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## UNDERSTANDING THE RELATIONSHIP BETWEEN ORGANIZATIONAL NETWORKING AND NETWORK CAPABILITY

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**Abstract:** Organizational networking refers to firms' behaviours as activities, routines, practices which enable an organization to make sense of and capitalize on their networks of direct and indirect business relationships. The relationships are more important today when the business environment is more competitive. The firms can develop their organizational networking strategies by developing their network capability which refers to its ability to build, handle and exploit relationships. These capabilities are included in a complex configuration with other capabilities and competencies. The aim of this paper is to explore how network capabilities are structured and we tried to understand how they could be improved in order to obtain higher performance. Achieving a good network position that allows firms to make use of business opportunities is a main strategic aim of firms.

**Keywords** Organizational Networking, Network Capability, Organizational Capabilities, Capability configurations

**J.E.L. CODES:** M31, M10

### 1. Introduction

Business relationships between suppliers and customers in B2B markets are very important because of their effects on performance and growth of the individual business, and on how these markets works. These relationships are more important in present when the business environment is more competitive, and firms have to continuously improve their processes and activities. The implications for firms being embedded in business networks are well established in the literature. Business relationships which make up these networks enable firms to identify opportunities, access rich information, and undertake effective and efficient knowledge transfer and resource mobilization (Achrol & Kotler, 1999; Moller & Rajala, 2007). Achieving a good network position that allows firms to make use of business opportunities is a main strategic aim of firms (Baum, Cowan & Jonard, 2013). Firms can efficiently manage their relationship portfolio and their network position by developing and establishing internal processes to deal with multiple direct relationships simultaneously (Thornton, Henneberg & Naude, 2014). We structured the paper in two sections. First we review the literature on organizational networking and its strategic implications. We are presenting the networking

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capabilities in organization networking. At the end we continued by formulating several conclusions, limits and further research discussions.

## **2. Organizational Networking**

Organizational networking refers to firm behaviour in terms of activities, practices and other actions which enable an organization to make sense of and capitalize on their networks of direct and indirect business relationships (Thornton, Henneberg & Naude, 2014, p.951). The concept of networking is commonly used at a personal level to reflect the ability set of social skills of a person in order to generate opportunities and benefit from them (Ferris et al., 2007). Coleman (1990) was defined social capital as the ability to realize benefits from the network structure and from the different types of relationships. Social capital is productive in the sense of making possible to achieve things that would not be possible in its absence.

Organizational networking starts from the premises that firms are embedded in its business networks which consists of various types of direct and indirect business relationships, that link the firm to the wider network context (Thornton, Henneberg & Naude, 2014). The firms position in the network is related to these relationships and provides unique opportunities and threats. The available resources that a firm can deploy are linked to the firm's position in the network. How resources are combined, how the activities are configured and coordinated within organizational networks have consequences not only on economic performance of the businesses involved but also on their development potential. (Hakansson & Snehota, 1995). Relationships are not stable and continuous adaptations are required to cope with various pressures and to solve problems as they arise. The firms behavior and decisions are influenced and shaped by the dynamics derived from its network relationships (Astley, 1984). Companies affect their network position by certain strategic activities, such as actions for generating new business relationships, changing the existing one or ending some of the exiting interactions (Mitrega et al., 2012).

Ritter (1999) has conceptualized and operationalized the network competence as the need for a firm to develop routines and practices in response to the embedding multi-firm network. This competence allows a firm to perform relationship specific actions. Based on this initial conceptualization of network competence, various studies have been developed over time, often using a dynamic capabilities perspective (Teece, Pisano & Shuen, 1997). Network capability refers to the ability to build, handle and exploit relationships (Ritter & Gemunden, 2003; Tyler, 2001). The key components of networking capabilities are initiation, development and termination of relationships. Organizational networking goes beyond managing

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direct relationships; organizational networking captures the strategic intent of a firm in relation to its embedding business network (Thornton et al., 2014). Firm's interactions are connected directly and indirectly with their counterpart firms. In this context direct relationships are not used only in order to generate resources, but also as a bridge for mobilizing resources that are embedded in indirect relationships (Mouzas & Naude, 2007)

