

# In Search of Alliance Capability — As Conditions Facilitating Knowledge Creation in Creative Industry —

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## Introduction

As the number of M&A has increased rapidly in Japan over the past few years, the importance of alliances become recognized as a more effective means of doing business in the knowledge economy than in the industrial economy in many ways. The forms of interorganizational ties are strongly related to the strategic significance for the firms. Firms takes a wide range of forms, including intracorporate business units, strategic alliances, franchises, R&D consortia, buyer-supplier relationships, business groups, trade associations, government sponsored technology programs, and so on. In this study we show a framework for categorizing the forms of organizations by utilizing a typology of network types and relates its capabilities to make interorganizational relations. These are intended to express an anonymous review suggested by network researchers. This study is considered to categorize the organization types toward creating knowledge processes.

## Interorganization Capabilities

Recent research, grounded in theory about capability building (e.g. Teece et al., 1997) shifts the attention away from the relationship between companies towards the alliance capability of the companies involved in an alliance. Instead of looking at the relation between companies, the focus is on the internal operations of alliance partners. Figure 1 shows where the opportunity to make interorganizational relations can be pursued. The vertical and horizontal dimension represents the extent to which network members occupy different positions along the network's value chain. The structured and unstructured dimension represents the extent to which network governance is structured. It also shows a typology of some common network types along two dimensions.<sup>1</sup> Alongside of a structured network, member organizations' roles and relationships are clearly defined and members are well organized to achieve certain goals. The reverse is true for an unstructured network.<sup>2</sup> Studying networks is adequately specifying the boundaries of the networks.<sup>3</sup> According to Inkpen and

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Tsang based on Gulati's works, they notes that the three network types defined below are not intended to be exhaustive in coverage. Their intent is to cover a spectrum of horizontal and vertical relationships that go from the single-node divisionalized firm (the intracorporate network) to interfirm relationships (the alliance) to an unstructured collection of firms (industrial district). As indicated by Figure 1, the three network types cover both ends of each of the two dimensions. Moreover, they are among the most researched and discussed network types. Although it is not feasible to examine all organizational network types, their discussion of multiple types raises key issues to help understand the relationships between knowledge and network types not specifically discussed.

## Intracorporate Relations

An intracorporate relation consists of a group of organizations operating under a unified corporate identity, with the headquarters of the network having controlling ownership interest in its subsidiaries. Inkpen and Tsang takes Choshal and Bartlett<sup>4</sup>, and they conceptualize an intracorporate network as an interorganizational grouping, rather than a unitary organization, because valuable insights on the internal structures and operations of such an entity can be gained from network-related concepts used for investigating interorganizational phenomena.

It is stressed that there is a clear linkage between ownership and hierarchical power in an intracorporate network. Nevertheless, the strength of the link varies greatly along several dimensions, such as the extent of decentralizing decision-making authorities to subsidiaries, the nature of the industry concerned, and the physical and cultural distances between headquarters and subsidiaries.<sup>5</sup>

