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Włodzimierz Sroka
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Management of Alliance Networks Formation, Functionality, and Post Operational Strategies

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Management of Alliance Networks

Formation, Functionality, and Post
Operational Strategies

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Foreword

Alliance networks are increasingly important strategic weapons available to firms in their attempts to gain competitive advantages. Therefore, the management of alliance networks should occupy a preeminent position on the agenda of both academics and practitioners in the strategy field. Our knowledge of alliance network management is still underdeveloped, however, and research efforts that shed light on them are particularly welcomed. Sroka and Hittmar contribute in such a direction with their book that, while building on the extant scholarly literature on strategic alliances and interorganizational networks, is primarily aimed at offering to practicing managers insights into the alliance network management process.

In the following, I will briefly frame alliance network management in the context of the strategy debate over the last decades. I will argue that exploring alliance network management and related (inter)organizational processes and capabilities has the potential to, on the one hand, allow firms to deal more effectively with network-based forms of competition, while, on the other hand, adding to our understanding of the sources of firm heterogeneity and competitive advantage, thus generating significant implications for strategy theorists and practitioners alike.

Strategy is a quest for success. In order to understand how firms succeed, and specifically how firms obtain sustained competitive advantages over their rivals, during the last 20 years strategy scholars have typically adopted the firm as their favorite unit of analysis. In particular, proponents of the resource-based view have focused on the role played by valuable, rare, difficult to imitate, and non-substitutable resources (Barney 1991). The key message that resource-based theorists have conveyed to managers is that competitive advantage comes primarily from the organizational ability to acquire, develop, integrate, and leverage tangible and intangible resources, rather than from positioning strategies and the firm's overall ability to fit the environment (Grant 1991).

But where do firm resources and capabilities come from? The original resource-based view suggests that firms are atomistic in their pursuit of competitive advantage (McEvily and Zaheer 1999), so that strategic assets (organizational capabilities, in particular) are developed within the firm boundaries. This is not so,

however. Real companies draw from various external sources a large variety of resources needed to compete. This is especially so for knowledge-based resources, they being ‘discrete’ (e.g. creative or technical skills) or ‘systemic’ and socially complex (e.g., organizational capabilities) (Miller and Shamsie 1996). Indeed, knowledge-based resources are typically difficult or impossible to transfer among firms through market-like arrangements. Thus, firms make extensive use of collaborative alliances and alliance networks with a variety of partner organizations in order to access the knowledge of partners, learn from partners, or jointly develop with them new knowledge-based resources.

The above notes are in line with, and offer support to, the argument that strategic alliances and alliance networks are increasingly important units of analysis for understanding competitive advantage. In outlining their ‘relational view’, Dyer and Singh (1998) have examined the interorganizational resources, capabilities, and processes that can be sources of supernormal profits and those that may help sustain the ensuing advantages. Integral to their approach is that alliances are to be framed as collaborative *relationships*, rather than arm’s length market *transactions* (Ring and Van de Ven 1994).

Substantial contributions to our understanding of the linkages between inter-organizational collaboration and firm strategic behavior and outcomes have been made by those who have borrowed, and adapted to the strategy field, the fundamental message of the social embeddedness theory (Granovetter 1985), i.e., that economic actors are deeply embedded in networks of relationships that, while constraining their behavior, provide opportunities and resources in support of their purposive economic action (Uzzi 1997). A major merit of this literature is that of focusing on the overall networks of interpersonal and interorganizational relationships in which firms are embedded. In particular, drawing also on early views of interfirm networks (Jarillo 1988), the ‘strategic networks’ approach conveys a view of alliance networks as strategic assets that firms can leverage purposefully in order to generate differential returns for both participating organizations and the network as a whole (Gulati et al. 2000).

In parallel with the above developments in the fields of strategic management and organization studies, recent years have witnessed extensive recourse of firms to alliance networks. This has led to network-based forms of rivalry whereby firms compete by leveraging the networks they are embedded in and the ensuing resources. Whereas all this is changing the competitive landscape, a crucial issue still needs to be tackled. In order to fully exploit the potential for competitive advantage embodied in strategic alliances and networks, individual members of the partner firms and their organizations should learn to *manage* the processes of interorganizational collaboration carefully. To do so, a distinctive set of ‘relational capabilities’—that are, individual and organizational abilities to manage interorganizational relationships—is needed (Capaldo 2007). Implicit in this statement is the assumption that alliances and alliance networks are to be understood as interorganizational collaborative relationships embedded in their underlying and surrounding social contexts.

