

2. Business Networking: Possible Positive and Negative Impacts on Innovation and Excellence

Abstract The purpose of this Chapter is to comprehensively examine a wide range of possible positive and negative impacts of Business Networking on the organizations' performances, and particularly on innovation-related performances. The final outcomes of this chapter are: (i) a framework, summarizing all the identified possible positive and negative impacts of business networking on the organization's performances, divided into five categories (Efficiency; Effectiveness; Innovation Capabilities; Social Role; Financial Strength); (ii) three Constructs and related Scales, designed for measuring the main innovation-related performances of organizations in empirical theory-testing research, and namely: Organization's Innovational Success; Organization's Competitive Excellence; Organization's Social Excellence.

2.1 Introduction

Literature reviews revealed that it is difficult to find exhaustive descriptions of all the possible impacts of business networking on performances: in other words, each disciplinary tradition tends to concentrate on only few specific possible (expected or unintended) consequences of business networking.

For example, the Industrial Network Approach belongs to B2B Marketing studies; scholars belonging to this research tradition usually investigate the mechanism through which cooperative Business Networking positively impacts on organizations' long-term market performances (Håkansson and Snehota, 1989), whilst negative impacts of business networking are only marginally studied (Ford et al., 2003). This approach is compatible with the Relational View of the Firm, that asserts that not only is an organization's network of relationships a means to access valuable external resources: the network of relationship should be understood as a most strategic resource *per se*. In fact, long-term interactions, if effectively managed, result in idiosyncratic environments that are unique and impossible to imitate: each individual innovation developed in a business network might be quickly imitable by competitors, but the specific innovational capabilities of an inter-organizational system cannot be replicated, and are then a powerful source of sustainable competitive advantage. This theory, in other words, states that the relational resources of an organization are an essential factor for building competition-effective innovation. On the other hand, the idiosyncratic nature of business networks implies only that each network's innovation capabilities are difficult to imitate: it does not imply that these capabilities are necessarily effective. Some publications highlight cases where idiosyncratic business networks result in over-embeddedness and inward-looking culture, i.e. in environments where the capabilities

to *successfully* (and not only inimitably) innovate regrettably atrophy, instead of developing.

The Industrial Network Approach, on the other hand, can be considered as an important research community within the Collaborative Network Theory approach, which is considered as a key theory for explaining business networking behaviors, and which will be repeatedly referred to throughout this book.

Another interesting example may be Supply Chain Management studies. These studies focus on inter-firm process integration and on technologies for smoother resource/information flows; scholars belonging to this research tradition usually evaluate the performances of Business Networking in terms of information-based reactivity, logistic efficiency and reduction of costs and risks (Chandra and Kumar, 2001). Some of these studies are dedicated not only to expected, but also to possible unintended consequences of supply chain management processes in business networks: negative impacts of business networking are ascribed to flawed processes mainly (Lee et al., 1997) and the role of Information Systems is described as growingly important to manage such complex inter-organizational processes (Akyuz and Rehan, 2009). Supply Chain Management studies traditionally refer to classical theories on inter-organizational behaviors, such as the Transaction Costs Theory and the Resource Dependence Theory, which will be further analyzed throughout this book.

In order to understand also large-scale B2C (Business to Consumer) or G2C (Government or Public Administration Body to Citizen) networking, two scholarly traditions were considered for this study: Social Network studies, which concentrate on the socio-technical features of networking (Kadushin, 2012); and e-Participation studies, which concentrate on network-based and participatory management of common and public resources that may be vital for businesses (Sæbø et al., 2008), such as e.g. landscapes (for the tourism industry, for example) or transportation infrastructures (for the manufacturing sector, for example). These studies tend to be quite optimistic and to concentrate on positive outcomes; in this scholarly tradition, (business) networking, i.e. the system of network-based long-term interaction of public and private organizations with consumers/citizens, is expected to result in social improvements, such as Consumer Empowerment, Improved Civic Awareness, Improved Civic Engagement, Enhanced Civil Rights, Increased Territorial Value, Improved Territorial Services (Ricciardi and Lombardi, 2010).

In the Resource Based View of the Firm, inter-organizational interactions are seen as means to exploit the heterogeneity and complementarity of firms, so that each firm can access strategic resources beyond its own boundaries, in order to enhance competitive advantage (Combs and Ketchen 1999). According to this approach, business networking allows firms to share and/or exchange valuable, rare, inimitable and/or non-substitutable resources: possible negative impacts of business networking are hardly mentioned in these studies (Chen and Chen 2003).

