

**FIRM'S NETWORKING COMPETENCIES: LEARNING ORIENTATION,
DEGREE OF INTERNATIONALISATION AND THE ROLE OF
STRATEGIC MOTIVATION**

by

KEBAILI BOUMEDIENE

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DEDICATION

It is a great pleasure to dedicate this thesis to my small family;

my wife Rima,

my daughter Meriem

my son Abdelrahman

for their love, patience and support.

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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LIST OF ABBREVIATIONS

KTI	:	Knowledge Transfer and Integration
LO	:	Learning Orientation
MCLOM	:	Management Commitment to Learning and Open Mindedness
MO	:	Market Orientation
CONTA	:	Relationship Controlling Activities
PLC	:	Product Life Cycle
RBV	:	Resource Based View
RCA	:	Relationship Coordination Activities
REA	:	Relationship Exchange Activities
RIA	:	Relationship Initiation Activities
ROA	:	Relationship Organising Activities
ROSA	:	Relationship Organising and Staffing Activities
RPA	:	Relationship Planning Activities
RSA	:	Relationship Staffing Activities
SCQ	:	Social Qualifications
SET	:	Social Exchange Theory
SM	:	Strategic Motivations
SPQ	:	Specialist Qualifications
SV	:	Shared Vision
TCE	:	Transaction Cost Economics
MITI	:	Ministry of International Trade and Industry
FMM	:	Federation of Malaysian Manufacturers

KECEKAPAN RANGKAIAN FIRMA: ORIENTASI PEMBELAJARAN, DARJAH PENGANTARABANGSAAN DAN PERANAN MOTIVASI STRATEGIK

ABSTRAK

Dalam konteks persekitaran masa kini, kebanyakan organisasi menghadapi tekanan hebat disebabkan oleh faktor-faktor seperti globalisasi dan pembangunan teknologi. Oleh itu, firma-firma ini perlu menggunakan model perniagaan yang berbeza untuk menangani isu-isu tersebut. Kerjasama antara firma terbukti menjadi sumber utama untuk menghasilkan kecekapan yang distingtif. Kajian ini menyarankan supaya firma-firma menguasai rangkaian kecekapan untuk mengekalkan pertumbuhan lestari di peringkat antarabangsa. Secara khususnya, kajian ini mengkaji kesan orientasi pembelajaran ke atas kecekapan rangkaian firma, serta darjah perantarabangsaan firma sebagai hasil kepada kecekapan rangkaian firma. Kajian ini seterusnya mengkaji peranan pembolehubah pencelah motivasi strategik berasaskan teori pertukaran sosial dan teori luar jangkaan. Satu model yang menggambarkan hubungkait antara pembolehubah-pembolehubah ini telah dibentuk berasaskan sorotan karya yang telah dijalankan. Kaedah tinjauan pula digunakan untuk menguji data yang dikumpul daripada 137 buah syarikat yang beroperasi dalam industri pembuatan di Malaysia. Dapatan kajian menunjukkan bahawa dua pembolehubah antisiden adalah sangat berkait rapat dengan kecekapan rangkaian firma. Dapatan kajian juga menyatakan bahawa kecekapan rangkaian firma merupakan kayu ukur yang signifikan bagi darjah pengantarabangsaan firma. Berdasarkan dapatan sumbangan teoritikal, beberapa implikasi untuk pengurus dan penggubal dasar juga dibincangkan. Kajian juga turut mengenalpasti kekangan kajian dan halatuju untuk penyelidikan seterusnya.

**FIRM'S NETWORKING COMPETENCIES: LEARNING ORIENTATION,
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ABSTRACT

In the current environmental context, organisations are facing tremendous pressure caused by several factors like globalisation and technological development. Consequently, firms are looking for different business models to deal with these issues. Inter-firm collaboration has been revealed as a prime source for developing distinctive competencies. Within this context, the research proposes networking competencies for firms to sustain their international growth. More specifically, this study examines the impact of learning orientation on firm networking competencies, and firm's degree of internationalization as an outcome the firm networking competencies. The research, also, investigate the moderating role of strategic motivations using the social exchange theory and contingency theory. A model depicting relationships between these variables was developed based on the literature review. Adopting survey method, the model was tested using data gathered from 137 firms operating in the Malaysian manufacturing industry. The results reveal that two antecedents are positively related to the firm networking competencies. The results also indicate that firm networking competencies are significant predictors of the firm degree of internationalisation. Based on the findings theoretical contributions, implications were discussed for managers and policymakers. Finally, the study concludes with a number of limitations and directions for future research.

