

# DYNAMIC AND STATIC NETWORKING: MAIN IDEAS AND NATURE, SPECIFICS IN A COUNTRY WITH EMERGING MARKETS

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**Abstract.** *The objective of the article is to systematize the dynamic and especially static entrepreneurial networks as they look, appear, and act in a country with so-called emerging markets. This is accomplished on the example of Russia. Special attention is paid to relevant business goals and patterns to typical members of such networks, to why, when and how one passes from outsourcing in dynamic networks to static networking.*

*The article contains a field research based on (1) access to public databases like Spark-Interfax in Russia, with updated information on registered firms (their founders, affiliated companies, businesses) and (2) interviews with businessmen who agreed to comment on the problems under discussion.*

*As regards the results of the research, two points seem to be especially important. First, when, according to legislation, information on registered firms and their statistical reports is public, it is not too problematic to find out and monitor the activities of practically all types of business static networks in all industries. Second, when the business environment becomes more competitive, dynamic networks tend to be transformed into static ones not only due to considerable contract risks, but also because one needs to select from wider samples of possible suppliers the most competitive and those who are ready to invest into the technological innovations.*

*The general conclusion is that in countries with a dynamic economic growth and increasing competitiveness of the business environment, like in Russia, this advantage of static networking might prevail, especially if static networks appear as a result of selecting business partners from the firm's experience in outsourcing.*

**Key words:** *static and dynamic networks, outsourcing, information networking, affiliated companies*

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## Introduction

Networking in business has long ago become an international term that seems to need no special comment since everyone seems to understand what it means.

Nowadays, there is a lot of systematic approaches to entrepreneurs' networking. A very good example of them is presented by the "systematic model of entrepreneurs' networking variables" (Staniuliene, 2011).

When closer regarded, networking might turn out to be only a very general idea and not a relatively strictly defined category. The main purposes of entrepreneurial networking

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in general are sharing risks and sharing rewards of partnership (Mourdoukoutas, 1999). There exist quite different types of business networks. These different types are of different nature and result in different effects.

Companies of a network are involved in different types of activities. These activities can be characterized by different aspects. One of the most important moments is the frequency of contacts and contracts. This parameter can be interpreted as the number of operations, deals, etc. between networking companies in a fixed period of time. In other words, this parameter shows how often organizations interact. This factor allows to divide networks into two groups: networks with a high frequency of operations (1) and networks with a low rate of frequency of contacts (2). The attention in this article is focused on this classification.

**Static** networks, as compared with **dynamic** ones, are characterized by a considerably higher level of frequency of communications and operations inside the network.

## **Comparing the main ideas of dynamic and static business networks**

### ***Dynamic business networks***

If the product supplied under networking **is not** being changed, *the essence of dynamics* in networking might be seen in constant changes of:

- suppliers in established outsourcing patterns,
- traders in established sales patterns,
- outsourcing patterns,
- sales patterns,
- both suppliers and established outsourcing patterns,
- both traders and sales patterns (external “sales chains”).

On the contrary, in static networks, these business relations tend to be constant.

Of course, this is a too simplified look at what might be understood as the dynamics in networking.

Hence, one should *withdraw* the initial premise of not changing the product of the networks under consideration.

Thus, a comparison of the dynamic and static networks should be executed for a more general situation that suggests the following.

If the product supplied under networking **is** being changed, *the essence of dynamics* in networking might and should be seen not only in what has been mentioned above in connection with the case of not changing the product, but first of all in the features depicted below.

1. The entrepreneurs choose business partners (counterparts for outsourcing and sales) and business patterns (business processes), aiming at **maximizing the efficiency**. Networking has a great cost-saving potential. Reduced transaction costs allow

decreasing price (Mahadevan, 2003). Furthermore, networking allows firms to minimize the costs and prices paid for purchased inputs, maximize the quality, competitiveness of supplies and payment conditions, maximize sales, etc.

2. Organization of dynamic *business networking* is based on intensive dynamic *information networking*, i.e.:
  - constantly exerted access to business information networks (using specialized data bases in the Internet and closed systems of even more specialized data bases unified in systems like Lexis-Nexis, International Securities Ltd, etc.); constantly provided analysis of the eventual substitution of current business partners and/or business patterns for more efficient ones which might be found as a result of a constant access to business information networks;
  - a constant use of information networks and information technologies (first of all the Internet) in running the business (starting with e-mail promotion of the product and ending with signing contracts in the Internet).
3. Businesses organized within the frameworks of dynamic entrepreneurial networks are, as a rule, quite transparent from the points of view of commercial, financial, and social information about *how* these businesses are conducted (outsourcing and sales patterns), *who* take part in networking (companies and individual entrepreneurs), on *what commercial terms* they operate, *what financial results* they achieve, etc.

With account of the requirements of relevant information transparency needed, in turn, for the most efficient realization of the two previously cited features of dynamic business networking, one might come to a seemingly paradoxical conclusion that, as a matter of fact, the maximal dynamics in a dynamic business networking can be achieved rather by big – not small and medium-sized – companies, since they have to be information-transparent due to the requirements of stock-exchanges (where they usually rise money) and legislation.