Two streams of studies seem more strongly focused on the possible negative impacts of business networking: studies on lobbies and power groups, and studies based on the Theory of the Population Ecology of Organizations.

The former group of publications investigate the effects of favoritism, political patronage and lobbying on markets: these studies highlight the possible negative consequences of the

opacity made possible by business networking, especially in those cases where strong personal interests, politics, financial powers and/or mob ties are involved (Zingales, 2009).

The Theory of the Population Ecology of Organizations, on the other side, predicts that the same inter-organizational interactions that select specialized, highly reliable organizations in a business settings, end up by making those organizations rigid and incapable to further change and evolve (Hannan and Freeman, 1989).

In a nutshell, each individual scholarly tradition, if taken in isolation, seems incapable of providing us with a comprehensive understanding of all the possible consequences of Business Networking on performances. On the other side, if considered as a whole, the sum of the different scholarly traditions provides us with a rich and satisfactory list of possible positive and negative impacts of business networking processes.

In the following part of this Chapter, the outcomes of this comparative literature review will be framed as follows:

- Possible impacts of Business Networking on the organization's efficiency;
- Possible impacts of Business Networking on the organization's effectiveness;
- Possible impacts of Business Networking on the organization's innovation capabilities;
- Possible impact of Business Networking on the organization's social role;
- Possible impacts of Business Networking on the organization's financial strength.

2.2 Possible Impacts of Business Networking on the Organization's Efficiency

The scholarly tradition that has more intensely concentrated on the expected efficiency enhancements driven by inter-organizational networking is the Supply Chain Management one.

In this stream of studies, long-term network interactions are expected to enhance control on critical resources (Hillman et al., 2009), and to reduce risks and costs, by making inter-organizational flows of information, things, money, decisions, etc., smoother and more rationally structured (Naylor et al., 1999). But some of these writings also highlight that such strong process integration (ideally resulting in an "extended enterprise") is very costly (Jagdev and Browne, 1998) and advantages may not compensate for the drawbacks, especially considering that higher complexity and difficulties in network governance may paradoxically result in system fragility and system crash (Melnyk, 2009).

Transaction Cost literature also highlights the beneficial decreases in transaction costs attainable thanks to long-term inter-organizational networking (Williamson, 1985).

2.3 Possible Impacts of Business Networking on the Organization's Effectiveness

Many scholarly writings insist on the improvements in the organization's effectiveness, that can be achieved thanks to Business Networking.

According to these writings, Business Networking allows access to valuable market understanding, and the joint resources of network partners can be usefully leveraged to achieve higher customer satisfaction (or citizen satisfaction, in case of Public Administration bodies), higher service quality, higher reactivity and flexibility (Ford et al., 2003). Moreover, some writings highlight that Business Networking, providing organizations with a more protected and predictable environment (Powell, 1996), makes more resources available for long-term investments and market effectiveness.

On the other hand, some writings highlight that the environment provided by Business Networking, i.e. a protected and predictable relational context of established, privileged relationships, may result in organizational rigidity and resistance to change, which is likely to result in organizational death (Hannan and Freeman, 1989). Moreover, the strongest the network bonds, the strongest is the possible amplification of certain local mistakes that may severely affect other partnering organizations' effectiveness (e.g. the so-called "bullwhip effect" in supply chains) and the contagion (McFarland et al., 2008) of possible failures and related reputation problems.

2.4 Possible Impacts of Business Networking on the Organization's Innovation Capabilities

The positive effects of Business Networking on the organization's innovation capabilities are thoroughly investigated by studies referring to the Collaborative Network theory, by studies referring to the Resource-Based View, and also by Social Network studies.

According to these studies, Business Networking allows access to valuable resources (information, competences, skills, patents, experiences, etc.) external to the individual organization's boundaries (Combs and Ketchen 1999): as a consequence, an innovation path can be taken, that would have been impossible to go through for the single organization alone. Moreover, if reciprocal trust between network partners is high (Ford et al., 2003), Business Networking allows rational division of labor, specialization, risk sharing, cultural exchange and cross-fertilization: all factors that are expected to positively influence the organization's innovation capabilities.

Also studies on Social Network are usually very confident of the innovative potential of the "collective intelligence" unfolding in social networking (Woolley et al., 2010). But in some cases, also this stream of studies expresses concern for the waste of time and resources that the very nature of network interactions may imply: some cases are reported, where networks perform poorly as for innovation capabilities, when compared to traditional, structured organizations (Sun et al., 2010).

