

Changing Structures of SME Networks: Lessons from the Publishing Industry in Taiwan

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This study uses the publishing industry to illustrate how Taiwan's small-and-medium enterprises (SMEs) modified their network structures to meet the requirements of the changing environment in the past 20 years. Based on interviews with 21 high-level managers in the top publishers and three network experts, six patterns of network structures were observed and the nature of network structural change was uncovered. By moving from 'Centre-Satellite Structure' to 'Co-opetition Structure' and then to 'Spider-Web Structure', the networks became more strategic, aggressive and flexible. The study suggests that for SMEs in a fiercely competitive industry the best way to survive is to form a network at the strategic level, while keeping relative independence at the operational level. This study also suggests that scholars and practitioners need to understand networking behaviours from multiple perspectives of economic, social, cultural and industrial factors.

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In 1996, three small publishers in Taiwan were on the brink of bankruptcy. To find a way out, they turned to their common friend, Mr Chan, who wove his own aspiration of becoming the biggest Chinese language publisher into the blueprint that he proposed to the three publishers. One publisher, which was in comparatively better shape than the other two, did not see any future in that proposal and dropped out. The remaining two took the risk. In the next four years they formed a 10-member network with Mr Chan. Through further networking they became stronger and by 2004 the network had increased to five groups with about 100 companies and had gained international recognition as possibly the biggest Chinese language publishing entity.

Introduction

In an era characterised by speed, flexibility and innovation, organisational networking plays a vital role. Organisations that seek to reduce costs, respond speedily to market demands and build competitive advantages around their core competencies cannot execute strategies without drawing on the skills and resources of other organisations or individuals.¹

We can learn a lot by studying the networking of the small and medium enterprises (SMEs). Taiwan is renowned for the outstanding performance of its SMEs; about 98 per cent of the enterprises in Taiwan are small or medium in size. They have nurtured the country's economic growth and have played a vital role in integrating its economy into the global one.

Evolutionary economists assert that to survive, companies must develop some features to meet the new requirements of the changed environment.² Organisational studies have also showed that the degree of fit between the business environment and organisational design affects a company's performance.³ Although studies have recognised network dynamic change as an important topic, the literature is still very thin. Our study of the change of network structures provides insights into how the new competitive environment requires flexibility, speed and innovation from SMEs and how these organisations have adopted new network strategies in response.

From field data collected on Taiwan's publishing industry, we will describe the form and content of network structures, why the relationships were generated, what was exchanged and how the relationships influenced economic performance. From this we will explain how SMEs in Taiwan's publishing industry leverage their specific core competencies to gain competitive advantages through network resources. More critically, we will explain how these actions provide a model for researchers and business people to improve their networking.

There are several rationales for believing that we can learn from Taiwan's publishing industry. First, publishing is a knowledge-generating industry, which is particularly critical in today's knowledge-based economy. Second, we are likely to observe active networking in this industry. Publishing companies are known for their short product lifecycle, knowledge-intensiveness and high demands to exchange knowledge in quick response to changing market conditions and technological development. Hence they are more active in networking.

This study suggests that a successful network must fit the dynamic requirements of the economic, social, cultural and industrial conditions

The paper proceeds as follows. In the literature review section we introduce key studies on network structure and its change and present a framework of analysis for mapping network structures. Then we briefly introduce the background of Taiwan's publishing industry before presenting research methodology. In the research finding and discussion section, we first portray six patterns of network structures observed in the publishing industry; then we articulate a generic three-stage-model of network structural change in Taiwan SMEs. Finally we discuss the network structural changes in Taiwan's publishing industry by linking the specific network patterns in the industry with the generic three-stage model. We end with implications and a brief conclusion. This study suggests that a successful network must fit the dynamic requirements of the economic, social, cultural and industrial conditions. To survive the fierce competition, SMEs need to adjust their networking activities with more strategic, aggressive and flexible considerations.

Literature on network structure and its change

In the broadest term, we define a *network* as a set of actors together with a set of linkages between the actors.⁴ The actor may be an organisation, a subsidiary unit of a holding company or an individual as an independent economic entity. The linkage embraces a diversity of collaborative forms. The activities involve contractual agreements (eg supplier-buyer partnerships, outsourcing agreements) and ownership links (eg cross-equity holdings, joint ventures and partial ownership

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