Certainly, there is no paradox in this conclusion, because there is no reason in believing that dynamic networking is relevant *only* to small and medium-sized businesses, although the latter (except the so-called “enterprises for existence”, “Existenzgründungen”) is surely more adjusted to constant changes as compared with more bureaucratically managed big companies. This might also serve as an explanation of the difference in terms which are usually applied as far as it concerns dynamic networking in SMEs, on the one hand, and in big businesses, on the other hand: specifically for SMEs, dynamic networking is often denoted as “dynamic entrepreneurial networks”.

### **Static business networks**

To a certain extent, the basic ideas of static networks are the antipodes of those characteristic of the dynamic networks.

Thus, independently of either the supplied product is being changed or not, the ideas of static networking suggest that:

- business partners (counterparts in outsourcing and sales) **are not changed**; rare exclusions from this principle refer rather to *widening* the circle of those who take part in networking;
- static networks, i.e. both their members and interacting patterns, tend to be **not informationally transparent**.

However, it would be a mistake to think that it is only here that the difference between static and dynamic networking in business lies.

For instance, static business networks might be even more dynamic in reacting to changes in the business environment through *constant changes in business patterns when business partners do not change*.

Nonetheless, partners can change sometimes, but new participants are included into the network after the existing network members' recommendation.

The most important differences of static networks, as compared with dynamic networks, are rather the following:

1. **The first priority for the subjects of static networks is not the maximization of efficiency (profits), but the minimization of business risks.**

In terms of profits, it means that they maximize *realistically expected* profits and minimize risks for their property (including risks of bankruptcy). In other words, they rather maximize the relation between the expected profits and risks.

This very well corresponds to a natural approach of business owners (**not hired managers**), when they usually think both about maximizing the yield on capital invested in an enterprise and about minimizing their investment risks connected with a decrease of the enterprise's value and the eventual loss of invested capital due to business risks and a possible bankruptcy.

The major priority given to the minimization of business risks is also quite adequate to how the creditors look at a business that needs loans. Hence, prospects for getting loans (to support both the working and the main capital) might become better, if one follows the priorities typical of the members of static business networks.

2. **Real subjects ("members") of static business networks are not the companies or businesses (as it is the popular case with dynamic networks), but the owners of companies and / or businesses.**

It means, for example, that "on the surface" for operations with a new product there appears a new networking of other (including newly established) companies. However, in reality, this is an unchanged network of the same company owners, where each of them could, and can, own different companies.

Minimizing business risks and maximizing the expected profits in static networking are accomplished in specific ways.

As for **minimizing business risks by means of static networking**, the most important approaches can be generalized as it is done below:

- a) the closed character of a static network *diminishes the contract risks* that could be much greater in case when outsourcing and sales patterns include constantly new counterparts.

This is especially substantial for the countries and/or industries where economic institutions ensure too weak contract safeguards;

- b) the close relations between nonchanging networking owners of businesses provide for a decrease (1) in *property titles risks* (risks connected with the reliability of property relations and distributions) and (2) in *risks of information leaks*.

Property titles risks arise in big contracts and for joint ventures (especially collaborative, related, for example, to big innovation projects). Risks of information leaks are a danger, if the business environment is clearly competitive.

- c) reliability of supplies and payments within a static network can be a result (1) of a strong competition among “outsiders” for getting inside an efficient and financially successful static network (like getting into a “closed society”) and (2) of threat to be worn out of this network.

The same concerns reliability in fulfilling all other kinds of mutual obligations among the networking partners, even if no written contracts are signed.

**Maximizing the expected profits** by means of static business networking is achieved by emphasizing the following moments:

- a) already before the mentioned competition for getting inside an efficient static network and for staying there leads also to a *better quality of supplies* of “*experience*” and “*confidence*” goods and services within static networks.

The true quality of these goods and services can in principle be detected only after some period of consuming such goods and services. Since the competition for membership in an efficient static network is a long-term one; suppliers cannot avoid negative reactions of stable business partners in case when a truly low quality is detected after even a considerable period of time.

This strengthens the trademarks of suppliers of final goods if they, in turn, also belong to the types of “*experience*” or “*confidence*” goods and services. A greater confidence of consumers in the trademark of the final supplier within the considered static network raises sales and profits for the whole network;

- b) if goods and services supplied within a static network are not “*experience*” or “*confidence*” products, then a greater confidence in the quality of supplies within such a network will at least allow its members to operate without “*entry quality controls*”, thus minimizing operation costs.

This means that here one does maximize realistically expected profits, since every money unit spared in operation costs is really equal to one money unit of extra profits;

- c) *in the long run* – providing for the long-run competitiveness and preservation of market shares – the expected profits in static business networks can be maximized as a result of their greater ability to undertake *more radical innovations in the supplied final products and used technologies*, especially if these products belong to the high-tech category and if the static network functions in a research and development-intensive industry.

