

INTERORGANIZATIONAL NETWORKING IMPACT TO INNOVATION

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Abstract

Purpose – to distinguish main inter-organizational networking characteristics and emphasize impact to innovation within the company and between related actors. Network formation is one of the essential factors to effective business performance and fostering competitiveness. The emergency of growing competition and influence of globalization leads companies to effectively use inner-sources and capabilities in order to be ahead of competitors.

Design/methodology/approach – scientific literature analysis.

Findings – the paper emphasizes the role and the value of networking that leads to innovation in order to succeed in a fast changing environment.

Research limitations/implications – the research on networking and innovation impact to service sector has not been thoroughly implemented yet.

Practical implications – the inter-organizational networking is a strategy of management and a powerful tool for development, solving of problems and acceptance or exchange of innovations. Innovation is a crucial element in the development of companies as well as their competition with rivals. Innovation enables companies to continuous adaptation to the global economy.

Originality/Value – the paper stresses the importance of innovation that is seen as a highly significant factor and an impetus to modernization in the rapidly changing and increasingly more competitive business environment. The paper focuses on the significance of inter-organizational networks and its impact on innovation development.

Keywords: networking, innovation, network capital, social capital, knowledge flow.

Research type: scientific literature review.

Introduction

In the fast changing and complex environment it becomes harder and harder to compete alone in the market. Knowledge is seen as one of the most significant element and resource of organization which leads to successful performance and competitiveness as well as fostering of innovation within an organization. Inter-organizational networking is the best tool for spreading knowledge within an organization and between other network's organizations. Inter-organizational networking allows cooperation within a network and share of information and different approaches. Therefore this spread and circulation of knowledge and ideas can lead to innovation inside an organization. No less important, networking between external partners enables company to gain new knowledge and take over innovation or imitate improvements and boost efficiency.

Inter-organizational Networking Characteristics and Impact to Innovation

Resource based researchers state that organizations are dependent on tangible and intangible resources from outside factors. According to that organizations change their structure and strategy in order to succeed. Networking researchers claim that network organizations operates according to the network system which becomes a important part of organization's existence and makes an influence to organization's decisions (Mizruchi and Galaskiewicz, 1994, op. cit.). Network background can be analyzed by how network and its extent: a) provides opportunities for its participants to have active relationship in order to use network (resource dependence); and b) indicates attitudes and behaviour within a network. The more members are centralized in the network, the more similar companies behave in the market, because they share like information (Doerfel, 1999). Kulmala et al. (2005) presents network characteristics based on value chains. Researchers claim that network organizations focus most on their major competencies and the main goals for networking is innovativeness, profitability and growth. The best practices within the network are accepted and shared faster if the level of openness between related actors is high. According to Ebers and Jarillo (1998) op. cit., formation of networks have these advantages: bilateral learning, strategy formation in specialization, effective information and resource flows, economy of scale, and organizing market structure with network members (Kulmala et al., 2005). Networks are creating opportunities for innovation, which are connected to knowledge and learning (Brass, 2004).

Jaskyte and Lee (2006) reveal four major components of inter-organizational relations which can contribute to innovativeness: resources, technological assistance, information flows and clients. Transfer of knowledge and resources, legitimacy, shared learning, leveraging of organizations resources foster innovation within the network and network actors. In the exchange of resources, organizations are able to interact and to spread and exchange innovative practices between them.

Organizations join or form networks in order to gain legitimacy, serve clients more effectively, gain more resources and solve complex situations. All network organizations are seeking to achieve a goal that they could not have achieved independently. Inter-organizational network benefits such as shared risk, advocacy, positive deviance, innovation, flexibility and responsiveness, suppose that the formation of inter-organizational networks can be a strategy for developing an organizational structure that is able to create a change. Innovation is an important function of networks because it is critical to addressing complex problems (Popp et al., 2013).

According to Chetty and Holm (2000) op. cit., networks collect interfirm resources. Resources which are collected in a synergy manner help network participants to gain knowledge, search new opportunities and markets, and learn from collaborative experience (Uddin, 2013). It is important to pay attention and work together in an inter-organizational network relationship where different partners deal collaboratively on the value creating process rather than focusing on individual level (Uddin, 2013).

