

# **Organisational identity and network identification: creating and perceiving imaginary boundaries**

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## **ABSTRACT**

*The objective of this paper is to discuss the notion of identity and identification on a network level of analysis. The paper distinguishes between organisational and network levels of identity and suggests that managers face different challenges depending on how they perceive their networks. Managers in networks with an identifiable hub or center may find it feasible to create an explicit network identity. Contrary to networks where neither pre-existing firms act as network hubs, nor where new administrative entities are established, the industrial network approach portrays networks without clear boundaries and commonly without hubs. Under such circumstances, the task is to increase one's own and others network awareness by considering boundaries and thereby facilitating network identification. We describe this task as one of creating and perceiving 'imaginary network boundaries'.*

## **INTRODUCTION**

This paper attempts to elaborate on the identity concept on a network level of analysis. Focusing on identity implies inquiring into the nature of the entity in focus. Previous research has regarded identity on the individual level (Lindgren and Wåhlin 2001; Alvesson 2001), and the organisational level (Albert and Whetten 1985; Rindova and Fombrun 1998; Pratt and Foreman 2000). Less work has been conducted on the network level of analysis. Human and Provan (2000) argue that if networks are unique organisational forms, they are likely to have legitimacy building concerns that are distinct from those of individual organisations. Similarly, in this paper we ask whether identity concerns on a network level of analysis differ from the organisational level.

From different research traditions, it has recently been claimed that networks of various kinds are not only widespread in today's economy, but also that they have a significant impact on individual firm effectiveness as well as entire economies (Håkansson and Snehota 1995; Powell et al 1996; Peteraf and Shanley 1997; Dyer and Singh 1998,

Möller and Halinen 1999; Gulati et al 2000). It is argued that individual firm effectiveness is enhanced by its ability to learn and innovate in networks. For instance, firms occupying central network positions with multiple network ties have superior access to information (Gulati 1995). Similarly, the extent to which learning takes place is related to the existence of connections between participants in a network ((Håkansson et al 1999). A variety of relationships may help firms to reach more radical forms of learning (Håkansson and Johansson 2001). Indeed, some authors even suggest that the locus of innovation is the network, not the individual firm (Powell et al 1996; Dyer and Singh 1998).

Likewise, previous research on identity indicates that the concept of identity has an impact on firm behavior and its abilities to learn and develop. Consequently, linking the identity question to a network level of analysis is arguably important since; (i) identity and identification are root constructs in organisational theory (Albert et al 2000); (ii) networks are currently pervasive organisational phenomena; and (iii) in order to understand and benefit from networks, we need to understand their nature. Research on network identities would arguably provide additional insights in this area.

However, as pointed out by Nohria and Eccles (1992), and further illustrated by Grandori and Soda (1995) and Araujo and Easton (1996), the term network is widely used and can be perceived from a number of perspectives.

In this study two different kinds of network are discussed – one basic type is coined governed networks, the other non-governed networks. The former type is represented by work linked to strategic and multilateral networks, whereas the latter corresponds to the industrial network approach. We use this dichotomy and regard the following identity questions:

- What distinguishes identity on an organisational level of analysis from the network level? What are the implications of identity on a network level of analysis?

Previous research has argued that contemporary organisations manage identities (Brickson 2000; Pratt and Foreman, 2000). Implied is that multiple organisational identities can and should be managed, and managers play an important role in shaping identification processes.

Hence, we ask

- In what ways is a network identity a managerial concept?

This paper is structured in the following way. Views on organisational identity are discussed first. The following section presents organisational identity in a network context. Attention is given to the views on identity present in both governed and non-governed networks. Implications and conclusions follow.