In this part, it will be useful to talk particularly about transaction costs. Transaction means a transfer of a good or a service between technologically separable interfaces (Williamson, 1991). The transaction costs could be simply defined as all costs involved in a transfer of goods and services between two subjects (companies, etc.) (Williamson, 1985). The features of market transactions are often high asset peculiarity and uncertainty. So, market transactions are always rather expensive. That is why companies try to avoid these expenses by integration (Williamson, 1991), and a static network is one of the ways to manage uncertainty in the market.

Being outside of a static business networking that unites all partners of a cooperation in producing the considered product, a company which would like to undertake a radical modernizing of the produced product will have to “persuade” somehow the independent suppliers of all components and services of the product to take part in a joint project of the final product innovation – using time and recourses to “construct” the needed joint project. The costs (including transaction costs), time waste and probability of reaching the needed result can well be insufficient.

The situation looks quite different, if there has already existed a static network specialized in the output of a technologically sophisticated product that needs radical innovation. Then, it is rather the common interest of all members of this network to radically modernize in time their final product. The time and transactions costs of the coordinated innovations of the product, its components and services are thus decreased.

This is especially obvious when the static network is somehow lead by the firm (business-owner) that supplies the final product.

Sometimes static networks might be interpreted as simple **outsourcing partnerships** and / or **innovation partnerships** (Oecking, 2004). The analysis above shows that it is not quite so, because the main ideas of static networks are wider and go further.

Thus, the number of participants in a static network at a given moment of time might considerably exceed the number of the participants who right at this moment are engaged in the outsourcing partnership, providing the output of the presently produced product. The same refers to innovating: a specific innovation and the corresponding innovation, partnership might require much less participants than there are in the static networks. In other words, they might always exist as “reserve participants”.

And three more differences:

- the outsourcing- or innovation-partnerships not necessarily consist of those participants who have been either selected out of other eventual participants as a

result of the previous experience of partnering or from the very beginning were a “cluster” of somehow initially linked subjects (see further);

- outsourcing- and innovation-partnerships are forms of networking among companies, whereas static networks might be a form of networking among business owners – independently of what companies they establish;
- outsourcing- and innovation-partnerships are often dominated by big firms for whom the outsourcing of supplies and sales to small and medium-sized companies (the same might concern research and development when innovating) tends to be only a cost-cutting approach (if not to take into account attempts of the so-called “business processes outsourcing”)<sup>1</sup>; in this case, it has nothing in common with entrepreneurial networking *within* a small and medium-sized business.

## Comparing the nature of dynamic and static business networks

### *Dynamic business networks*

Usually, dynamic business networking suggests that those who participate in it are actually independent of each other, i.e. not in any way affiliated. This concerns both companies (businesses) and their owners.

Primarily, the only criterion for getting access to a dynamic network is, subsequently, a better quality, prices, and conditions of supplies and payments.

Perhaps some other auxiliary criteria could also have a value, such as the available capital, favourably placed premises, any information on business reputation (credit story in the broad sense of the word), references, etc.

Dynamic business networking is an absolutely relevant answer of individual (not necessarily individually owned) businesses to the challenges of the ever and ever more rapidly changing business environment, whereas these changes imply also that:

- the number of business newcomers into any industry grows with a great rate, and
- there constantly appear new business opportunities related to new consumer needs and new products to meet these needs, or to new markets (including those that appear within the processes of globalization).

Under such circumstances, it is rational to look constantly for the new eventual business partners (counterparts in outsourcing and sales) who might offer:

- **better** quality, prices and conditions of supplies and payments as far as it concerns the prospects of a company (its owner) **to stay in the old business** or even the old industry (to go on to supply the earlier produced product) or

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<sup>1</sup> It is just from the point of view of **big** firms that the concept of outsourcing has become now so popular in the USA and in the European Union. And it is quite understandable, since in countries where contract and property title risks are not so high due to the existence in these countries of efficient institutional “contract safeguards” (see [16]), prospects for cost-cutting, achieved by means of outsourcing, overwhelm the possible negative consequences of too much relying on outsourcing. In other countries, this concept is not so enthusiastically accepted.

- **sufficient** (reasonable enough) quality, prices and conditions of supplies and payments as far as it concerns the prospects of a company (its owner) **to move to a newly appeared industry or to a newly appeared market.**

### **Static business networks**

The main problems in discussing the nature of static business networks obviously are:

- Of whom do static networks consist?
- What does their member unite?
- Why have such static networks appeared earlier and continue appearing?

As regards the issue of whom static networks consist, they can essentially differ.

One sort of static networks can embrace *capital-affiliated companies (sort 1)*.

This means that either, directly or indirectly, these companies themselves own stock (shares) of each other, or their common owners have capital participations in all companies which form a static network. The latter could occur due to stock exchanges between the owners of formerly independent enterprises.

In case of SMEs, it is also possible that in a vertically integrated group of companies all the time each of them was and is controlled by one owner or a small group of affiliated owners.