CHAPTER 1

INTRODUCTION

1.0 Background of the study

In the current environmental context, organizations are facing tremendous pressure caused by many factors such as globalisation and technological development. At the international level, globalisation in term of deregulation and pressures from international organizations (like World Bank, International Monetary fund, World Trade Organization on developing countries to liberalise their markets) have exposed organizations to stiff competition. On the other hand, technology development and e-commerce adoption by firms operating from different parts of the world are threatening the market share of domestic companies from developing countries. In addition, customers are more conscious of both price (cost) and quality. Consequently, firms are looking for different business models to deal with these issues for in order to achieve sustainable growth.

The recent trend among organizations is to create different forms of inter-firm partnerships that could be interpreted as reactions to these pressures. Going beyond the firms' internal resources, organizations can acquire necessary resources and competencies while simultaneously reducing both their operating cost as well as the market uncertainty and the risks they may face, especially if they intend to extent their market across borders. In line with the popularity of inter-firm collaborations, studies on partnerships, alliances and joint ventures have intensified. This could be explained by the benefits that organizations can generate. These benefits have become a critical part of the firms' strategic planning (Alvarez, Marin & Fonfria,

2009). Furthermore, partnership could be a promising source for developing sustainable competitive advantage (Yee & Ogunmokun, 2000; Bernal, Burr & Johnsen, 2002; Wu & Cavusgil, 2006). However, such benefits from inter-firm cooperation are subject to proper selection of partners as well as effective management of partnerships. The importance of effectively managing inter-firm collaborations has been proven by previous studies. Studies conducted on business partnerships found that more than sixty per cent of cooperative partnerships failed because of the lack of competencies related to the management of inter-firm collaborations (Phan, Styles & Patterson, 2005; Lee & Cavusgil, 2006). These findings point to the critical role of competencies related to inter-firm relationship management.

Such competencies include activities related to the whole process of managing the firms' interaction with partners from the initiation phase to the development and maintenance of relationships. Thus, it is not only about selecting partners but also capabilities that enhance coordination and development of continuous inter-firm collaborations that result in a long term mutual benefits to both firms engaged in business cooperation. It is through relational competencies that firms overcome many problems and obstacles. One area that has not been fully investigated, if not ignored, is the impact of inter-firm management competencies on the firms' degree of internationalization. Indeed, many companies have penetrated foreign markets through their existing partners like current customers, suppliers, consultant firms as well as friends and relatives (Coviello & Munro, 1997; Bernal, Burr & Johnsen, 2002). These competencies were termed relational capabilities (Phan *et al.*, 2005). Alternatively, Gemunden and Ritter (1998) called them firm network competencies.

The findings of Phan *et al.*(2005) may also explain the inconsistencies of export share among the Malaysian manufacturing industries. The electronic and electrical industry alone makes up sixty five per cent of the total Malaysian export (Table 1.1).

Table 1.1
Malaysian Export of Manufacturing Goods

Industry	2003	2004	2005	
			RM	% share
Electronic & electrical	223,547	257,050	157,359	<u>64.9</u>
Textiles apparel & foot Wear	8,771	10,348	5,876	2.4
Wood products	10,224	12,565	7,514	3.1
Rubber products	5,195	6,184	3,919	1.6
Food, beverage & tobacco	7,813	9,401	5,628	2.3
Petroleum products	10,914	15,560	10,439	4.3
Chemicals, chemical & plastic products	23,470	30,513	18,740	7.7
Non-metallic mineral products	2,761	3,106	1,690	0.7
Iron, Steel & metal products	11,383	16,292	9,802	4.1
Transport equipment	3,208	5,324	3,226	1.3
Other manufacturing Products	23,051	28,784	18,228	7.5

Source: Malaysian Manufacturer Directory 2006

However, the other ten industries make up only thirty five per cent. The limited share of Malaysian firms in export cannot be justified by the lack of resources as Malaysia has competitive natural resources (especially rubber and timber among others). An alternative explanation is the lack in developing successful inter-firm relationships with partners from which Malaysian firms can acquire technical knowledge as well as assistance in penetrating foreign markets.

1.1 Problem Statement

The effects of different trends, including global competition, market deregulations and technology development have led many firms to re-examine the way they carry out their business. As a result of these environmental factors, firms are engaged in different cooperative partnerships (i.e. alliances, joint ventures) both locally and internationally. These new forms of collaboration came as a response to (i) firms limited resources, (ii) financial constraints, (iii) lack of knowledge and skills (iv) to meet the needs of sophisticated and demanding customers. Researchers and executives have admitted the role of inter-firms cooperation as a unique vehicle for the firms' growth and development. Furthermore, they consider inter-firm relationships, where firms create a pool of complementary resources, as a prime source of a sustainable competitive advantage (Yee & Ogunmokun, 2001; Bernal *et al.*, 2002; Johnson & Sohi, 2003; Wu & Cavusgil, 2006).