Table 1: Conceptualization of organizational networking

<b>Definitions</b>
Networking as changing relationships patterns (Smith & Laage-Hellman, 1992) Connections that are governed by the actor's own will, attitude, ambitions and perceptions
Networking as managing relationship portfolio (Ebers, 1997) A particular form of organizing or governing exchange relationships among organizations.
Networking as coordinating multiple parties in a network (Holmen & Pedersen, 2003) The ability of a firm to initiate and react to changes in the network in such a way that the firm keeps on being valuable to the network
Networking as positioning in the network (Hagedoorn, Roijakkers & Van Kranenburg, 2006) Firm-specific partnering capabilities that enable a company to place itself in a particular position in a broader network of partnerships with multiple companies
Network as changing the nature of interactions (Ford & Mouzas, 2013)
Business networking the conscious problem-driven attempts of one or more business actors to change or develop some aspect(s) of the substance of interaction in relationships in which they and others are involved
Networking as sensing and capitalizing on the network (Thornton et al., 2013) Activities, routines, practices which enable firms to make sense of and capitalize on their networks of direct and indirect relationships.

(Source: Thornton et al., Vol 43, 2014, p.953)

Thornton et al. (2014) reviewed the conceptual and empirical studies on organizational networking and some closely related concepts such as strategic network capabilities and network strategizing.

Ford and Mouzas (2013) define networking as "the conscious problem-driven attempts of one or more business actors to change or develop some aspect(s) of the substance of interaction in relationships in which they and others are involved" (p.436). Also networking includes the process of making choices regarding their business relationships portfolio when firms are faced with complex networks and the firm is dealing with problems (Thornton et al., 2014).

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On the other hand several studies (Ebers, 1997; Holmen and Pedersen, 2003; Thornton et al., 2003) explicitly incorporate strategic intent as a driver of organizational networking, previous the key motivations of networking being resource mobilization and information gathering. According to Thornton et al., (2013) their empirical data suggest that strong and weak tie relationships results in different benefits for firms, and these differences are reflected in the distinct networking dimension, namely: information acquisition, opportunity enable, strong-tie resource mobilization and week-tie resource mobilization. These four dimensions includes different activities, routines and practices which enable a firm to make sense of and capitalize on their networks of direct and indirect relationships. All activities are based on the interactions that take place in established or less established relationships, all dimensions being conceptually distinct from one another, different purposes guiding firms to undertake different forms of networking (Thornton et al., 2013).

### **3. Networking capabilities in organizational networking**

Organizational capabilities are complex bundles of skills and knowledge, exercised through organizational processes that enable firms to coordinate activities and make use of their assets (Day, 1994). The firms' capabilities are in close relation with organizational processes because the capabilities enable the activities in business processes. (Day, 1994). A firm's network capability refers to its ability to build, handle and exploit relationships (Ritter & Gemunden, 2003; Tyler, 2001; Vesalainen & Hakala, 2014). The previous studies suggest that network capability is a source of competitive advantage, being very deeply embedded within the organizational processes, are hard to be identified. Also, identifying the role played by networking capabilities can be difficult. In a recent study, Kor and Mesko (2013) argue that "a leap forward in dynamic capabilities research hinges on an intuitive understanding of how managers, individually and as a team, perceive, process and interpret new stimuli and information and respond to them" (p.242). In the literature we can find two ways of treating the dynamic capability in the context of a firm's capability architecture. First, by leveraging capabilities, and second by building capabilities. Capabilities leveraging refers to coordinated deployments of resources without qualitative changes in the used resources, while capabilities building refers to actions taken to acquire or develop new resources or activities. The dynamic capabilities are treated as an organizational characteristics embedded in activities or processes.

Network capabilities are the ability to build, handle exploit and close relationships with external parties, and to interact with other organizations. (Vesalainen & Hakala 2014). Tyler (2001) suggests that network capability plays a mediating role

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between technological competences and a firm's competitive advantage. Scholars have also defined networking capabilities in terms of personal qualifications referring to human capital, social qualifications, relational skills or cooperative capabilities. These refer to communication capabilities, negotiation capabilities, ability to engender trusts, conflict management skills, empathy and a sense of justice (Ritter & Gemunden, 2003; Tyler, 2001; Walter et al., 2006).