As a matter of fact, such static networks are simply vertically integrated capital conglomerates, whereas the relevant previous mergers from the very beginning have been initially designed to create the needed degree of a “mild” vertical integration planned to ensure the well known advantages of the vertical way to organize the output and sales of a specific product (or group of products).

Correspondingly, **sort 1** static networks quite rarely shift to other industries when they accomplish product innovations. They are bound to specific industries and specific product groups. Still, some of the **sort 1** static networks can be so big that they actually are diversified and are thus bound to *several* product groups. Usually, they are international.

A much more interesting sort of static networks are the static networks where their participants are **in no way capital-affiliated (sort 2)**, still they prefer, for instance, to place orders for specific supplies only to members of the same static network, even when the supply conditions offered by “outsiders” are clearly better.

In Japan, such networks have long ago been known under a special name **“keiretsu”**.<sup>2</sup> To some extent, this term has become international – although, in our mind, it is not

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<sup>2</sup> In many publications, the term “keiretsu” is defined as “clusters” of companies which **are** affiliated, but not necessarily affiliated through mutual capital participations of companies themselves or their owners. In order to avoid misunderstandings, we would like to stress that these authors use the category “affiliated” in its broadest and less defined way – as simply somehow *socially* connected. One can say that a keiretsu affiliation in such a broad social sense is maintained and reinforced by a very wide multiplicity of the ties **that rather exclude mutual capital participation of member companies or of their owners** ([2], [3]; [4]; [6]; [9]). At least, among these ties one cannot emphasize capital participation as a decisive factor.

always used strictly enough. There exists a clear trend of mixing up the classical “keiretsu” with a static networking of the **sort 1** considered above.

We prefer to use in this article the name of “keiretsu” to denote the groups of constantly or regularly cooperating firms who (and whose owners) might be *socially* affiliated, but not *capital-affiliated* (i.e. not affiliated through mutual capital participation of member firms or their owners).

It is just these keiretsu that we further call “*classical keiretsu*”.

The fact that companies (and / or their owners) who actually are members of one keiretsu **are not, directly or indirectly, capital-affiliated on the basis of mutual capital participation** is the most specific feature of a classical keiretsu.

Now, passing to the second and third questions among those put above, one could once more classify static networks into two types:

- static networks whose contingency has been established after a sufficiently long experience of “tries and errors” in constructing efficient dynamic networks (**type A**);
- static networks that from the very start of networking included the same closed circle of participants, i.e. have been established initially as static networks with definite members (**type B**).

It can be easily understood what unites the participants of the **type A**, static networks: it is the *mutual trust acquired in the process of previous dynamic networking*. Such companies have found or “selected” each other. Then they create a network with most reliable partners.

The situation is much more complex as far as static networks of the **type B** are concerned.

To the question what unites (and has united from the very beginning) their participants, there could exist quite different answers.

Practically, all of them dwell on different reasons explaining:

- either what sorts of certain groups of people with intensive links within these groups can or could *at first together* go into business in various industries, *afterwards* retaining their initial links as the owners or top managers of relevant companies – to form a keiretsu;
- or what strong connections that **earlier** existed among the groups of the *present* owners or top managers of companies can or could be restored transforming their companies into participants of a keiretsu.

Using networks allows firms to locate valuable resources and improve their resource acquisition capability. The closer the relationship among the members, the faster the speed of sharing resources, so firms can acquire resources needed to improve the capability and effectiveness of that process.

One might put forward the reasons that can be divided into:

- (a) more or less “**exotic**” and
- (b) more or less “**trivial**”.

Correspondingly, we may speak about:

- static networks of the **type B1** (keiretsu **B1** of “exotic” origin) and
- static networks of the **type B2** (keiretsu **B2** of “trivial” origin)

Concerning the **type B1**, one should, at least shortly, point out that the original Japanese keiretsu were formed after the Japanese revolution of 1853. At that time, for entrepreneurs-newcomers in the cities, it was only natural to find partners from the rural communes they recently had come from. This decreased their contract and property risks because, when needed, they could address their relatives in communes. Using the modern language, in this manner they tried to *minimize not only their business risks, but also their transaction costs*.

The depicted pattern has direct parallels with the present situation in many countries where static networking takes place within national diasporas or within communities of outcomers from the regions where there still exist archaic communes or even clans. For example, in Russia, numerous static networks function among outcomers from different regions of the Caucasus where communes or even clans still exist. Such entrepreneurs often rely more on informal networks when they organize a company (Rauch & Casella, 2001).

Modern static networks of a similar origin, for needs of systematics, could be qualified as **type B11** static networks.

Also in Japan, when after World War II the American occupation administration quite consciously destroyed practically all Japanese governmental institutions, for a short period it led to an anarchy. However, criminal groups could be successful only if they had reliable partners. Several years later, these groups formed their own keiretsu in legal business, diminishing their business risks and transaction costs (since they went on to trust each other in the same way as they trusted each other in the times of their criminal past).