Unfortunately, despite the importance and critical role of partnerships, it has been reported that more than sixty per cent of alliances fail due to lack of effective inter-firm relationship management (Phan, et al., 2005; Lee & Cavusgil, 2006). The authors noted that relationship failure does not only result in the firm losing the investment made in initiating new relationships, additional losses can be in terms of the firms' reputation and subsequently its position in the market. They found that partnerships failure can be attributed to insufficient competencies in managing the bundle of the firms' relationships. It is obvious that a firm may initiate a relationship but that is not enough to reap the benefits of such partnerships. Indeed, initiating relationships is just the first phase of relationship development. In addition, firms must acquire and continuously develop the necessary competencies regarding the

whole process of relationship management. Thus, firms, within a business network context, are facing critical problems related to the management and preservation of valuable inter-firm relationships.

The problem of managing inter-firm partnerships may explain the situation of Malaysian manufacturing firms. According to the data provided by the Federation of the Malaysian Manufacturer (FMM, 2006), Malaysian export is heavily dominated by electronic and electrical products which make up sixty five per cent of total exports. The data implies that the contribution of all other manufacturing products to the total export is less than thirty five per cent. Given the fact that most of the manufacturers of the electronic and electrical products are foreign based firms, it can be concluded that the domestic firms export share is very limited. The limited share of Malaysian firms in export cannot be justified by the lack of resources as Malaysia has competitive natural resources (especially rubber and timber among others). An alternative explanation is the lack in developing successful inter-firm relationships with partners from which Malaysian firms can acquire technical knowledge as well as penetrate foreign markets.

Conceptually, the lack of effective management of partnerships has not been addressed properly. Researchers have dealt with this problem from two main perspectives namely: resource-based view (RBV) and transaction cost economics (TCE). These theories examined the role of inter-firm relationship, yet their explanations were deemed to be limited. Smith, Vasudevan and Tanniru (1996) put forward three limitations of the RBV, which are related to (i) tangible resources as

the centre of attention (ii) the stagnant nature of competitive advantage and (iii) the unclear conceptualisation of competitive advantage.

Similarly the TCE theory was heavily criticised at least for two reasons. The first limitation is related to its major emphasis on cost minimization. Furthermore, the TCE does not take into account other important objectives, which every firm tries hard to achieve, which are related to its market position (Zhang, Cavusgil, & Roath, 2003). A second limitation for the TCE, which remains to be addressed, is its ignorance of the role of relational-based governance mechanisms in managing partners' interactions. TCE theory proposes contractual-based governance in coordinating and dealing with problems and conflicts caused by opportunistic behaviour between partners (Kale et al., 2000; Sasi & Arenius, 2008; Zhang, Henker & Griffith, 2009). Limitations of both theories can be overcome by relational competencies that can be conceptualised based on social exchange theory (Blau, 1964).

Recently, only a few researchers have indicated the relevance of SET in the field of building and maintaining beneficial relationships among partners within both local and international partners (Phan *et al.*, 2005; and Styles, Patterson & Ahmed, 2008). This research will attempt to bridge the gap in the partnership management literature by adopting the social exchange theory in conceptualizing inter-firm relationship development and maintenance.

Phan *et al.* (2005) examined the role of the relational competencies in managing the firms' bundle of relationships. The authors proposed a conceptual framework linking

relational competencies (namely: relationship initiation and maintenance), interpersonal relationship quality (measured by trust, satisfaction, commitment and Joint problem solving) and interpersonal communication behaviour (communication quality, information sharing and participation) within an international business partnership context. The authors confirmed the role of relational competencies in stabilising inter-firm collaborations. Similarly, Styles et al. (2008) in their research on export performance determinants adopted the relational exchange perspective as the underlying theory of the proposed theoretical framework. Their model of export performance depicts relationships between commitment, partner's perception of the other's commitment, relationship-specific investment, dependence and trust. The study recognises the role of relational competencies in explanation the firms' export performance.