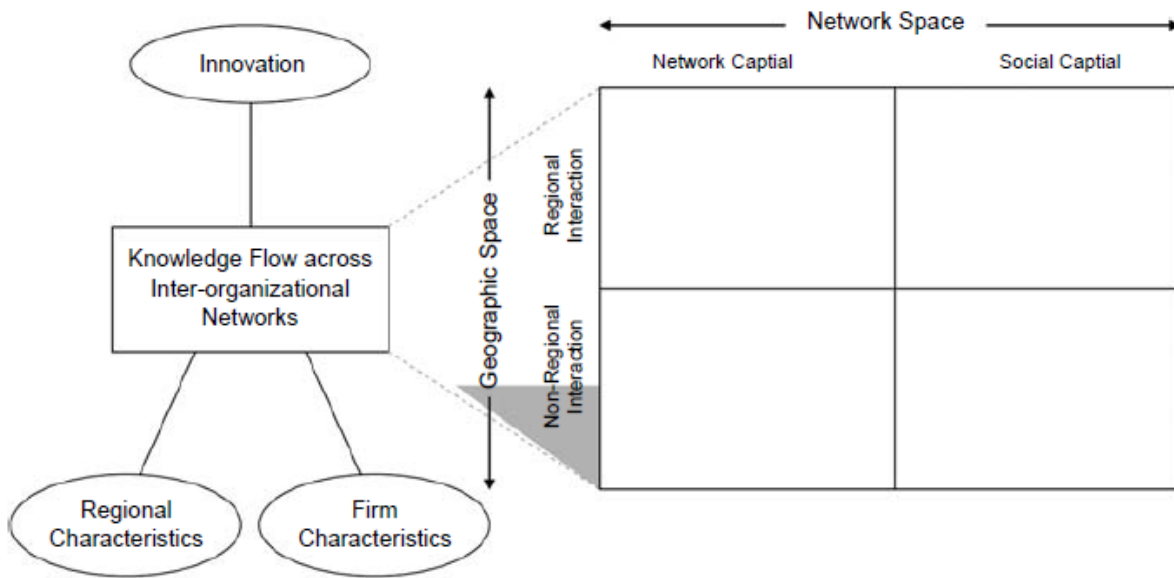
Recently, there is a greater interaction and collaboration among companies because of the rapidly changing and dynamic environment and lower costs of information technology. Bovet et al. (2000) op. cit. state that the interaction among business network members helps to enhance corporate competitiveness (Hsueh, 2010). Network embeddedness arises from the social capital established by companies in mutual networks. Social capital includes human resources, corporate performance, regional performance and national performance. According to Yli-Renko et al. (2001) op. cit., network embeddedness produces relationship capital and makes knowledge flow among enterprises easy, gives opportunity to complementary capabilities, resource sharing. All these elements contribute to the creation and concentration of the companies' knowledge capital which enables companies to acquire supplemental assets, advantages in the market and technical information (Hsueh, 2010).

Network creation requires investments from the network actors. The development of strong and tight inter-organizational relations for innovation, the foundation and maintenance of customer–supplier relations, the attendance and partnership in networks demands time and resources (Kauffeld-Monz and Fritsch, 2013).

Interorganizational Network Formation: Social Capital and Network Capital Approaches

Participation in business network is an important element in innovation performance. Researchers of inter-organizational networks (op. cit. Meagher and Rogers, 2004; Lichtenthaler, 2005; Sammarra and Biggiero, 2008; Tomlinson, 2010; Bergenholtz and Waldstrøm, 2011) point up that internal and external innovation is a complicated process and requires knowledge share and exchange between companies and other related actors (Huggins et al., 2012). The innovation performance of firms is extremely related to network capital investment. Therefore, companies avoid innovating alone and innovate with external actors and inter-organizational networks are seen as a significant element of innovation process (Huggins et al., 2012).

Huggins et al. (2012) introduce the concept of network capital to show the ties in the network between organizations and other actors from the network capital and social capital aspect and to show the distinction of them. Geographic space and physical proximity models are also involved. Fig. 1 demonstrates that inter-organizational network forms with knowledge flow are configured in accordance with the geographic space and network space. In addition, inter-organizational network within and across network and geographical space are connected with the innovation performance.



Source: Huggins et al., 2012

Figure 1. Innovation and inter-organizational networks

This model demonstrates that inter-organizational networks help to simplify the knowledge flows what enables companies to obtain knowledge to develop innovation. Huggins et al. (2012) distinguish two forms of inter-organizational knowledge network: alliance network, through which companies collaborate to innovate; and contact networks, through which companies source knowledge. Networking through alliances provides formalized collaboration and repeated relationship. Whereas contact networks are more informal interactions and relationships between related actors which are more active and continuously updating and changing their contacts.

