

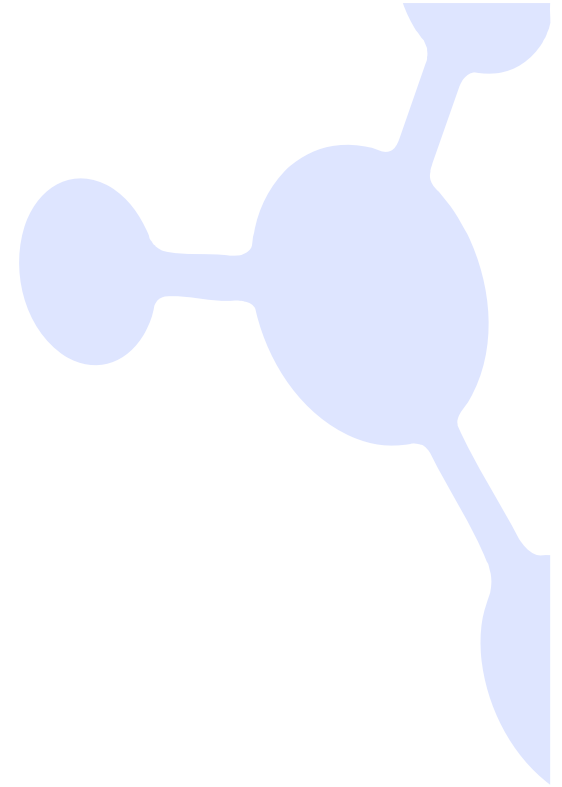


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## Network Strategy



# Agenda

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1. Introduction to strategy

2. Market and resource-based view

3. Towards an inter-firm perspective of strategy

4. Inter-firm alliance and network strategy

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## Porter on coalitions

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- "Coalitions are a means of performing one or more activities in combination with another firm instead of autonomously - they are thus a means of configuration. ... Just as a coalition changes the global configuration of an activity, it also complicates the ability to coordinate that activity with others." 321
- "The speed of **coalitions as a means of repositioning** implies that they will be particularly likely to occur during period of rapid and significant structural change in an industry, particularly structural change involving rising economies of scale. Structural change frequently erodes the existing sources of competitive advantage of some firms and creates new bases of advantage. **Firms seek coalitions in order to respond quickly and without the expense of acquisition while retaining independence.** This implies that some coalitions may be **transitional devices** that ultimately dissolve or lead to merger." (Porter; Fuller 1986, 329)

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## Critique of the resource-based view

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- The RBV focuses on **single firms** and does not adequately address the idea of collaboration and networking.
- Consider, that a firm's **critical resources may extend beyond firm boundaries** (relational resources).
- Especially changes on an **industry level**, like for example technological innovation, convergence and the merging of industries (consider the „T.I.M.E.S. industry“) drive the formation of development and learning alliances.
  - Here, the resource view expands far beyond the firm boundaries.
  - Distinguish different categories of resources

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## Remember: 4 underlying trends

### 1. Technology changes

- RBV
  - new ways of communication and information processing
  - redefine market roles and rules
  - new opportunities and challenges, not to be achieved alone

### 2. Globalization

- MBV
  - changing competition, eroding of market structures
  - often based on deregulation of former closed national markets
  - collaboration to enter new markets, or to reduce competition

### 3. Changing customer behaviour/needs and fragmented markets

- MBV
  - individualization and mass customization
  - increasing uncertainty
- RBV
  - R&D partnerships & supply chain collaboration

### 4. Increasing information intensity & importance of knowledge

- products, services and production processes increasingly information intensive
  - companies are not able to access and control necessary knowledge alone

# The inter-firm view – multi-level strategizing: Strategy is about integration and differentiation

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- The single-firm view on the network:
  - **differentiation**: achieve a good and powerful position within the network (MBV) with unique competencies (RBV) → coopetition
  - **integration**: into the overall network value chain (MBV) and resource portfolio (RBV)  
→ process interfaces, competence descriptions; also: integrate external resources into internal activities
- The inter-firm/network view on strategy:
  - **differentiation**: position the network within the market (group vs. group) (MBV) and formulate unique value proposition (RBV)
  - **integration**: integrate all partners and their contributions to a functioning whole (network resource pool (RBV), network value chain (MBV))
- Furthermore: other activities of the single firms within the market have to be aligned with the network activities