Though the two models provide significant contributions to the adoption of SET, the constructs selected in their theoretical frameworks do not cover the full spectrum of an effective management of firms' interaction with its partners. In contrast, the model of firms' networking competencies developed by Gemunden and Ritter (1998) and Ritter, Wilkinson and Johnston (2003) provides a holistic approach to managing the firm relationships at both single relationship and network levels. The model encompasses the management competencies at a single relationship (competencies related to relationship initiation, exchange and coordination), network level (competencies in term of planning, organizing, staffing and controlling) and the necessary qualifications (social qualifications and specialist qualifications). In the current study the firms' networking competencies will be adapted to explain the degree of internationalization of Malaysian Manufacturing firms.

In addition to the adaption of the firms' networking competencies within Malaysian manufacturing firms, this research will also attempt to identify the antecedents of the firms' networking competencies. This will contribute to the understanding of the determinants of the networking competencies. Adopting the SEC perspective as the underlying theory the study introduces the learning orientation as an antecedent of the firms' networking competencies. Most of the previous studies, if not all, have conceptualised the relational competencies as a determinant of other variables such as innovation (Gemunden & Ritter, 1998), relationships quality (Phan *et al.*, 2005) and export performance (Styles *et al.*, 2008). Thus identifying and testing the learning orientation as an antecedent will contribute to the literature on the inter-firm collaborative competencies.

Furthermore, this study proposes the firms' degree of internationalization as an outcome of the firms' networking competencies. Most of the studies reviewed by Madsen (1987), Aaby and Slater (1989), Gemunden (1991) on the determinants of the company's internationalization success have adopted the TCE and RBV to examine four categories of variable, namely company characteristics, environmental factors, export activities and management characteristics (refer to table 2.1). However, the role of SET in explaining the determinants of internationalization performance has almost been missing.

Recently, Style *et al.* (2008) highlighted the gap in studying export performance. The authors re-confirmed the literature gap when it comes to the adoption of social exchange theory in examining export performance. Indeed, Lionidou (2002) emphasizes that social exchange theory, in the field of internationalization, was

disregarded. Moreover, he argued that this has resulted in the “stagnation and decline” of research on firms internationalization performance. Therefore, by adopting the SEC this study conceptualised the firms’ degree of internationalization as an outcome of the firms’ networking competencies. Doing so will help in bridging the current gap in the literature which was highlighted by Yee *et al.* (2001) and Style *et.al.* (2008).

Finally, the research will investigate the moderating effect of strategic motivations on the relationship between the firms’ networking competencies and its degree of internationalization by adopting the contingency theory. Companies may have the competencies to establish themselves abroad but their degree of internationalization may be contingent on their strategic motivations. Those firms that set internationalization as a strategic objective may show a high degree of internationalization as compared to other companies that operate abroad as a result of specific circumstances like domestic market saturation, low demand or stiff competition (Havnes, 1998; Nummela, Puumalainen, & Saarenketo, 2005). Therefore, studying the moderating effect of strategic motivations may provide an explanation to the question of the inconsistency of the relationship between the firms’ networking competencies and its degree of internationalization.

To conclude the aim of this study is to adopt the SET as the underlying theory in investigating the relationship between learning orientation and firms’ networking competencies. In addition it will examine the impact of firms’ networking competencies on its degree of internationalization. Furthermore, based on the contingency theory, this research examines the moderating role of strategic

motivation between firms' networking competencies and the firms' degree of internationalization.

1.2 Research Questions

Based on the literature review this research examined the construct of firms' networking competencies within the Malaysian manufacturing industry. The research questions of this study are:

- 1- What is the degree of networking competencies among Malaysian manufacturers?
- 2- Is there a relationship between learning orientation (antecedent) and firm networking competencies?
- 3- Are the firm networking competencies and its degree of internationalization (outcome) related?
- 4- What is the moderating effect of strategic motivations on the relationship between the firms' networking competencies and its degree of internationalization?

1.3 Research Objectives:

The objectives of this study are to:

- 1- Determine the degree of networking competencies among Malaysian manufacturers.
- 2- Examine the relationship between learning orientation (antecedent) and firm networking competencies
- 3- Investigate the relationship between networking competencies and its degree of internationalization.

- 4- Examine the moderating effect of strategic motivation on the relationship between the firms' networking competencies and its degree of internationalization.

1.4 Scope of the Study

This research will investigate the firms' networking competencies among Malaysian manufacturers, its antecedents and outcomes. It is also the aim of this study to test the moderating effect of strategic motivation on the relationship between a firms' networking competency and its outcome (degree of internationalization).