The main role of alliance networks and contact networks is to gain knowledge which leads to innovation. However, if networks are willing to keep themselves in the innovation process, knowledge networks need to embrace new members and do some alterations in order to keep the pace with changing environment.

The network space is distinguished to two elements: *social capital* and *network capital*.

Putnam (1993) op. cit. defined social capital as social organizations features such as trust, norms, and networks that can improve the efficiency of society (Robison et al., 2002). Coleman (1990) op. cit. defined social capital as a variety of different entities

having aspect of social structure and ability to facilitate certain actions of individuals who are within the structure. These entities include obligations, expectations, trust, and information flows (Robison et al., 2002).

The significance of networking focuses on the value of networking and collaboration in creating social capital. Social capital contains three main elements: resources embedded in a social context; that are accessed or mobilized; is purposive. The importance of networking in this perspective is seen as ability to employ resources held by other actors and increase the flow of information in a network. Furthermore, according to Lin (1999) op. cit., a network can exert more influence on its social and political surroundings than individual actors. Social capital can also help spread innovation, which is best done through bottom-up networks. In the most successful examples of networking, social capital is both an individual and a collective good (Muijs et al., 2010).

The second element of network space is network capital. Network capital relates to facilitation of knowledge flow within the network. Huggins et al. (2012) defines network capital concept as a response to the increased recognition and a mechanism based on the logic of business and professional expectations.

According to Huggins et al. (2012) research, inter-organizational knowledge networks are considered to be a crucial element underlying the economic success and competitiveness of regions. The existence of established spatially proximate knowledge networks is one of the key factors why a number of the most successful regions around the world have become or remained more competitive than those regions where networking method have not been established.

Regional context gives information about economic and innovation performance in geographical regions. From an inter-organizational network perspective, it might be expected that social capital investments in knowledge networks will be higher where a knowledge-based economic environment is more embedded, and where networks are likely to be more stable. In the emerging regions, firms may be more biased towards network capital investments, in order to strategically search and access knowledge from contacts and alliance partners (Huggins et al., 2012). Since suppliers and customers are significant resources for service innovation, clustering and networking can help widen and increase the efficiency of knowledge acquisition for innovation. Several countries encourage clustering and networking to enhance innovation across their economies, but some have implemented specific policy measures for ICT fields (OECD, 2005).

According to Popp et al. (2013), Thorgren et al. (2009) op. cit. studied the influence of network characteristics on the innovative performance of small and medium size enterprise networks. “Researchers found that a network can achieve greater innovative performance when there are many network members, when the network is formed on member initiative (i.e., a bottom-up formation process), and when there is a large administrative function (e.g., network board)” (Thorgren et al., 2009) op. cit. In addition, the research revealed that a larger network encourages innovation by providing more opportunities, resources and complex products. Authors stress bottom-up formation processes which are crucial to innovation processes because they bring strengthened member commitment, motivation and social capital and influence the speed of innovative performance development (Thorgren et al., 2009) op. cit.

Conclusions

Formation or accession to inter-organizational networks are considered as a crucial factors that help to exchange knowledge and share resources between related actors within the network. Knowledge is one of the most significant elements and a resource of organization which leads to successful performance and competitiveness, and is seen as a significant factor to success, development and growth in today’s fast changing business environment.

Inter-organizational networks contain positive characteristics, such as: 1) it contributes to innovativeness by providing resource flow, technological assistance, effective information flow and allow cooperation within a network and share of information and different approaches; 2) it enables company to gain new knowledge, take over innovation or imitate improvements and innovations as well as help network companies in the growth process and efficiency. Inter-organizational networks enable mutual learning, strategy formation, economy of scale, and organizing market structure with network members; 3) it helps to solve complex situations and achieve a goal that companies could not have achieved independently and benefit in shared risk, advocacy, positive deviance, innovation, flexibility and responsiveness.

Inter-organizational networking should be analyzed employing social capital and network capital approaches and effects of usage of social platforms in business performance and creation of inter-organizational networks. Networks are supposed to do influence on social and political surroundings. In addition, social capital should be a tool to spread innovation. Whereas, network capital helps with the knowledge flow within the network according to expectations and business strategies.

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