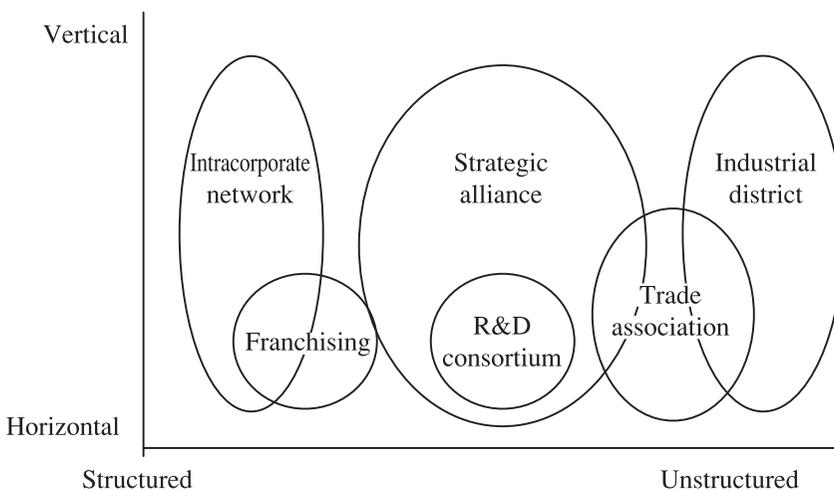
## Strategic Alliance

As we have already stated a strategic alliance is a group of firms entering into voluntary arrangements that involve exchange, sharing, or codevelopment of products, technologies, or services.<sup>6</sup> The last two decades have witnessed a proliferation of strategic alliances among firms as a result of technological development and globalization. An alliance can be formed by firms located in different positions or in the same position of the value chain. In the latter case, the firms concerned may produce similar geographical markets.<sup>7</sup> It is commonly said that firms enter into multiple alliances with a number of partners, which means a phenomenon that has been called an "alliance network".<sup>8</sup>

## Industrial District

An industrial district is cited by Inkpen and Tsang as “a network comprising independent firms operating in the same or related market segment and a shared geographic locality, benefiting from external economies of scale and scope from agglomeration”<sup>9</sup> Silicon Valley, Route 128 in the United States, and the Third Italy, and the City of London in Europe are always cited as famous cluster examples. Researches related to industrial districts have been burgeoning out in Japan. An industrial district consists of a network of producers, supporting organizations and a local labor market.<sup>10</sup> There may be a vertical division of labor among the producers.

Figure 1. A Typology of Interorganization Types



Source: Inkpen and Tsang, “Social Capital, Networks, and Knowledge Transfer,” *Academy of Management Review*, Vol.30, No.1, 148, 2005.

\* The location and shape of each interorganization type in the figure are approximations only.

## Knowledge Transfer Processes

Knowledge transfer is the process through which one network member is affected by the experience of another.<sup>11</sup> It is said that knowledge transfer manifests itself through changes in knowledge or performance of the recipient unit. In a growing body of research, scholars argue that organizations able to transfer

knowledge effectively from one organizational unit to another are more productive than organizations that are less capable of knowledge transfer.<sup>12</sup> New knowledge, especially knowledge from outside the firm, can be an important stimulus for change and organizational improvement. Related to the network context more specifically, Inkpen and Tsang cited Kotabe, Martin, and Domoto's research resulted that organizational benefits can arise from knowledge transfer between network firms.

The MNC can be regarded as a network of capital, product, and knowledge as a network of capital, product, and knowledge transactions among units operating in different countries. As Inkpen and Tsang depicted from the research from Gupta & Covindarajan that "the primary reason why MNCs exist is because of their ability to transfer and exploit knowledge more effectively and efficiently in the intracorporate context than through external market mechanisms".<sup>13</sup> On knowledge transfer, strategic alliances can be viewed from several perspectives. First, firms may acquire knowledge useful in the design and management of other alliances.<sup>14</sup> This collaborative know-how may be applied to the management of future alliances. Second, firms may acquire knowledge about an alliance partner that supports the firm's ability to manage the collaborative task. The knowledge obtained can be central to the evolution of the alliance.<sup>15</sup> Third, firms learn with an alliance partner when the partners jointly enter a new business area and develop new capabilities. Last, firms acquire knowledge from an alliance partner by gaining access to the skills and competencies the partner brings to the alliance. We summarize that alliances provide opportunities to create redeployable knowledge or private benefits, such as technical knowledge or market knowledge. Knowledge flows between alliance partners are most concerned.

## Social Capital

Koka & Prescott (2002) states that the studying interfirm relationships increasingly focus on how firms are socially embedded in networks of relationships that incorporate a diverse set of organizational actors. Social capital is gaining prominence as a concept that provides a foundation for describing and characterizing a firm's set of relationships. However, although the concept of social capital has found widespread acceptance, there remains widespread uncertainty about its meaning and effects.