The above pattern has also direct associations with the present state of affairs in many countries where there recently has been some systematic (institutional) crisis, where for some relatively long time organized criminality flourished and where, after the restoration of law and order, criminal communities drift (or have drifted) to legal businesses in different industries. This could be denoted as the **type B12** static networks.

Types **B11** and **B12** can also intersect, so that specific static networks can have signs of both these types. For Russia, this means that outcomers from different regions with more or less archaic social institutions earlier often migrated to big cities in order to establish their closed criminal communities. After many of them had functioned in this quality, they “collectively” shifted to different legal businesses, tending to create static networks from these businesses.

As regards static networks of the “trivial” origin (type **B2**), the following subtypes of this type could be pointed out:

- static networks constituted by former graduates of one university, who had close positive relations while they studied (studied in one student group, played in one student sports team, etc.) – **type B21**; quite often these former graduates find each other at meetings of alumni;
- static networks formed by those who belong to big families (especially in Muslim and Catholic countries where ties among the relatives, even far related, are traditionally strong) and perhaps after years of having no business contacts find in each other potential business partners – **type B22**. Also, family ties are sometimes important for establishing a new business (Aldrich, Martinez, 2001);
- static networks of small businesses established by those who belong to one group of mutually trusting people working for a long time together in one organization and in parallel having their established private businesses – **type B23**;
- others.

The whole system of different types of static networks is reflected in Table 1.

TABLE 1. Classification of static entrepreneurial networks

Sorts of static networks	Types of static networks	Subtypes of static networks
<b>Sort 1</b> (vertically integrated groups of capital-affiliated companies)	<ul style="list-style-type: none"> <li>• networks of companies merged through stock exchange among companies</li> <li>• networks of companies merged through stock exchange among their owners</li> <li>• networks of SMEs who initially had one or a few common owners</li> </ul>	<ul style="list-style-type: none"> <li>• non-diversified static networks</li> <li>• diversified static networks</li> </ul>
<b>Sort 2</b> (consisting of not capital-affiliated companies)	<p><b>Type A</b> (static networks selected from dynamic networking)</p> <p><b>Type B</b> (static networks created as static networks from the very beginning)</p>	<p><b>Type B1</b> (of "exotic" origin)</p> <ul style="list-style-type: none"> <li>• <b>type B11</b> (grown from archaic communities)</li> <li>• <b>type B12</b> (grown from criminal communities)</li> </ul> <p><b>Type B2</b> (of a "trivial" origin)</p> <ul style="list-style-type: none"> <li>• <b>type B21</b> (formed by successful alumni)</li> <li>• <b>type B22</b> (constituted by relatives)</li> <li>• <b>type B23</b> (created by colleagues)</li> </ul>

## Examples and analysis of specific static networks

### ***A network of SMEs which initially had one or a few common owners***

As an example of SME's networks with common owners, one can present the activity of the West-Ural Information Centre Group. According to the official webpage ([www.wuic.ru](http://www.wuic.ru)), the main performance of this group is monitoring the mass media. This activity requires access to special resources.

For this purpose, Aleksey Skvortsov (the group owner) created a network. This network includes three companies: the West-Ural Information Centre, the Sociological and Marketing Research Centre, and the Creative PRO (see Table 2). Information from the West-Ural Information Centre is processed by the Socio Pro and transferred to the Creative PRO. This allows conducting marketing activities. Thus, the group divides responsibility into several strategic directions and reduces contract and informational risks.

On the one hand, the presence of the one owner prevents the Creative PRO from interacting with other possibly more efficient companies such as dynamic networks, increasing profits, and reducing costs. It is very important for this industry, because there are many companies providing design, marketing and mass media monitoring services.

On the other hand, the key advantage used by Skvortsov is the brand loyalty of the Creative PRO. It allows attracting customers to other companies of the network. This approach leads to sales and profit increase for all the network's participants. The availability of reliable counterparts such as the West-Ural Information Centre and the Socio Pro Sociological and Marketing Research Centre also minimizes transaction costs.

TABLE 2. An example of a static network of SMEs with a common owner

Company name	Updated	Authorized capital, Roubles	Owners	Share, %
West-Ural Information Center, Ltd.	06.11.2009	20000	Skvortsov Aleksey	100
Creative PRO, Ltd.	05.04.2010	12000	Skvortsova Marina	80
			Skvortsov Aleksey	20
Socio PRO, Ltd.	26.03.2010	10000	Skvortsov Aleksey	80
			West-Ural Information Center, closed joint-stock company	20

Source: SPARK database.

### ***A network of companies merged as a result of stock exchange among their owners (also an example of a static network created by former colleagues)***

A network of this sort could be presented by the following companies: GK Modern Management Technologies, STU-Soft, Byte Samara, and Bisteh.