On the other hand, also the Industrial network perspective sometimes mentions possible negative impacts of networking on innovation capabilities. Håkansson et al. (2009) describe some paradoxical aspects of business networks: each organization seeks to control its network, but control is destructive, since the more a single actor is able to exercise control over a network, the more the actor becomes the sole source of innovation. Moreover, the growing bonds between actors enable them, but simultaneously also constrain them.

The Institutional Theory explains innovation in business networks as a consequence of mimetic processes, in some cases triggered by coercive or normative forces (Meyer and Rowan, 1977). This means that decision-making as for innovation is influenced by institutional factors (such as, for example, the managers’ prestige), which have little to do with the innovation’s real importance and potentialities. This can lead the organization both towards constructive and destructive innovation-related decisions.

Table 2.1. Possible positive and negative impacts of Business Networking on the organization’s performances

	Positive / Expected Impacts of Business Networking	Negative / Feared Impacts of Business Networking
On Efficiency	Rationalization of information and/or resource flows. Enhanced predictability and control. Lower transaction costs.	Uncontrolled costs of process integration. Conflicts, dispersive power games. Higher risks of system crashes due to higher complexity.
On Effectiveness	Better market understanding. Enhanced reactivity and flexibility, then service quality, then customer satisfaction.	Dependence-oriented culture. Laziness due to “network comfort”. Responsibility “holes”. (Inter-) organizational rigid lock-ins.
On Innovation Capabilities	Access to valuable resources allowing innovation. Higher specialization. Beneficial cultural exchanges and debates. Inter-organizational mimetic and coercive pressures may drive useful change.	Inward-looking network culture may result in innovational “blindness”. Co-innovation is complex and often dispersive, may drift and result in wasted resources. Inter-organizational mimetic and coercive pressures may drive harmful change, or hinder useful change.
On Social Role	Attitude to social embeddedness. Care for Reputation. Enhanced social responsibility.	Over-exploitation of common and/or public goods. Opacity, protection of unfair privileges and of illegal behaviors. Fair competition hindered. Alternative initiatives hindered.
On Financial Strength	Better business credit scores. Enhanced business flows predictability. Reliability of partners’ payments. Mutual financial help.	Financial fragility, due to the dependence on few key partners. The “Bow to the stronger partner’s will” principle may jeopardize weaker partners in the long run.

2.5 Possible Impact of Business Networking on the Organization's Social Role

An interesting group of studies focuses on the social performances of Business Networks. On the one side, some authors (for example, those referring to Institutional Theory) say that Business Networking enhances the organization's attitude to cooperation, to social embeddedness and to reputation care (Meyer and Rowan, 1977): as a consequence, networked organizations are more likely to be engaged in socially responsible behaviors (Suchman, 1995).

On the other side, other authors highlight how Business Networks tend to evolve into power systems dedicated to over-exploit common and public goods (Ostrom and Walker, 2005), to cover up illegal behaviors, to protect unfair privileges, to hinder alternative initiatives, and to discourage civic engagement (Zingales, 2009): as a consequence, Business Networks can impact even very negatively on the social fabric.

2.6 Possible Impacts of Business Networking on the Organization's Financial Strength

After defining through Literature Review the aforementioned four possible Business Networking performance measures (organizational efficiency, effectiveness, innovation, social role), extracted from literature review, I discussed and fine-tuned them with the panel of experts enrolled in this research, i.e. three experts in Business Networking from a leading Italian bank, a manager from an international leading consulting firm specialized in supply chain management, and the general manager of a company that promotes tourism in Italy.

The three experts from the bank suggested to consider also a further performance measure, i.e. Financial Strength. In fact, they commented that one of the main expectations of organizations entering a Business Network is to have better business credit scores on the part of banks, which may take into consideration the enhanced value of an organization with well-established and promising business relationships. Moreover, long-term network partners often can rely on more predictable and reliable payment behaviors and, in some (although rare) cases, on direct financial help on the part of partners.

The manager of the consulting firm specialized in supply chain management, interviewed after this suggestion, agreed on that, but added that Business Networking may also result in a double-blade weapon as for the organization's financial strength. In fact, a strong financial dependency on few network partners may make the organization's financial situation dangerously fragile.

Finally, the general manager of the Italian local tourism promotion company, interviewed in turn, suggested further financial problems that may raise due to Business Networking: in case of opportunistic behaviors on the part of the stronger partners (as for discount requests or delayed payments, for example) some weaker actors of the network may feel forced to bow to the stronger partner's will, even if this results in financial problems.