The research population is the Malaysian manufacturers who are exporting to at least one foreign country. This Manufacturing industry is selected based on its contribution to the nation's Gross Domestic Production (which stand for 57.8). The FMM directory published in 2006 will serve as a sampling frame. The FMM is the officially recognised and acknowledged voice of the Malaysian manufacturing industry. Established in 1968, the FMM promotes and facilitates the growth of Malaysian manufacturers. It represents over 2,000 manufacturing companies of varying sizes.

1.5 Significance of the Study

First, this study, by adopting the social exchange theory, will contribute to current academic research on inter-firm cooperation. Second significance is the identification of the antecedents of the firms' networking competencies. The third contribution is related to the adoption of the firms' networking competencies as a determinant of the firms' degree of internationalization (outcome variable). Fourth is the explanation of the inconsistency of the relationship between firms' networking competencies and its

degree of internationalization. The explanation will be provided by investigating the moderating role of strategic motivations based on the contingency theory.

Finally, the research will provide some practical recommendations to the practitioners involved within the manufacturing industry. The findings will be useful to managers as they will help them to understand the importance of firms' networking competencies. The research will provide practitioners a framework to measure their own networking competencies and subsequently identify critical areas to be improved. This research will also help government policy and decision makers. It will give them practical guidelines that can be used throughout the process of improving the capabilities of local firms.

1.6 Definition of Key Constructs

The adaptation of the definitions of the variables used in this study is as follows:

Learning Orientation: The company's' activities that stimulate the generation and usage of new knowledge (Sinkula, Baker, & Noordewier, 1997). Learning orientation is a high order learning (generative learning) whereby not only learning from mistakes but to the extent of questioning and examining the existing knowledge (Baker & Sinkula, 1999). In the following chapters LO, learning organization or organizational learning, will be used interchangeably (Jerez-Gomez *et al.*, 2004; Panayides, 2007).

Networking Competencies is defined as the competencies of initiating and managing inter-firm interaction at the firm level as well as the

network level (Ritter, 1999). Throughout the study the concept of competencies and capabilities will be used interchangeably.

Relationship Initiation Activities: refers to the firms' activities in sensing and selecting new relationships. These activities include visiting (and participating in) trade shows, monitoring relevant directories and journals, and disseminating information about the firm activities that may attract new partners. (Ritter, 1999).

Relationship Exchange Activities: refers to activities of exchanging products, services, information, and knowledge. (Ritter, 1999; Awuah, 2001).

Relationship Coordination Activities: refers to the setting and use of formal rules and procedures and the utilization of relational-based mechanisms to handle partner conflicts (Ritter, 1999).

Relationship Planning Activities: refers to internal and network analysis (Ritter, 1999).

Relationship Organizing Activities: refers to the resources allocation to specific relationships (Ritter, 1999).

Relationship Controlling Activities: refers to controlling activities in both the final and the first stage of the management cycle. Controlling activities can be internally driven as well as externally oriented (Ritter, 1999).

Specialist Qualifications: includes technical skills, economical skills, legal skills, knowledge about other actors, and experiential knowledge (Ritter, 1999).

Social Qualifications: refers to interpersonal skills such as: communication ability, conflict management skills, building trust, emotional stability, and cooperativeness (Ritter, 1999).

Managerial Commitment to Learning: Availability of resources to support learning activities. It also includes management commitment towards learning in network contexts (Ritter, 1999; Jerez-Gomez *et al.* 2004; Cavusgil *et al.* 2002).

Open mindedness: A climate that encourages new ideas and point of views, learning from ones mistakes (Ritter 1999; Cavusgil *et al.*, 2002; Celuch *et al.*, 2002; Johnson *et al.* 2003; Jerez-Gomez *et al.* 2004).

Shared Vision: Bringing the organization's members together around a common identity which is learning in network context (Cavusgil *et al.*, 2002; Jerez-Gomez *et al.*, 2004).

Knowledge Transfer and Integration: Internal spreading of knowledge acquired at an individual level (Ritter, 1999; Jerez-Gomez *et al.*, 2004).

Firms' Internationalization: firms' internationalization can be defined as the process of increasing involvement in international operations (Lamb & Liesch, 2002).

Strategic Motivations: Managements deliberate decision to get involved in foreign markets. It also includes the managements proper planning for expanding their business abroad (White, Griffith & Ryans, 1998).

1.7 Organization of the Thesis

The first chapter covers an introduction to the research where the study background, problem, significance, scope, and constructs' definition will be stated. The second chapter presents the literature review regarding the firms' networking competencies, its antecedents and outcomes, and the construct of the firms' strategic motivations. It will also discuss the link between the study variables and the underlying theories.