## **ORGANISATIONAL IDENTITY**

Work on organisational identity has different origins. One stream has been developed by social scientists and management scholars to address belief systems and value orientations underlying organisational behavior (Rindova and Schulz 1998). Belief systems and value orientations are closely linked to an organisations culture. According to Fiol (1991), and Fiol, Hatch and Golden-Biddle (1998), an organisations identity is the aspect of culturally embedded sense making that is self-focused. Culture provides the system of rules that defines a social system. Identity provides the contextual understanding of those rules that govern people's understanding of themselves in relation to the larger social system. The difference is then one of perspective, not level of analysis. Identity exists at numerous levels, and at each level, it is defined in relation to existing cultures.

Another root of organisational identity is social psychology, where identity research has focused on the development and maintenance of collective identities and their relationships to individual identities (Rindova and Fombrum 1998). The idea of an organisational identity appears to share a number of traits with individual identities. It appears as if members' identities and organisational identities are closely linked (Scott and Lane 2000). The relationship between individuals and organisational identities is reciprocal. Organisational identities can influence individual behavior, and individual behavior can influence organisational identity (Pratt and Foreman 2000). People identify with organisations when they perceive an overlap between organisational attributes and their individual attributes (Dutton et al 1994).

Gioia (1998) describes how organisational identities are commonly seen as properties of a collective. The definition of organisational identity by Albert and Whetten (1985) has had a strong impact on contemporary organisational identity research.<sup>1</sup> Albert and Whetten suggest that organisational identity consists of those attributes that members

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<sup>1</sup> See 'Identity in organizations' edited by Whetten and Goffrey (1998) and a special issue in *Academy of Management Review* (2000) on organisational identity.

feel are fundamental to (*central*) and uniquely descriptive of (*distinctive*) the organisation and that persists within the organisation over time (*enduring*).

Central, distinctive and enduring attributes may help to distinguish a firm in the market. According to Kogut and Zander (1996), a firm's boundary is distinctive because coordination, communication and learning are situated not only physically in locality, but also mentally in an identity. Hence, identity at an organisational level is constituted by tensions associated with the boundary between an organisation and its environment (Rindova and Schulz 1998). Gioia (1998) expresses this as identity processes concerning the maintenance of a balance between similarity and difference.

According to Gioia (1998), it was supposedly claimed by Aristotle that many different identities existed within one individual. This may be explained by more recent arguments suggesting that an individual may have as many social identities as he or she has group memberships (Pratt and Foreman 2000). Similarly, Albert and Whetten (1985) further suggest that, over time, it is possible that an organisation will go from a single to multiple identities. This implies that several different views about what is central, distinctive and enduring about the organisation may evolve as time goes by. Pratt and Foreman (2000) suggest that multiple identities involve multiple conceptualisations of the organisation. Multiple identities need not be universally held by organisational members. Identities may be common to some subgroups of the organisation, but not to all of them. Such a view is explained by Fiol's (1991) research, stressing that organisational members working in different parts of an organisation exhibit different perceptions, make different attributions, and use different cognitive orientations. Similarly, Scott and Lane (2000) use a stakeholder approach when presenting organisational identity as being embedded within different systems of organisational membership and meaning.

It is implicit in the presentation above that the perception of organisational identity as a relatively stable and enduring feature of an organisation is being questioned (Brown and Starkey 2000). It may be changeable over the long-term (Albert and Whetten 1985) and incrementally adaptive (Dutton and Dukerich 1991). It also appears as if an organisation's identity is managerially feasible to work with. One managerial concern proposed is the use of an optimal number of identities depending on the number and identities of powerful stakeholders (Pratt and Foreman 2000). Gioia and Thomas (1996)

find it reasonable to suggest that an organisation's strategic discourse is an integral part of its identity and that strategic change implies identity change. Similarly, when managers recognise that multiple identities have a significant future strategic value, they are likely to maintain, nurture or preserve those identities (Albert and Whetten 1995). Despite the existence of multiple and changing identities in an organisation, identity antecedents such as goals, missions, practices, values and action all help in differentiating an organisation from other organisations in the eyes of managers and stakeholders (Scott and Lane 2000).