As a consequence, also the organization's financial strength was considered as meaningful performance measurement for successful (or unsuccessful) Business Networking strategies, and included into the model. Table 2.1 summarizes the five areas of predicted impacts of business networking processes.

2.7 Measuring Business Network Impact

The classical performance data, such as profits or sales, may describe the possible impact of business networking on the organization in the present, but they do not capture the possible positive or negative impact of networking on the organization's capability of coping with the future, nor do they shed light on the possible positive or negative impact of the organization's networking strategies on the environment, i.e., for example, on the local community or on the territory.

For this reason, three different and complementary constructs were chosen, to provide a tool for a comprehensive evaluation of possible network impacts. These constructs are thought to complement the extant and well-established measures of financial performances and efficiency.

The first construct is "Organization's Innovational Success". This construct describes the extent to which the organization is capable of finding and developing new and successful solutions; this construct derives from the category "Innovation Capabilities" of Table 2.1 and is proposed here as a proxy of the organization's competition capability in prospect.

The second construct is "Organization's Competitive Excellence". This construct describes the extent to which the organization is strong today as for sales, market position and financial stability. This construct derives from the categories "Efficiency", "Effectiveness" and "Financial Strength" of Table 2.1, and is proposed here as a proxy of the organization's competition capability today.

The third construct is "Organization's Social Excellence". This construct derives from the category "Social Role" of Table 2.1 and describes the extent to which the organization can be considered as playing a positive role in the territory and in the social fabric it belongs to.

I developed three scales for these three constructs, on the basis of the theoretical work synthesized in Table 2.1, of the discussion with the expert involved in this research, and of the scales tested in Khanwalla and Mehta (2004) and Turker (2009). These three scales are presented in the following Paragraphs.

2.7.1 Organization's Innovational Success (IS)

8 Items Scale

Do you agree with the following statements? (1=strongly disagree, 5=strongly agree, 3=neutral).

IS-1

Our organization has an excellent image of being innovative, and our innovations are often a benchmark for competitors.

IS-2

An important part of our current revenues were derived from recent product / service innovation.

IS-3

Our organization has implemented a stream of successful innovations in business processes and/or organizational culture.

IS-4

Our organization has re-designed its competitive environment, for example by entering new markets or by modifying its supply network.

IS-5 (reverse item)

An important part of our organization's innovation projects has recently failed, because it proved incompatible with the status quo (e.g., with old work habits, with established powers, with our legacy information system, etc.)

IS-6 (reverse item)

An important part of our organization's innovation projects failed in the last years, because their costs proved too high.

IS-7 (reverse item)

Sometimes I fear that we are too specialized or too dependent from specific solutions or specific conditions, and that we would be hardly capable to adapt to changing conditions.

IS-8

Our organization has not made serious mistakes in choosing the technological tools for supporting innovations in the last years.

2.7.2 Organization's Social Excellence (SE)

10 Items Scale

Do you agree with the following statements? (1=strongly disagree, 5=strongly agree, 3=neutral).

SE-1

Our organization implements effective programs to minimize its negative impact on the environment.

SE-2

Our organization supports non-governmental organizations working in problematic areas and/or contributes to campaigns and projects that promote the well-being of the society.

SE-3

Our organization effectively contributes to improve the value and image of the territory (e.g., the city) it operates in.

SE-4

Our organization supports schools and/or universities and/or research centers, and/or funds scholarships.

SE-5

Our organization supports employees who want to acquire additional education.

SE-6

The managerial decisions related with the employees are usually fair in our organization.

SE-7

Our organization selects socially responsible business partners (e.g. suppliers) only.

SE-8

Our organization targets interaction fairness in its business relationships.

SE-9 (reverse item)

Our organization's image has been damaged by boycotts or scandals or legal actions in the last three years.

SE-10

Our organization complies with legal regulations completely and promptly.

2.7.3 Organization's Competitive Excellence (CE)

5 Items Scale

Do you agree with the following statements? (1=strongly disagree, 5=strongly agree, 3=neutral).

CE-1

Our organization's profitability has satisfied our investors/owners.

CE-2 (reverse item)

Our organization's sales have performed poorly, if compared to the competitors'.

CE-3

The financial strength of our organization is satisfactory for our investors/owners.

CE-4

Our organization has proved capable of adapting to market challenges.

CE-5

Our organization has displayed superior operating efficiency in comparison with our competitors in the last 3 years.

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