Network capabilities function within the same resource-activity interaction logic as other capabilities. Ritter & Gemunden, (2003) approached network capability as having the necessary knowledge, skills, and qualification, and also using them effectively. In addition, studies on alliance capabilities suggest them to be embedded in organizational routines that a firm develop in order to deploy its' resources in alliances (Heimeriks & Duysters, 2007; Helfat & Peteraf, 2003). Network capability could also be an activity that supports the development of another capability. In principle, network capability has all the characteristics to be considered a core competence, but it may not occupy such a position without linking with other capabilities (Pandza et al., 2003).

Network capability can play different roles within the organization: an asset, a coordinating mechanism, a developing activity, intertwined with technological capability, an independent core capability, and a strategic logic.

Network capability can function like an asset in both intangible and tangible forms and also in the form of firm-specific resource and firm-addressable resources. Identifying and interpreting the existence of these types of firm-specific assets reveals them to be connected to relationship-specific investments that have proved to be advantageous for relationship-specific performance. Firms are trying to benefit from their social capital (good reputation, trust, interpersonal relationships), interpreting social capital as a strategic asset (Vesalainen & Hakala, 2014). In their role as an asset, some of the network capability factors may be easily imitable, still acting as an important co-specialized element in the system with other capabilities. It is important to point out that the intangible resources like trust, reputations are not easily inimitable and those can generate competitive advantage. Network capability can be combined with technological capability. Ritter & Gemunden (2003) and Tyler (2001) support the idea that network capability is especially useful when combined with technological capabilities.

Prior literature views network capability as an independent capability (Ritter & Gemunden, 2003; Blomqvist & Levy, 2006), being highlighted the importance of customers and customer relationships. This is connected to the resource allocations in form of key account managers, social capital, and trust. In terms of knowledge aspects, this capability set includes knowledge about customer, and industry, technology and logistics. In addition, activities like customer training, selection and holistic customer responsibilities are important in utilizing allocated resources and

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require knowledge. These action-oriented customer capabilities are found to have a positive effect on customer performance and reflect networking capability (Versalainen & Hakala, 2014).

Another role of network capability is as a developing activity. The practices can be grouped in two categories depending on the network context. The first one refers to practices for resource coordination in a vertical network. This means customer training, building and maintaining a broad customer interface, rapid reactions to customer claims and initiatives. The second group refers to practices of resource coordination in the horizontal network context: specialization and differentiation between units, working toward various synergies, common projects, and activities designed to benefit from economies of scale and scope. These activities related to Network capability are also important due to information sharing needs. The firm highlight both the need to obtain important customer-specific information and to ensure that the customer has all the information about the suppliers operations and performance (Versalainen & Hakala, 2014). The last role of network capability is as a strategic logic. According to the literature there are three different logics in which network capabilities were being used to leverage and coordinate the strategic value, creating logic of the firm. Those are: partnering, value streaming, and horizontal allying logics.

Through partnering, the network capability relates to close relationships with customers that enable firms to participate in their customer processes and influence them through joint value creation. Along this capability, there are others like customer relationship capabilities which play an important role in obtaining performance. The value streaming logic means the ability of the firm to act as a network hub and build vertical relationships with both customers and suppliers. Value streaming logic illustrates the successful alignment between customer relationship capability and suppliers. In the last logic, horizontal allying, the firms tries to build networks or business group, in which they can collaborate by learning from one another, sharing risks, pooling resources and co-creating value with customers (Varamäki & Vesalainen, 2003). Small firms have been pressured by the large corporate firms to merge and form alliances in order to reduce costs.

#### **4. Conclusions**

In this article we contributed to identifying and understanding the theoretical perspectives of organizational networking and to development understanding of drivers that may lead a firm to develop network capabilities. We have tried to position the network capability within the overall configuration of organizational networking. Firms have to make networking in order to sense the network dynamics and be able to respond to the changes that might have a positive or

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negative impact. Also, firms can actively drive themselves into a position where it will be able to capture and use different resources through interacting with relevant partners. According to the literature, the four components of networking, (information acquisition, opportunity enabling, strong-tie resource mobilization and weak-tie resource mobilization) are all significant contributors toward the overall organizational networking. This study has important implications for managers, who can analyze their own capabilities and understand which are currently employed in a firm, being able to optimize them in order to obtain competitive advantage and high performance.

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