The third chapter deliberates on the research theoretical framework, hypotheses and research methodology. Chapter four includes the data analysis and the findings. The final chapter discusses the research results, conclusion, implications limitations and suggestions for future studies.

The next chapter will present the literature review related to the study constructs. First, the concept, models, and measurement of firm networking competencies will be discussed. The following section will introduce the concept and dimensions of the antecedents. The third section covers degree of internationalization concept (outcome variable), its measurement and models. The fourth part will introduce and conceptualise the strategic motivations as a moderator of the relationship between a firms' networking competencies and its degree of internationalization. The final part deals with the underlying theories of the relationship between the research variables.

CHAPTER 2

LITERATURE REVIEW

2.0 Chapter Overview

In the first part, the concept, models, and measurement of a firms' networking competencies will be discussed. The following section introduces the concept and dimensions of LO (as antecedents of networking competencies). The third section covers the firms' degree of internationalization (as outcome variable) construct and its measurement. The fourth part, based on previous studies, establishes the link between firms' networking competencies and its degree of internationalization. Next the strategic motivations will be presented as a moderator of the relationship between firms' networking competencies and its degree of internationalization. In the final part, the theories underlying relationships between the study constructs will be discussed.

2.1 The concept of Networking Competencies

In this section a brief introduction of the business network and the concept of competencies will be presented. Next, the researcher will introduce the construct of networking competencies.

2.1.1 Business Network Approach

Business network concept has been developed during the last few decades. Actually, Mattsson (1998) asserts that research in the field of business network preceded the studies on relationship marketing by a few decades. However, it is only very recently that researchers started investigating the role of business network from different perspectives. This could have been triggered by increased competition,

domestically and internationally, as well as the technological developments which have facilitated the cooperation between firms in different forms (i.e. collaborations, partnerships and alliances). There are two major milestones in the development of the business network perspectives. First is the accumulated research on internationalization, industrial economy and channel of distribution management (Mattsson, 1998). Studies on channel of distribution dealt with relationships, interactions and networks. Second, the establishment of the Industrial Marketing and Purchasing group (Geiger & Finch, 2009) with the aim of conducting research on inter-organization interactions (Gemunden, 1998). Findings of the research conducted by the IMP differentiated between consumer marketing and industrial marketing (Mattsson, 1998). The context of industrial marketing is different compared to consumer marketing in many ways such as fewer (but larger) buyers, close supplier- customer relationships and geographically concentrated buyers (Kotler, 2004). Besides consumer marketing, business network perspective can be compared with other two important concepts in the field of marketing namely: relationship marketing and marketing mix.

Literature revealed that network and relationship marketing have some overlaps but they are still different concepts. Mattsson (1998) advocates that relationship marketing and networks overlap to a limited extent as both have one basic concept in common, i.e. relationship. On the other hand, network approach, as compare to the marketing mix approach, takes into consideration the embedded nature of relationships and the interconnectedness of the network actors (Granovetter, 1992). In addition, network approach, through the development and maintenance of relationships, implies long term orientation and benefits as compared to traditional

(transactional) marketing. Thus business network can provide a better explanation of industrial marketing than the other two approaches.

Network approach is extensively used by researchers in the field of industrial marketing as it provides a realistic and holistic framework of analysis. Gemunden, Ritter and Heydebreck (1996) rationalize the use of holistic view of network as an approach by the fact that firms have more than one relationship with external partners such as: suppliers, customers, and universities as indicated in Figure 2.1. In such context one relationship cannot be cut off from the bundle of other relationships within the network (Ford, 1997). This is due to the interconnectedness and embeddedness of the relationships where each one may influence (or be influenced by) other relationships both positively and negatively (Blankenburg & Johansson 1992; Ritter, 2000; Bernal & Johnsen, 2002).

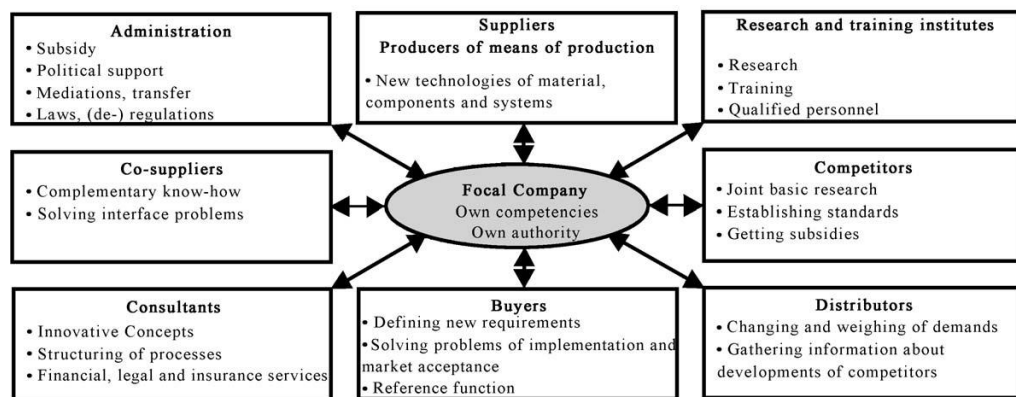


Figure: 2.1: Innovation partners and their contributions
Source: Ritter and Gemunden (2003)