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# RBV Interfirm resource view

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	1. core resource	2. collaborative resource	3. external, purchased resource
<b>typical coordination</b>	hierarchy (internal resource)	cooperation network	market-based (outsourcing)
<b>resource importance</b>	constituent for company product/service portfolio critical resource	important resource, but no core resource	less important purchase reasonable, because of other company's leading position
<b>motivation</b>	Leading position may be achieved. Basis for competitive advantages.	Necessary economies of scale may not be achieved without cooperation. High investments necessary which may be shared among network partners.	Concentration on core competencies, own creation improvident.

<i>dimensions of resource development</i>	<i>impact of the cooperation</i>	
	<i>positive</i>	<i>negative</i>
<b>time compression diseconomies</b>	faster development of technological resources by pooling of know-how, experiences in the implementation process of a cooperation combined with the dynamics of the cooperation may yield a significant lead	conflict within cooperations and time-consuming consensus building may slow down the resource building process
<b>asset mass specificity</b>	combined resource development will considerably accelerate the resource accumulation process	if one of the partners can reap the benefits alone, defection poses a considerable risk
<b>resource interdependency</b>	the pooling of complementary resources of different partners creates a highly unique resource position that lowers the imitation risk from outside competitors considerably	a high degree of inter-organizational resource dependence poses a considerable risk if the cooperation breaks up and access to requisite resources gets lost
<b>resource creating, enhancing, destroying</b>	cooperation as an instrument to create or enhance existing resources; collaborative learning as an instrument to leverage not only the mutual strengths but also to significantly improve the companies resource position through a process of accelerated learning	'migratory' competencies may be swiftly adapted by partners, thus annihilating a temporary competence advantage

## Strategic view on networks and alliances related to market-based and resource-based view respectively

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- **MBV**: Gomes-Casseres, Benjamin (1994). Group versus Group: How Alliance Networks Compete. In: Harvard Business Review, 4, pp. 62-74.
  - Competition often takes place not only on the inter-firm but also on the inter-group level.
  - The article provides insights into reasons for alliance formation, network characteristics and more important on problems, risks and management challenges.
- **RBV**: Hamel, Gary; Doz, Yves L.; Prahalad, C. K. (1989): Collaborate with your Competitors - and win, in: Harvard Business Review, 1 (1989), S. 133-139.
  - Partnerships/alliances are often regarded to be a valuable mechanism to enhance the own pool of resources, often in terms of internalizing information and knowledge.
  - But collaboration may also be risky, because of losing own resources to a partner (who may be at the same time a competitor).

## A new form of competition ...

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"Today we see groups of companies linking themselves together for a common purpose. Consequently, a new form of competition is spreading across global markets: group versus group."62

- Groups are only as strong as the alliances within them: manage individual relationships carefully. ..
- Effective groups are worth more than the sum of the alliances within them: manage the group as a whole.
- The sky is not the limit in alliance groups: expand with caution.
- Where you sit in which network determines what you get: position your company strategically within and among alliance groups.
- A lack of commitment is the flip side of flexibility: be sure that the network strategy is sustainable for your company.

Source: Gomes-Casseres 1994, 74

# Group-vs.-group: composition for network advantage

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- **Network Composition:** achieve network advantage by composing the network wisely with companies that provide complementary skills/assets
- **Strategic questions:**
  - Is the whole greater than the sum of its parts?
  - Who controls the group, who manages/coordinates?
  - Where is competitive advantage created?
    - group-based advantage - position the network (competition among networks): integration of the partners' contributions
    - company-based advantage - position within the network (competition within network)
- Effective groups are worth more than the sum of the alliances within them: Manage the group as a whole.

