 years. As a result, 99% of the researched intends to remain in the previous structure, which shows greater

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<sup>2</sup> Survey research was conducted among 110 small and medium enterprises co-operating with external suppliers in the field of accountancy and tax advisory outsourcing, IT, protection, purity maintenance and other spheres.



durability of outsourcing relations as compared to members of previously mentioned network relations.

On the other hand, outsourcing structures do not provide as many possibilities as network structures presented above mostly due to limited possibility to take part in common projects, which would often require changes in contract between partners. Potential loss of identity of a mother enterprise in case of wrong allocation of spheres and functions also constitutes a problem.

## **Summary**

### **Network organizations and outsourcing as forms of partnership relations**

Modern enterprises search for various chances to enhance the growth of their activities. Various forms of partnership relations (co-operation and contract ones) between economic entities are some of the possibilities. This article presents the comparison of two solutions of this type, similar in some spheres, i.e. network organization and outsourcing.

## **Streszczenie**

### **Organizacje sieciowe i outsourcing jako formy związków partnerskich**

Współczesne przedsiębiorstwa poszukują różnych możliwości rozwoju prowadzonej działalności. Jedną z nich stają się różnorodne formy związków partnerskich, kooperacyjnych i kontraktowych pomiędzy podmiotami gospodarczymi. W niniejszym artykule przedstawiono porównanie dwóch rozwiązań tego typu, o zbliżonym w pewnych obszarach charakterze, to jest: organizacji sieciowej i outsourcingu.

## **3. Conclusions**

The variety of forms of enterprises' co-operation causes the decision-makers to face difficult decisions regarding the choice of proper co-operation formula. It also concerns organizational relations such as network organization and

outsourcing, which have been presented in this article. A network organization seems to be a more advanced concept, which takes into account more relations that exist between bigger number of network members. Therefore, outsourcing can be treated as a solution which initiates applying partnership co-operation relations. Learning how to make use of synergy effects ensuing from external service method, an organization can gradually gain experience and prepare to enter more complex network structures. This can allow to limit barriers in functioning in such formula as well as enable to take advantage of benefits resulting from co-operation in a network.

The presented theory and the results of research show that these concepts may to some extent be treated as complimentary solutions. Despite many advantages resulting from applying network relations, outsourcing may additionally help to take advantage of achievements in spheres such as resource flow or derive economic benefits from joint activities.

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