The definition of social capital as the aggregate of resources embedded within, available through, and derived from the network of relationships possessed by an individual or organization - a definition that accommodates both the private and public good perspectives of social capital. The central proposition in this view of social capital is that networks of relationships are a valuable resource for the individual or organization. The logic of that establishes a network tie with another firm, such as a supply contract. This network tie becomes a social capital resource of

the two firms. As time passes, trust between the firms may develop, and such trust, in addition to the formal tie between the firms, will also constitute a social capital resource. The social capital of the firms is thus enhanced. From the social capital, various benefits, such as preferential knowledge access, may flow to the firms.<sup>16</sup>

Individual social capital originating from an individual's network of relationships can be distinguished from organizational social capital derived from an organization's network of relationships.<sup>17</sup> The former has the property of a private good, whereas the latter takes on the nature of a public good. With social capital as a public good, members of an organization can tap into the resources derived from the organization's network of relationships without necessarily having participated in the development of those relationships.<sup>18</sup> These two levels of social capital are often interrelated. For example, a manager, through his or her own social relationships and personal connections, can help his or her company set up a joint venture with another company. In this case, organizational social capital is created on the basis of individual social capital. For a systematic analysis of organizational social capital across multiple network types, it is necessary to distinguish among (1) the possessors of social capital, (2) the dimensions of social capital, (3) the benefits of social capital, and (4) the factors that operate as determinants of social capital benefits.

## Dimensions of Social Capital and Interorganization Types

Inkpen and Tsang (2005) present the three interorganization types and the three social capital dimensions. They seek to understand how knowledge moves within networks and how social capital affects the knowledge movement. In order to achieve this objective, they adopt Nahapiet and Ghoshal's (1998) three dimensions of social capital: structural, cognitive, and relational.

Table 1 shows the three network types and the three social capital dimensions. Depending on the network type, the nature of social capital varies. In each network type there is substantial variance, in that there are different forms of intracorporate networks, strategic alliances, and so on. The characteristics of social capital in Table 1 are associated with the more typical forms of each network type.

### Structural Dimension

The structural dimension of social capital involves the pattern of relationships between the network actors and can be analyzed from the perspective of network ties, network configuration, and network stability.<sup>18</sup> Network ties deal with the specific ways the actors are related. Ties are a fundamental aspect of social capital, because an actor's network of social ties creates opportunities for social capital transactions.<sup>19</sup> A key feature of intracorporate networks is that members of a network belong to the same corporation. As such, this within a member, such as interdepartmental and interpersonal relationships, may not be very different in nature from those between members. In other words, boundaries of network members are more

porous than those of other network types. The nature of ties between alliance partners will impact the social ties between managers who are assigned to the alliance by the partners.<sup>20</sup> Network stability is defined as change of membership in a network. A highly unstable network may limit opportunities for the creation of social capital, because when an actor leaves the network, ties disappear. While stability is not a major issue in intracorporate networks unless there are frequent corporate restructuring activities, it is a much studied concept in the alliance area, perhaps because of the high instability rate usually attributed to this particular network form.<sup>21</sup>

### Cognitive Dimension

The cognitive dimension represents the resources providing shared meaning and understanding between the network members.<sup>22</sup> The two facets of the dimension we address are shared goals and shared culture among network members. Shared goals represent the degree to which network members share a common understanding and approach to the achievement of network type, the tasks and outcomes may vary in clarity and definition. Members of an intracorporate network usually work toward a common goal set by headquarters, although they may have to fulfill certain secondary goals related to their own products and markets. Partner firms often have different goals in mind when they enter a strategic alliance. Negotiation helps partners arrive at goals that are acceptable to most, if not all, of them. In an industrial district there are likely to be few shared or even compatible goals, owing to the complexity of the network ties.<sup>23</sup>

### Relational Dimension

The relational dimension focuses on the role of direct ties between actors and the relational, as opposed to structural, outcomes of interactions. Among the facets of this dimension, such as trust, norms, and identification, it is focused on trust, both because of space limitations and because trust is a critical factor affecting interfirm knowledge transfer and creation.<sup>24</sup> Trust in an intracorporate network is institutional based: the fact that an organization is a member of the network signifies to other members that the former should be trustworthy.