It is a fact that each firm is embedded in a network of relationships. In the process of delivering services or offering products firms do not have sufficient resources to survive (Hakansson & Snehota, 1989). Even small and medium size organizations, to certain extent, are able to compete against large ones by pooling their resources

and exchanging information and expertise through their network of relationships (Bernal, Burr & Johnsen, 2002).

Business network is defined by Easton (1997) as a set of relationships where a relationship requires interaction between two organizations. Similarly, Thorelli (1986) defines it as a set of organizations interacting with each other. These definitions imply that there has to be a minimum of two actors for a network to exist and then organizations are involved in interactions and exchanges (products, services and information) in order to deal with the firms' limited resources.

According to Kim, Park and Ryoo (2009) a business network has four characteristics. The first is the exchange element, where actors cooperate by providing different kinds of support and services while expecting some rewards. Second is the interdependence nature between actors with a long term perspective. In managing these exchanges there must be some mechanism to ensure a certain degree of stability and benefits to the actors involved in the business network. These mechanisms can be either developed through interactions in a very formal way like institutionalised rules (i.e. formal contracts) or trust-based. Third is the typical nature of business network flexibility. Flexibility allows firms to integrate yet retain the independence of their decision making. Fourth is the power that is used for the benefit of the network members, which may prevent unwelcomed firms from getting into the network, or minimising opportunistic behaviour by opportunistic actors, thus protecting the network harmony.

The above discussion introduces the concept of business network in terms of its development compared to other marketing constructs, definitions and characteristics.

It is equally important to briefly present the theories underlying research on the business networks. Donaldson and O'Toole (2002) listed five theories that can be used in studying business networks. The five conceptual theories were generated from two streams of theories, economic and behavioural theories. Under the umbrella of economic theories they outlined transaction cost economics, agency and resource dependence theories. Social exchange theory and interaction theory were generated from the behavioural block of theories. These theories have been used by researchers from the business network perspective to answer different research problems.

Research in business networks in general tends to examine the role of business networks or describing the process of relationships and networks developments. Descriptive studies have investigated how relationships are developed (Ritter, 2000; Batonda & Perry, 2003) and how they are managed (Norman, 2002; Lee & Cavusgil, 2006; Liu, Luo & Liu, 2009).

As to the studies examining the role of business network as an antecedent, researchers tried to identify the dimensions of competence development within business networks (Steensma, 1996; Awuah, 2001; Ritter, 2000; Ritter & Gemunden, 2003; Phan *et. al.*, 2005; Young, Wiley & Wilkinson, 2009) as well as value creation (Holm, Eriksson & Johanson, 1999; Moller & Torronen, 2003; Grunert & Hildebrandt, 2004; Wu & Cavusgil, 2005; Luo & Hassan, 2008). Business network approach was also used to study the internationalization process and performance (Zain & Ng, 2006; Lukas, Whitwell & Hill, 2007; Agndal, Chetty & Wilson, 2008; Prashantham, 2008; Ojala, 2009; Matanda & Freeman, 2009). Finally, business network used to explain alliance performance, and firms' competitiveness (Laere &

Heene, 2003; Wittmann, Hunt & Arnett, 2008; Paulraj, Lado & Chen, 2008; Sasi & Arenius, 2008; Alvarez *et al.*, 2009).

Previous research studied the development, management and the role of business networks. However, an important area on how firms can make use of opportunities available remains unresearched. Subsequently, the following section will look at the firms' competencies to establish trust and commitment with other partners, which are critical to relationship governance. In fact, without these types of competencies, a firm will not be able to capitalise on the resources and opportunities generated by its network.

2.1.2 Company Competencies

Firms' competence is determined by the knowledge, skills, willingness to learn and experiment, and their ability to engage in active dialogue (Prahalad & Ramaswamy, 2000). According to Leonard-Barton (1992) core competencies are a set of differentiated skills and complementary assets that provide the basis of a firms' sustainable competitive advantage within a particular business.