# Group-vs.-group: Management challenges and collaboration risks

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- **Internal competition:** depends on the number of members fulfilling their same functions and on the structure of relationships among partners.
  - different approaches: competition increases group flexibility, drives innovation and ensures the security of supply (p. 8),
  - but it can fragment a part of the business (no partner is able to reach sufficient scale) and result in conflicts
- **Governance:** establishment of a governing body versus governance by the lead company
- **Relationships:** Groups are only as strong as the alliances within them: Manage individual relationships carefully.
- **Dependence:** allying companies lose control and depend upon external skills; own decisions may be subordinated to those of the network

# Learning in alliances: the case of cultural differences

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a brief synopsis:

## ■ **Western companies:**

- main goal: intend to avoid investments, reduce costs and risks of entering new markets, regain competitiveness quickly and with minimum effort
- openness of technicians, consider themselves as “scientific contributors”
- often regarded as to be arrogant, more receptive

## ■ **Eastern companies:**

- effort to learn, strategic intent: learning, focused on skills of their partners, commitment towards learning
- loyalty to company, team members
- often have the attitude of students, want to listen

# Learning in alliances: the case of cultural differences

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## ■ Western companies:

- *"We complement each other well—our distribution capability and their manufacturing skill. I see no reason to invest upstream if we can find a secure source of product. This is a comfortable relationship for us."*
- short-term goal, but intention to form a long-term relationship

## ■ Eastern companies:

- *"When it is necessary to collaborate, I go to my employees and say, 'This is bad, I wish we had these skills ourselves. Collaboration is second best. But I will feel worse if after four years we do not know how to do what our partner knows how to do.' We must digest their skills."*
- long-term goal, but intention of a short-term relationship

## Learning in alliances: balancing contributions and interests

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- The western/eastern example illustrate the potential problems, which may occur in ill-conceived alliances.
- Alliances unfold their potentials, when contributions and interests are well-balanced.
- Achieve mutual gains for each party
  - each partner must contribute something distinctive
- **The challenge is to share enough skills to create advantage vis-a-vis companies outside the alliance while preventing a transfer of core skills to the partner.**

# Learning in alliances: management challenges

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- **Build secure defenses:** avoid losing core competencies
  - collaboration is competition in a different form
  - safeguard the own assets
  - harmony is not the most important measure of success !
  - create trusting atmosphere and deal with conflicts
- **Ensure transfer of knowledge** (which is intended to be shared)
  - differentiate between easy to transfer and intrinsic knowledge
- **Ensure learning** and internalization of knowledge
  - learning from partners is paramount
- „The real issue is whether a company is adding to its stock of technologies and competences as rapidly as it is surrendering them.“

# The relational view as a new (inter-firm) perspective in strategic thinking

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Dimensions	Industry Structure View	Resource-Based View	Relational View
Unit of analysis	Industry	Firm	Pair or network of firms
Primary sources of supernormal profit returns	Relative bargaining power Collusion	Scarce physical resources (e.g., land, raw material inputs) Human resources/ know-how (e.g., managerial talent) Technological resources (e.g., process technology) etc.)	<b>Relation-specific investments</b> <b>Interfirm knowledge-sharing routines</b> <b>Complementary resource endowments</b> Effective governance
Mechanisms that preserve profits	Industry barriers to entry Government regulations Production economies/ sunk costs	Firm-level barriers to imitation Resource scarcity/property rights Causal ambiguity Time compression diseconomies Asset stock interconnectedness	<b>Dyadic/ network barriers to imitation</b> Causal ambiguity Time compression diseconomies <b>Interorganizational asset stock interconnectedness</b> <b>Partner scarcity</b> <b>Resource indivisibility</b> Institutional environment
Ownership/control of rent-generating process/resources	Collective (with competitors)	Individual firm	Collective (with trading partners)

## Short summary

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- Positioning within the network in terms of power/ influence to achieve the own goals.
- Assure integration into the network by taking care of interfaces regarding processes and resources.
- Classification of resources with respect to importance and role to assure full control over critical resources to minimize external dependence.
- Taking care of networkability, internal capabilities necessary to ensure the ability to collaborate with others (e.g. ensure learning capacity).
- Challenges of collaboration with and learning from competitors, conflict, protect knowledge, etc. (“coopetition”).
- Changing scope in strategic planning: each single firm has to face the formation of the overall network strategy: “group-vs-group”.
- Relational view as an enhancement in strategic thinking.

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