Table 1. Social Capital Dimensions across Interorganization Types

Social Capital Dimensions	Intracorporate Network	Strategic Alliance	Industrial District
STRUCTURAL DIMENSION			
Network Ties	Fuzzy distinction between intramember and intermember ties	Intermember ties determining social ties within an alliance	Social ties as a foundation for intermember ties
Network Configuration	Hierarchical, easy to establish connectivity between network members	Nonhierarchical, possibility of exploiting structural hole positions	Nonhierarchical and dense networks in a geographical region
Network Stability	Stable membership	High rate of instability	Dynamic, with members joining and leaving the district
COGNITIVE DIMENSION			
Shared Goals	Members working toward a common goal set by headquarters	Compatible goals but rarely common goals	Neither shared nor compatible goals
Shared Culture	Overarching corporate culture	Cultural compromise/ conflict among members	Industry recipe
RELATIONAL DIMENSION			
Trust	Little risk of opportunism, institutional-based trust	Significant risk of opportunism, behavioral-based trust	Process-based personal trust

Source: Inkpen and Tsang, "Social Capital, Networks, and Knowledge Transfer," *Academy of Management Review*, Vol.30, No.1, 155, 2005.

While risk of opportunism is normally not a concern for intracorporate networks, it is a serious concern for strategic alliances. Unlike intracorporate networks, trust in strategic alliances is behavioral based. A partner firm needs to signify its trustworthiness through the way it behaves in the alliance. For industrial districts, interpersonal trust plays a critical role, since, as mentioned earlier, individual social capital drives the development of organizational social capital. Moreover, trust is process based, in the sense that firms regularly test each other's integrity, moving from small, discrete exchanges or limited risk to more open-ended deals that subject the parties to substantial risk.<sup>25</sup>

## Interorganizational Types and Knowledge Transfer

Through the various ties that firms have with other firms, network members are exposed to various types of knowledge that are potentially valuable. As Powell states, “The most useful information is rarely that which flows down the formal chain of command in an organization or that which can be inferred from price signals. Rather, it is that which is obtained from someone you have dealt with in the past and found to be reliable.<sup>26</sup> The dependent variable is knowledge transfer between network members.

Table 2. Conditions Facilitating Knowledge Transfer

Social Capital Dimensions	Intracorporate Network	Strategic Alliance	Industrial District
STRUCTURAL DIMENSION			
Network Ties	Personnel transfer between network members	Strong ties through repeated exchanges	Proximity to other members
Network Configuration	Decentralization of authority by headquarters	Multiple knowledge connections between partners	Weak ties and boundary spanners to maintain relationships with various cliques
Network Stability	Low personnel turnover organization wide	Noncompetitive approach to knowledge transfer	Stable personal relationships
COGNITIVE DIMENSION			
Shared Goals	Shared vision and collective goals	Goal clarity	Interaction logic derived from cooperation
Shared Culture	Accommodation for local or national cultures	Cultural diversity	Norms and rules to govern informal knowledge trading
RELATIONAL DIMENSION			
Trust	Clear and transparent reward criteria to reduce mistrust among network members	Shadow of the future	Commercial transactions embedded in social ties

Source: Inkpen and Tsang, “Social Capital, Networks, and Knowledge Transfer,” *Academy of Management Review*, Vol.30, No.1, 155, 2005.

Based on the key argument that social capital plays a critical role in the transfer and exchange of network knowledge, it is proposed that a set of conditions that facilitate knowledge transfer in networks. These facilitating conditions, as

summarized in Table 2, are factors specifically associated with the respective facets of the three social capital dimensions. The objective in this section is to identify specific relationships between social capital and knowledge transfer. Because the facilitating conditions that influence knowledge transfer differ across network types, developing an understanding of social capital and networks requires an analysis of the specific features of the different network types.<sup>27</sup> The focus in Table 2 is on organizations within the network, rather than the network itself. On this Table, one of the structural facets is network configuration. At a broad level, network configuration affects the flexibility and ease of knowledge exchange between network members. For example, for intracorporate networks, a facilitating condition (for network configuration) is headquarter's decentralization of authority to network members such that the development of lateral network ties and knowledge transfer is enhanced. Expressed as a proposition, the greater headquarters' decentralization of authority to intracorporate network members, the more likely ties between the members will develop that lead to knowledge transfer. As another example, having boundary spanners maintain weak ties with various cliques for exploration purposes is an important facilitating condition for firms operating in an industrial district. Expressed as a proposition, the greater the presence of boundary spanners with weak ties to various cliques, the more likely a pattern of linkages among network members will develop that lead to knowledge transfer.<sup>28</sup>