According to data obtained from the SPARK database<sup>3</sup> on December 23, 2009 (see Table 3) the formation of this network took place in five stages:

1. At the beginning, there was only the GK Modern Management Technologies, the main activity of which was modeling business processes. V. Zabavin and I. Petrov were co-owners of this company.
2. Later, Mr. Zabavin and Mr. Petrov decided to make two separate firms, the main activity of which became different business consulting (Zabavin`s Byte Samara) and automation of transactions using innovative software (Petrov`s STU-Soft).
3. Then, the CEOs decided to make a network among their companies. They made a decision to exchange shares among the firms of the partnership. Petrov and Zabavin have got 25 percent of STU-Soft and Byte-Samara, respectively. Presumably, they aimed at using the advantages of a vertically integrated business.
4. Afterwards, Zabavin included individual entrepreneur D. Pinaev into the network`s activity by giving him a share of 30% of STU-Soft`s authorized capital. The process of distributing shares among the denoted individual owners is shown in Table 3.
5. Finally, Zabavin and Petrov created the Bizteh company. Its main activity was developing software for optimizing business processes and automating transactions.

TABLE 3. A network of companies merged as a result of stock exchange among their owners

Company name	Date of registration	Authorized capital, Rubl.	Owners	Share, %
GK Modern Management Technologies, Ltd.	05.04.2005	10000	Zabavin Victor	51
			Petrov Ilya	49
STU-Soft, Ltd.	24.01.2007	10000	Zabavin Victor	100
	23.12.2009	10000	Zabavin Victor	45
			Pinaev Dmitry	30
			Petrov Ilya	25
Byte Samara, Ltd.	19.04.2006	10000	Petrov Ilya	100
	05.12.2008	10000	Petrov Ilya	75
			Zabavin Victor	25
Bizteh, Ltd.	28.12.2010	10000	Petrov Ilya	75
			Zabavin Victor	25

Source: SPARK database.

It could be assumed that enterprises of such a network were made under each business-line (analogy of divisions and enterprises created for each product line), and choosing such kind of static network was caused by the aspiration to have reliable counterparts.

The economic essence of the companies` interaction consists in the following: every company uses its specialization to provide its services in making a formalized system of

<sup>3</sup> The SPARK database contains information about companies registered in the Russian Federation (owners, financial data, etc.)

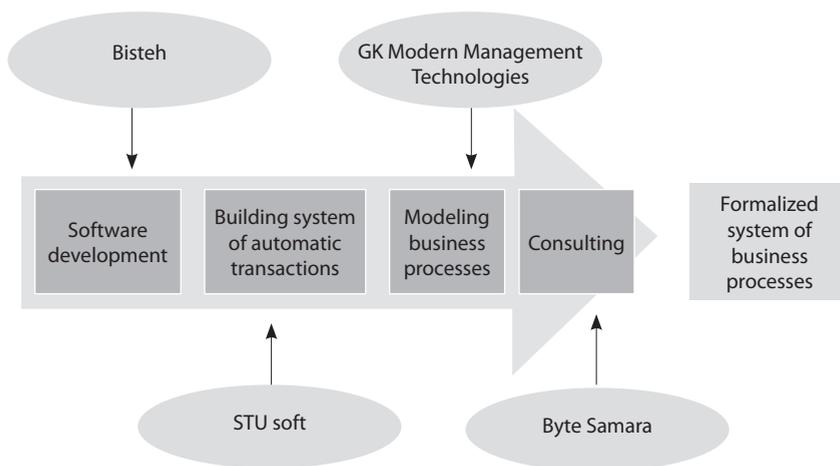


FIG. 1. Interaction in the network of companies merged as a result of stock exchange among their owners

business processes. The Byte Samara provides consulting services for corporate clients. The Bizteh develops software for the modeling of business processes (main activity of the GK Modern Management Technologies). Finally, the STU Soft uses the received programs for creating systems of automatic transactions for the mentioned clients. The whole network allows clients to build a formalized system of business processes (see Fig. 1).

The chosen mechanism of interaction among the companies is optimal for this situation. At the beginning, the CEOs worked together. Later, they created a network. It could be the most reasonable decision to make an exchange among the shareholders and not among the companies in order to share control over two firms<sup>4</sup>.

### ***A network of companies merged through stock exchange among companies***

As an example of a static network created by exchanging stocks among companies, one can cite an oil production partnership. A complex system of spin-offs of the main company has tight capital connections (see it in Fig. 2 and Table 4), and each company is responsible for its own stage of production process.

There are five main companies in the considered static network:

- GK Timezyx, deals with finding and researching oil fields.
- Kvazar M, produces storage of extracted oil.
- Lit-Trust, makes software and hardware for oilfield research and oil extraction.
- The task of NIPI NG is developing oilfields.
- Oilfield equipment is provided by the NPO Intex.

<sup>4</sup> Information is based on research conducted by Alexander Sazzi (SPBSU, student).