In defining competencies researchers have distinguished between the resources and competencies a firm possesses. Hildebrandt and Grunert (2004) make it clear that firms' resource are not sustainable, whereas competencies represent a broader concept, which includes socially complex routines that allow the firm to develop competitive products and/or services by using its resources. This view was also confirmed by Gemunden and Ritter (1999). The authors assert that competence is not just having knowledge, skills, and qualifications but also using these resources.

According to the authors, competencies have two dimensions. They argue that resource availability, without proper qualifications such as skills and knowledge may not generate competence. These definitions imply different types of competencies. More remarkably, Collis (1994) and Celuch, *et al.* (2002) provide a typology of firms' competencies.

Collis (1994) identified three types of competencies. First, competencies are related to the skill to perform the firm activities i.e. operational and marketing activities. Second, competencies were defined as a dynamic process as they are repetitive in nature (Amit & Schoemaker, 1993). Firms, in order to develop a sustainable competitive advantage, need to be able to learn, adapt and regenerate themselves over time (Teece, Pisano & Shuen, 1997). The third category of competencies is identified as a meta-capability. The other typology was proposed by Celuch *et al.* (2002). The researchers identified seven types of competencies that firms need to master in order to successfully secure and deliver contracts. These competencies cover the management of the whole supply chain value process. The seven capabilities are: product/ service, marketing, information system, technical, upper management, external relationship and order fulfilment capabilities.

The above competencies can be generated within an embedded network of relationships (Hakansson & Snehota, 1989). This can be achieved between partners by pooling their resources and exchanging information and expertise (Bernal, *et al.*, 2002). Nevertheless, for a firm to be able to make use of its network, it needs to have the ability to initiate and maintain relationships with other firms throughout the supply chain. Celuch *et al.* (2002) identified such abilities as external partnering

competencies. However, the measurement they adopted of external partnering capabilities does not reflect the full magnitude of developing and managing external relationships. Alternatively, Gemunden and Ritter (1998) conceptualise the firms' capabilities in developing and managing its external relationships as the firms' networking competencies. Networking competencies has been qualified as strategic competencies (Alvarez *et al.*, 2009).

2.1.3 Firm Networking Competencies

Firms operating in a business network can be exposed to both opportunities and threats (Coviello & Munro, 1997). Opportunities that can be generated can be in terms of market expansion, innovation capabilities, or resource sharing and so forth (1997; Gemunden & Ritter, 1998; Bernal, *et al.*, 2002). On the other hand, network relationships may constrain the firms' actions. Leonidou and Katsikeas (2003) found that prior relationships have an impact on the firms' attempts to develop new contacts and relationships. The authors found that existing foreign customers to certain extent influence the firms' attempts to develop new business relationships with foreign customers. In some cases lack of networking competencies may also leads to a failure in the buyer-seller relationship (Lee & Cavusgil, 2006). Thus to seize opportunities offered by the business network and also to limit the inter-dependence on external partners firms need to develop specific competencies that facilitate the inter-firm interactions.

Phan *et al.* (2002) have provided an explanation as to the failure of inter-firm partnerships. They found that partnership failure can be caused by insufficient focus and understanding of the interpersonal roles in the partnerships management. A set of

relational competencies, outlined by the researchers, that managers should master to establish successful partnerships in a business network context include intimacy, building trust and interpersonal skills. These competencies are limited to interpersonal skills a manager has to master. However, managing a complex business network and dealing with many different relationships at the same time is difficult, and interpersonal skills will not be enough to build and maintained successful partnerships.

Similarly, other researchers have tried to determine the factors that could help establish and maintain such relationships (Piercy, Katskeas, & Cravens 1997; Thirkell & Dau, 1998; Lipparini & Fratocchi, 1999; Yee & Ogunmokun, 2001). Most of these studies have limited their focus on certain skills and capabilities and thus failed to cover the important aspects of managing relationships effectively in a business network. Gemunden and Ritter (1998) have developed and tested a comprehensive model of relational competencies that determine significantly the firms' success in managing a business network. The authors define network competence as:

“...the resources and the activities of focal company to generate, develop, and manage (in) networks in order to take advantage of a single relationships and the network as whole”. (Gemunden & Ritter, 1998, pp. 279)

This definition is perhaps most useful as it integrates some important aspects of networking competencies within a business network context. First, it spells out the major competencies required for successful management of relationships. These competencies are resources, activities, and the management of single relationships as well as the network as a whole. In addition, the definition emphasises the difference between the management of a single relationship and the management of network