## Structural Dimension

**Network Ties:** Since the boundaries between intracorporate network members are more porous than those between members of other network types, personnel transfer between members should take place more readily. Such transfers establish social network ties on top of the more formal intermember ties; the latter, in turn, are strengthened by the existence of the former. The social network ties facilitate intermember social interactions and provide channels for knowledge exchange. For knowledge transfer to occur in alliances, strong ties between the partners are necessary.<sup>29</sup>

**Network Configuration:** As argued by Grant, "Once firms are viewed as institutions for integrating knowledge, a major part of which is tacit and can be exercised only by those who possess it, then hierarchical coordination fails"<sup>30</sup> Thus, the headquarters of an intracorporate network must decentralize authority to members of the network so that they can determine how to make the best use of the knowledge they possess. Moreover, decentralization enables members to establish lateral ties on their own initiative without first seeking approval from headquarters. Decentralization can facilitate timely knowledge sharing among the members Tsai's study of a large, multiunit company confirms that centralization is negatively associated with intracorporate knowledge sharing.<sup>31</sup>

**Network Stability:** Although the membership of an intracorporate network is usually more stable than that of other network types, this stability may not help knowledge transfer if there is a high personnel turnover rate. Organizational learning depends, at least partially, on memories of individuals and their learning abilities.<sup>32</sup> Individuals leaving a network take with them knowledge that may be crucial for organizational success. In addition, personnel turnover affects intracorporate knowledge sharing, which often takes place through formal or informal exchanges on an individual basis. Such exchanges are facilitated by established rapport and friendship. Maintaining a stable pool of personnel within a network can help individuals develop long-lasting interpersonal relationships.

## Cognitive Dimension

**Shared Goals:** Thai and Ghoshal embody the collective goals and aspirations of the members of an intracorporate network.<sup>33</sup> When a shared vision is present in the network, members have similar perceptions as to how they should interact with one another. This can promote mutual understandings and exchanges of ideas and resources. Thus, a shared vision can be viewed as a bonding mechanism that helps different parts of a network integrate knowledge.<sup>34</sup>

When partner firms bring contradicting or inconsistent goals into their strategic alliance, interpartner conflict may arise. Conflict among parties in an interfirm collaboration tends to result in frustration and dissatisfaction.<sup>35</sup> Such a negative atmosphere is not conducive to the flow of knowledge between the partners and the alliance. In studying intra- and interdepartmental conflict within a large utility company, Schnake and Cochran found that lower levels of goal clarity increased both types of conflict. For strategic alliances it is expected that goal clarity reduces interpartner conflict by facilitating the negotiation and establishment of common goals.<sup>36</sup>

**Shared Culture:** As Ghoshal and Bartlett point out that each operation is geographically embedded in local or national culture although the headquarters of an intracorporate network may try to impose its corporate culture in all worldwide operations.<sup>37</sup> Arguments for and against partner cultural diversity as an antecedent for alliance learning have been made. Although Parkhe has proposed that diversity between the partners in international strategic alliances could lead to learning, alliances designed to learn and absorb tacit knowledge are harder to manage among partners that come from different cultural contexts than partners from a similar cultural context.<sup>38</sup>

## Relational Dimension

Trust: As Tsai states that an intracorporate network is a social structure of competition.<sup>39</sup> While intermember cooperation is encouraged so as to realize economies of scale, intermember competition can also achieve efficiency.<sup>40</sup> When members compete against one another for resources and markets, suspicion may replace trust in their relationship and, consequently, knowledge sharing may be sacrificed.<sup>41</sup> It is important that headquarters establish clear and transparent reward criteria so that the members concerned will not suspect any under-the-table transactions or favoritism. Clear transparent reward criteria will reduce mistrust among the members. When trust is high, firms may be more likely to invest resources in learning because of the willingness of their partners to refrain from instituting specific controls over knowledge spillovers.