Relational capabilities are a special category of capabilities. Relational capabilities are particularly relevant to firms embedded in interorganizational networks, whose competitive success is largely dependent on their ability to manage and leverage large numbers of interconnected relationships. Thus, among relational capabilities, the capabilities to manage alliance networks are of the utmost strategic importance. Despite recent increase in scholarly attention paid to interorganizational relationships management, research on relational capabilities in general, and on alliance network management in particular, is still in its infancy. The avenues to be taken in order to develop this emerging literature into a rigorous body of knowledge useful to practitioners can be characterized on three different but related dimensions, namely the *levels*, *contents*, and *processes* of relational capabilities.

On the levels side, analogously to what has happened in the field of capabilities in general, the extant literature on relationship management has focused primarily on the organizational level of analysis. However, fulfilling the analytical challenge of researching on the capabilities that individual members of the organizations involved in alliance networks possess for managing those networks and the underlying webs of interpersonal and interorganizational relationships, and on how those individual-level capabilities are developed, may provide valuable insights into the microfoundations of alliance network management.

On the contents side, several scholars have argued that firms entering numerous alliances should leverage a number of capabilities to deal with the different challenges of managing effectively an alliance network along the different phases of its development process. A cautionary note is that these capabilities build on each other and consist of a bundle of activities and (inter)organizational routines that, far from being performed in a strictly sequential fashion, overlap largely.

When it comes to the processes through which alliance network capabilities emerge and develop, the prevailing (if not 'default') position is that relational capabilities develop at the organizational level as experience at managing interorganizational relationships accumulates over time (e.g., Powell et al. 1996) and is transformed into organizational capabilities by internalizing and routinizing lessons drawn from a variety of organizational and individual experiments. The role of non-experiential, more deliberate forms of learning should also be considered, however. Taking a step in such a direction, some scholars have pointed to the role of a dedicated alliance function and its impact on alliance success (Kale et al. 2002).

A final note relates to the contribution that researching the processes of alliance network management and related capabilities may provide to the field of strategic management. Three strictly related points are worth addressing here. First, focusing on these issues may lead strategy scholars to reframe the fundamental issue of firm-environment relationships in a way that conceives of the environment as a dynamic source of resources and capabilities, rather than a static repository of opportunities and threats exogenously determined by the industry structure.

Second, insofar as alliance network management and related capabilities allow firms to obtain, integrate, and orchestrate resources and capabilities from various external sources, alliance network capabilities can be conceived of as dynamic

capabilities. Although dynamic capabilities have been presented as the ultimate answer to the holy grail of strategic management (Teece et al. 1997; Helfat and Peteraf 2009), we still know too little about them. Analyzing the processes of alliance network management has the potential to provide non-trivial contributions to elucidate the underdeveloped construct of dynamic capabilities by clarifying their nature, development processes, and impact on performance.

Moving along this research trajectory, and here I come to the third and final point, we can reasonably expect to enrich our knowledge of the origins of firm heterogeneity, and therefore of the sources of competitive success. Given that no one firm can develop internally and house within its boundaries all the needed resources to thrive in highly competitive business contexts and satisfy increasingly complex customers needs, focusing on alliance network management and related organizational- and individual-level capabilities may crucially add to our understanding of why and how firms differ. This would also provide a more clear picture of the levers that strategists can pull in support of strategic maneuvers that, being based on orchestrating large and dynamic resource bases, may allow firms that leverage alliance networks to effectively coevolve with their environments, thus yielding truly sustainable competitive advantages.

Milan and Rome, 30th October 2012

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Introduction

There have been a lot of changes in the sphere of functioning of the modern organization. Globalization, accompanied by rapid technological changes has created a completely new business environment. Pressing challenges include keeping pace with shorter product life cycles, incorporating multiple technologies into the design of new products, cocreating products and services with customers and partners, and leveraging the growth of scientific and technical knowledge in many sectors (Fjeldstad et al. 2012).

Under the new market conditions, a single realization of all functions from the value chain is practically impossible. Specialization and crucial competences in key business domains become more and more important. If a firm wants to manufacture a good-quality product, it should establish cooperation with other companies which specialize in a certain function of the value chain. This inter-firm cooperation can comprise only two firms, e.g., dyadic alliance, or take the form of multilateral cooperation in the form of alliance networks. These networks are regarded as groups of firms linked by alliances, which compete in a certain domain with other networks as well as single firms.

Although, the idea of network connections is far from new, real interest in this form of activity has only arisen since the 1990s. At present, inter-organizational cooperation in the form of alliances and networks is widely utilized by many companies. In many industrial sectors such as telecommunication, we can observe hierarchical galaxies with the group of leading corporations that are surrounded by satellite-type companies. This phenomenon has been gaining momentum for the last two decades. It confirms the thesis that a scale and scope of alliance networks have a global nature, especially in relation to multinational corporations.

Participation in alliance networks is combined with access to the markets, resources, competences, and expertise of the other network members. Multilateral relationships among partners in the networks create new challenges, especially related to aspects of management. This is because alliance networks, like