A less transforming view of identity emerges from the work of Collins and Porras (1996). They argue that the core ideology of a firm is a *consistent identity* that transcends product or market life cycles, technological breakthroughs and management fads. Their notion of a core ideology consists of two parts - core values and core purpose. Enduring success depends on core values and a core purpose that remain fixed, while business strategies and practices endlessly adapt to a changing world. Hence, core values have an intrinsic justification that goes beyond the strategy of a firm.

A core purpose is the organisation's reason for being; it goes beyond goals and business strategies. A core purpose does not change, but inspires change. Collins and Porras (1996) argue that the goal, interpreted here as a firm's identity, is to inspire and guide, not to differentiate, since several organisations can have the same core purpose. Consequently, a core ideology explains who you are and what you stand for. It may help in deciding who is inside the organisation and who is outside.

Other outcomes or roles of organisational identity, besides differentiation or guidance, concern its impact on action and performance. How one acts may depend more on who one is, who others think one is, and who one aspires to be, rather than any objective assessment of the opportunities and costs associated with a given direction (Albert 1998). Consequently, an organisation's identity affects the strategic choices it makes and the actions it takes (Rindova and Fombrun 1998). The identity question is regarded as important since it helps to; (i) describe the essence of an organisation; (ii) focus management attention on the most significant or important strategic issues; (iii) influence which environmental stimuli are and are not noticed; (iv) is a major influence on the resource allocation process; and (v) can be very motivational (Stimpert et al 1998).

Important outcomes of an organisational identity are visible also in the work of Kogut and Zander (1996), who suggests that identity creates powerful motivations for cooperation. Moreover, the knowledge of the firm has an economic value over market transactions when identity leads to social knowledge that supports coordination and communication. Identity improves coordination, communication (by creating a dialogue by which information and solutions are discovered) and learning (since learning is situated in an identity). However, a disadvantage is that an identity also imposes additional costs of ruling out alternative ways to organise and exploit new avenues of development.

### **ORGANISATIONAL IDENTITY IN NETWORKS**

This section presents different types of networks; those characterised by some kind of hub or network centre and networks without such entities. The former type of networks is called governed network, and the latter non-governed network.

#### **Governed networks**

In the strategy literature, the notion of strategic networks has recently been emphasised. This line of strategic research is a reaction to the view of atomistic actors focused on self-interest and profit maximization against one another in anonymous market relations. In various ways, strategic network actors are embedded in networks characterised by economic factors as well as social dimensions. Relationships may include suppliers, customers and competitors (Gulati et al 2000).

Gulati et al (2000) suggest that strategic networks are composed of interorganisational ties that are enduring and of strategic significance for the firms entering them. Strategic networks may provide benefits to individual firms such as access to information, resources, markets and technologies. However, they may also create lock-in effects by preventing new relationships from emerging. Networks can be stable, but are usually dynamic. Both endogenous and exogenous forces affect the network. Strategic networks include strategic alliances, joint ventures, long-term buyer supplier relationships etc. The label strategic networks, thereby encompasses several different research traditions that have interorganisational relationships in focus.

Previous research illustrates the work of powerful lead firms (Lorenzoni and Ornati 1988), expert head firms (Inzerelli 1990), and strategic hubs or centres (Lorenzoni and

Baden-Fuller 1995; Dyer and Nobeoka 2000) that, to various degrees, perform planning and coordination within 'their networks'. As suggested by Human and Provan (2000), these firms are often large pre-existing organisations, a central buyer or supplier, that acts as the focal point and has the main responsibility for managing the network. For instance, Lorenzoni and Baden-Fuller (1995) describe how firms acting as strategic centres tend to view their roles as one of leading and orchestrating systems. Their characteristics reside in their ability to perceive the full business idea and understand the role of different partners in many different locations. Strategic centres invest in the development of brand name, in systems that integrate the network, and in developing a sense of trust and reciprocity in the system. Similarly, Dyer and Nobeoka's (2000) work on Toyota's network portrays a system where the core firm (Toyota) has created a network where members strongly identify with the 'core firm'/network and where there are clear rules for participating in the network's knowledge sharing activities. It is, so to speak, 'Toyota's network'.