## An Example; Building an Alliance Capability in the BBC<sup>42</sup>

Especially companies belong to creative industries so as to R&D typed industry, it is more important to build interorganizational relations such as an alliance capability we already indicated before. The BBC has alliances with numerous organizations across a variety of sectors. In the creative industries for example it works with the UK Film Council to create family friendly films for the UK market. In education it works with the National Learning Trust, the Reading Agency and Booktrust to promote reading. Charity partnerships include partnerships with Comic Relief and Children in Need. To adapt to the digital age the BBC set up partnerships with numerous companies. One is a joint venture with Flextech plc to create UKTV, a company aimed to exploit the BBC's program archive.

The BBC's strategy will increasingly depend on alliances and in order to prepare for that, it has entered into a program of alliance capability building. Some of the alliance management techniques used by the BBC are as follows.

1. Developing an internal network of partner/relationship managers to help share best practice about alliance management in the BBC internally. This will be particularly useful when a potential alliance cuts across more than a single BBC division. The aim is to exchange experiences and to act as an informal support network.
2. An alliance Internet site has been launched, which contains information on how the BBC wishes to engage with potential partners as well as contact information for potential partners. A version of the Internet site is available on the BBC's intranet to inform BBC staff about the strategy.
3. A Head of Partnership Strategy has been appointed.
4. A partner Day was organized to ask existing partners to reflect on the BBC's alliance policy and alliance management skills. The input from partners is

useful because it clarifies where the BBC should improve.

5. A draft Partnership Code was shared with participants at the Partner Day, who were invited to comment on the draft, prior to its final publication. The code listed ten points about how the BBC will collaborate with partners and what potential partners can expect from the BBC.
6. Support of top management. Top management, including the BBC's Director-General, approach. In particular top management is encouraging BBC managers to follow a 'business as usual' approach to working with external parties.
7. The BBC's partner strategy is widely communicated among others via the brochure 'Building public value through partnerships' (by Ard-Pieter de Man, BBC, 2004)

Like most older organizations, the BBC was used to operating on its own. To make the shift towards working in an environment in which alliance networks predominate, several actions needed to be implemented simultaneously. By means of a coherent program of capability building the BBC hopes to be able to deliver superior public value with the aid of alliances.

## Implications for Future Research

We have examined intraorganizational conditions facilitating within a firm's knowledge creation. Relationships of network ties and social capital have been investigated up to the present. An examination of the conditions facilitating learning and knowledge transfer, showing in Table 2, reveals some implications for future research. The sheer number of relationships illustrates the complexity of this area. The introduction of social capital variables into the analysis of networks and knowledge transfer adds a level of complexity that has not yet been examined empirically. An empirical study is supposed to present on the next thesis. Virtually all the existing theoretical and empirical studies of interorganizational knowledge transfer are based on a single network type, without any reference to the boundary conditions. The question of how far the results of these studies can be generalized from one network type to another rarely has been examined. The distinct facilitating conditions across network types listed in Table 2, and the preceding discussion of social capital levels, suggest that generalizability across network types may be limited and that a contingency approach is appropriate. Inkpen and Tsang summarize that processes of interorganizational knowledge transfer are affected by the nature of the network type in which the organizations are embedded.<sup>43</sup> Although facilitating conditions are distinct across network types, there is value to be gained by integration and synthesis. The literature examinations from intracorporate networks to industrial districts.

It is said that the concept of network is one that suffers from being overstretched. As Inkpen and Tsang have shown, the dynamics of knowledge transfer vary across

network types. They illustrate that social capital dimensions are not uniform in their effects on knowledge transfer. Rather, they vary across different types of networks. Network theories that fail to distinguish between network types will be unable to capture the complex variety of factors associated with network knowledge processes. These theories need to develop beyond the early, broad theoretical discussions that were based on a generic type of network deepened by Jarillo, and Thorelli twenty years ago and to examine in detail the characteristics of different network types. Social capital is still room to develop. The social capital concept has been used extensively by scholars in discussing interpersonal or interorganizational relationships of a certain type. Yet the concept seldom has been applied to compare and contrast different types or relationships. Further theoretical analyses applied to empirical studies will need to develop the concept to the next stage or its theoretical life cycle.

## NOTES

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