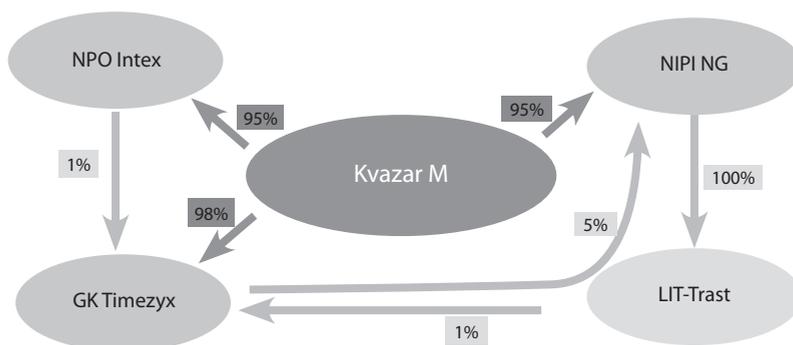


Fig. 2. The structure of a network of companies merged in result of exchange of stock between companies

Source: SPARK database.

TABLE 4. Data on companies in a network of companies merged as a result of stock exchange among companies

Company name	Authorized capital, Roubles	Owners	Share, %
GK Tymezyx, Ltd.	250 000	Kvazar-M, Ltd.	98
		Lit-trust, Ltd.	1
		NPO Intex, Ltd	1
Kvazar-M, Ltd.	120 000	Tsoy Valentine	100
Lit-trast, Ltd.	2 100 000	NIPI NG, Ltd	100
NIPI NG, Ltd	300 000	Kvazar-M, Ltd.	95
		GK Tymezyx, Ltd.	5
NPO Intex, Ltd	300 000	Kvazar-M, Ltd.	95
		Russian Academy of Natural Sciences	5

Source: SPARK database.

According to the SPARK database, Kvazar M is a parent company in this network. However, the identification of the real purposes for networking is a rather difficult challenge. From the presented scheme, one can see that each company is responsible for its own phase of the production cycle, whereas earlier these stages were executed by one single company.

There might exist several possible explanations why the denoted transformation has been accomplished.

The first is that Kvazar M has got a strong trademark on the market of producing storages for extracted oil, and it could be better for it to specialize on only this business. At the same time, it remains possible to establish spin-offs to develop brands on markets of other products or services. Likewise, spin-offs within such a kind of organizational

structure have an opportunity to deal not only with the main company, but also with other clients. This makes the whole network more flexible, because subsidiaries can interact with different clients and are not so dependent on the orders of the parent company.

The second explanation is creating an advantage in raising finance. Spin-offs can issue stock companies' strategic investors (private offerings). In this way, the owner can preserve control over the whole network and minimize the takeover risks. Such networks are open for new members. In the presented case, it might be the best option.

### ***A static network selected from the dynamic networking***

For example, the main Russian car manufacturer AvtoVaz is planning to reduce the number of suppliers of automotive components from 250 to 70<sup>5</sup>. This means that the existing network of SMEs around the AvtoVaz doesn't suit the current requirements of the company. Hence, the car manufacturer decided to use a new network of small firms – a network which, on the one hand, would be less dynamic than the previous one, but, on the hand, would consist of more reliable members. The new network will be formed on the base of suppliers of the AvtoVaz's strategic partners Renault and Nissan<sup>6</sup>. The AvtoVaz company has taken such steps to decrease contract risks arising from the lower ability to control suppliers and their products because of the greater number of participants in the previous network.

There is another example of networks of the type A. The Optogan Group and its plans correspond to the same type of static networks. It has collaborated with the National Research University ITMO for a long time. The university provides the company with new specialists. Students do practical work in this organization, so that afterwards some of them become employees of the Optogan or establish SMEs affiliated with the Optogan Group.

In October 4, 2011, the Optogan and the ITMO signed a strategic partnership agreement (Bychina, 2011). The company will open a new department at the university for educating and training its future personnel. The Optogan will develop mutual projects and make joint ventures with the most promising SMEs, founded by the ITMO<sup>7</sup>.

Here, one can see in practice how a dynamic network, which has existed before, was transformed into a static network.

### ***A static network created by alumni***

As an example of this kind of network, one can treat a special sort of interaction among some graduates of the Saint-Petersburg State University. They are Paul Durov

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<sup>5</sup> Information of the official site of information agency RIA-Novosti has been used; <http://ria.ru/economy/20100317/215007502.html>

<sup>6</sup> Information of the official site of information portal polymery.ru has been used; [http://www.polymery.ru/letter.php?n\\_id=4303&cat\\_id=10](http://www.polymery.ru/letter.php?n_id=4303&cat_id=10)

<sup>7</sup> Information is based on research conducted by Alexander Sazzi (SPbSU, student).

(Department of Philology and Arts), Ilya Perekopskiy (Department of Philology and Arts), and Elnara Petrova (Department of Journalism).

Nowadays, Mr Durov is the founder of the Vkontakte<sup>8</sup>, while Elnara Petrova and her colleague Svetlana Horosheva are the owners of the Nekstmedia Company (see Table 5). The main activity of this company is the social media marketing. According to the official webpage of the firm<sup>9</sup>, the network relations of the VK and the Nekstmedia are fixed by an exclusive cooperation agreement. It can be assumed that the Nekstmedia promotes the Vkontakte through different social media. At the same time, the VK delivers clients to Elnara's company.