Strategic networks are described as being manageable with particular emphasis on the hub or centres of these networks. Managing the network involves using appropriate governance mechanisms, developing interfirm knowledge sharing routines, making appropriate relationship-specific investments, and initiating necessary changes to the partnership as it evolves while managing partners expectations (Dyer and Singh 1998). Kale-Sing and Perlmutter (2000) refer to this idea as a firm's alliance capability.

Human and Provan (2000) focus on multilateral networks when arguing that while not all network firms need to interact with one another to succeed, there must be a sense of collective "networkness" by which members see themselves as part of the network and are committed to network goals. Contrary to strategic networks, where pre-existing firms commonly take on the role as the network hub, the establishment of a new distinct administrative entity is a key structural feature of many multilateral networks. Human and Provan (2000) argue that the roles of these hubs are to build the network, coordinate and manage its activities, but the centres are commonly less powerful than the hubs of strategic networks.

### **Identity in governed networks**

Gulati et al (2000) argue that network membership includes the identities of the focal industry's actors and other nodes. They thereby keep a focus on individual firm

identities within networks. Dyer and Nobeoka (2000) change this focus in their study of knowledge sharing in Toyota's strategic network. Their focus is on how the Toyota network is designed to facilitate the sharing of tacit know-how. By building on Kogut and Zander's (1996) work on firm level identity, Dyer and Nobeoka suggest that the same logic is equally applicable to the network level of analysis. In other words, creating an identity for a collective, be that a firm or a network, means that member's feel a shared sense of purpose with the collective. The identity of a firm is defined by its organisational boundary which dictates who are (and who are not) members of the organisation. Shared goals and values facilitate this demarcation, and by patterns of interaction among individuals, gives rise to a common language and a common framework for action (MacDuffie and Helper 1997). The same logic is used by Dyer and Nobeoka on the network level.

Dyer and Nobeoka (2000) present a number of compelling arguments in favour of a network identity. Issues such as open knowledge sharing without spillover effects and free rider problems are mitigated by a properly developed network identity. Basically, if a network can create a strong identity and coordinating rules, it will be superior to the firm as an organisational form at creating and recombining knowledge, due to the diversity of knowledge that resides in a network.

To overcome knowledge sharing dilemmas, Toyota has heavily subsidised the network with knowledge and resources during early stage of formation to ensure that suppliers realise substantial benefits from participation. Suppliers become motivated because they learn quickly that participating in collective learning processes is vastly superior to trying to isolate their proprietary knowledge. Toyota has also introduced a number of network level knowledge sharing processes that have helped to create a strong identity for the network. In order to address the free rider problem, Toyota has established network rules/norms that prevent suppliers from accessing Toyotas knowledge unless they agree to openly share knowledge with other network members.

In summary, the identity in the Toyota network is created by four key processes; (1) a supplier association (a network level forum for creating a shared social community); (2) Toyota's operations management consulting division (a network level unit giving accountability for knowledge processes); (3) voluntary small group learning teams (a sub-network forum for knowledge sharing); and (4) interfirm employee transfers.

Toyota has managed to create a network where members strongly identify with the 'core firm'/network and where there are clear rules for participating in the network's knowledge sharing activities.

In the multilateral networks described by Human and Provan (2000), an important part of the hub's work refers to legitimisation of the network. Legitimacy is defined as "*a generalized perception that the actions, activities, and structure of a network are desirable and appropriate*" (p. 328). The hub needs to legitimize three aspects; the network organisation form; the network as an entity; and finally network interaction (i.e. realising that cooperation is the norm throughout a network containing a relatively large number of individual firms). Human and Provan stress the importance of developing a recognisable identity that will allow both members and outsiders to perceive the network as a legitimate entity. In establishing such a network identity, they suggest that the lead firm's role is particularly important.