Another participant of the above-mentioned network is Ilya Pereposkiy who has been a fellow student of Mr. Durov. In 2008, Ilya became a co-owner of the Durov Ltd. The main activity of this firm was server administration, web-design, and programming.

To sum up, it could be believed that the Nekstmedia promotes the VK and that the Durov Ltd. helps the latter firm with server administration, while the Vkontakte attracts clients to other companies of the network.

The Vkontakte is the first Russian social network. It is supposed that at the beginning Mr. Durov was looking for high-qualified and reliable partners in order to start his business. That is why he decided to create a network consisting of companies owned by his university friends.

Benefits for the Nekstmedia Ltd, and the Durov Ltd. of creating an entrepreneurial network are fairly obvious. The brand awareness of the Vkontakte means the presence of regular customers. In turn, they are the main factor of the persistent growth in sales and profits of the whole network<sup>10</sup>.

TABLE 5. A network created by alumni [18]

Owner	Company name	Authorized capital, Roubles	Share,%
Paul Durov	V Kontakte Ltd.	2968040	0.07
Elnara Petrova	NekstMedia Ltd.	10000	50
Ilya Perekopskiy	Durov Ltd	10000	10

### ***A static network created by relatives***

The network including the Uralsib financial corporation, the Imperial Porcelain Manufactory,<sup>11</sup> and the Kvarcevoe Steklo, Ltd. could be an example of a static network created by relatives. According to the information obtained from the SPARK on

<sup>8</sup> The short name of social network Vkontakte is VK (author's ref.).

<sup>9</sup> Official site of Next Media, Ltd.: <http://next-media.me/services.html>

<sup>10</sup> Information is based on the research conducted by Alexander Sazzi (SPBSU, student).

<sup>11</sup> The short name of the Imperial Porcelain Factory is IPM (author's ref.).

September 18, 2011 (see Table 6), co-owners of these companies are Nickolay Tsvetkov, his wife Galina Tsvetkova, and their daughter Julia, respectively. It is possible to assume that these companies interact with each other in the following way.

The core business of the Kvarcevoe Steklo is conducting research and developing technologies for manufacturing porcelain, glassware, products of quartz. The main customer of this small enterprise is the Imperial Porcelain Manufactory. At the same time, the IPM is the main strategic partner of the financial corporation Uralsib which sponsors business processes and brand-events connected with the factory<sup>12</sup>. Also, Mr. Tsvetkov's firm offers financial consulting and helps his wife's company to form a strategic vision. Presumably, the Uralsib provides similar services for the Kvarcevoe Steklo as well.

Before starting his business, Mr. Tsvetkov had decided to create a financial "empire"<sup>13</sup>. At that time, as one can suppose, the owner of the Uralsib looked for somebody whom he could trust. As a result, he decided to create a network with his relatives' companies. The reason was clearly the counterparts' reliability.

TABLE 6. A network created by relatives (source: SPARK database)

Owner	Company name	Authorized capital, Roubles	Share, %
Nickolay Tsvetkov	Uralsib, financial corporation	26 508 356 603,8	90
Galina Tsvetkova	Imperial Porcelain Manufactory	66 982 185	5.18
Julia Tsvetkova	Kvarcevoe Steklo, Ltd.	15000	30

Finishing on static networks, one could differentiate among firms (or owners)-leaders and firms (or owners) led. It might seem that bigger firms (owners with a bigger invested capital) have greater powers. This might mean that they are also leaders in organizing static networking and get the biggest profits from networking. However, special research shows that it is not always so<sup>14</sup>.

## Conclusions

Dynamic and static business networks belong to modern business institutions that one can observe more often in small and medium-sized business. That is why they are sometimes named entrepreneurial networks. Dynamic and static networks and their main ideas do not contradict each other, rather complement each other. They have different goals and different nature. The main advantage of dynamic networking is its adjustedness to use

<sup>12</sup> Information from the official site of the State Pushkin Museum has been used; [http://www.pushkinmuseum.ru/vs\\_vozvrashenie\\_legendi.htm](http://www.pushkinmuseum.ru/vs_vozvrashenie_legendi.htm)

<sup>13</sup> Information from the Moscow Post newspaper official site has been used; [http://moscow-post.ru/economics/uralsib\\_bez\\_shtanov6767/](http://moscow-post.ru/economics/uralsib_bez_shtanov6767/)

<sup>14</sup> For more details about power dependence and performance of member firms in keiretsu, see, for example, Chang, Hong, (2000), Kim (2004), Khana, (2000), McGuire (2003).

information networking on the base of information technologies. In this way, dynamic networks contribute to a greater efficiency and profitability of business, whereas the main advantages of static networks are minimization of business risks and transaction costs, as well as better possibilities for coordinated radical innovations in a static network's product and technologies. In countries with a dynamic economic growth and the rising competitiveness of business environment, like in Russia, the latter advantage might prevail.

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