### **Non-governed networks**

The industrial network tradition has its roots in industrial marketing and purchasing. The focus on networks has developed from an initial focus on interactions between economic actors. These interactions were found to be more long term and less atomistic than commonly portrayed in economic theories. A basic assumption in industrial networks is that actors are connected (Anderson et. al 1994). In this respect, social exchange theory is a fundamental source of inspiration for industrial network scholars (Cook and Emerson 1984).

The view of networks given by industrial network scholars is different from the strategic and multilateral networks in several dimensions. Basically, the industrial network approach does not describe any particular type of network as much as it provides an alternative view of 'reality' (Easton 1992). The essence of this view is, in line with Piore (1992), that networks are a natural form of organisation.

The industrial network approach describes a more fuzzy view of networks (Johanson and Mattsson 1992). The actors in a network may view the network, its extensivity and the nature of its exchange relationships in quite different ways and also differently from the description that might be provided by an outside analyst who is not an actor. Hence, a special characteristic is the network's indeterminateness. The set of actor bonds is not given, since there is no overarching purpose governing the network, but relationships

are established for various purposes. The network does not have a natural centre, no clear borders, and is dynamic over time (Håkansson and Snehota 1995). Consequently, there is usually no core firm to identify with.

On a holistic network level, the existence of links, ties and bonds helps to distinguish among three different network structures. Industrial networks can be analysed either in terms of their activity structures, resource structures or actor structures. These structures are interdependent. Conducting activities requires resources; actors control these resources and undertake the activities (Håkansson and Snehota 1995; Gadde Håkansson 2001).

### **Identity in non-governed networks**

Researchers from the industrial network tradition stress *individual firm identities within networks*. The industrial network terminology related to identity issues (Håkansson and Snehota 1989; Johanson and Mattsson 1992; Anderson et al 1994) includes a set of concepts. Usually, the distinction between a firm and its environment aims to capture the conjecture that there is a clear dividing line separating a firm from everything that is not-the-firm (Snehota 1990). Such a clear-cut distinction is not advocated in this research tradition. Instead, it is argued that a *network horizon* denotes how extended an actor's view of the network is. The network horizon of an actor changes over time as a consequence of doing business. It also implies that any network boundary is arbitrary and depends on perspective. The part of the horizon that the actor considers relevant is the actor's *network context* (Håkansson and Snehota 1989). The contexts are partially shared by the network actors, at least by those close to each other. *Shared network perceptions* are perceptions about the network held by more than two firms.

The notion of a *network identity* captures the distinct identity that a firm obtains in its relationships to other actors. Gadde and Håkansson (2001) argue that the identity of a firm is determined by its position in the structure of actors, resources and activities in the network. *Strategic network identity* captures the overall perception of a firm's attractiveness (or repulsiveness) as an exchange partner to other firms within its network. Consequently, it is within the rather ambiguous, fluid and complex configurations of firms that individual actors develop network identities (Håkansson and Johanson 1988).

Network identity is a perception, wherefore it is crucial to specify the vantage point of the perceiver. Since the identity of a firm lies in the “eyes of the beholder”, there will never be a common agreement on the identity of an actor. The perceived identity of a company therefore depends on actual conditions in the network, such as structures and changes of various kinds. The interaction behaviour of either of the parties depends also on other relationships in which they are involved, i.e. on the whole set of different roles, or identities that a company assumes in its various relationships. The relationship acquires and constructs some kind of joint, or collective identity of which the parties are an integral part and that becomes a phenomenon with a life of its own - if not wholly independent of its components, at least with a distinct identity.

The identity of a company has a profound impact on its opportunities to act in the network (Håkansson and Snehota 1995). It is of outmost importance to any company to develop a favourable identity in relation to other actors crucial to its future. Otherwise, it will be impossible to generate the resources and capabilities that are needed. Håkansson and Snehota argue that commitment, identity and trust are processes that constrain and at the same time enable the behaviour of the actors in relation to each other (actor bonds level). To be committed, to have a certain identity, to be trusted, means that an actor has to comply with some specific rules. Moreover, the process of shaping identities in relationships is close to that of learning. What and how a party learns about the interdependencies affects very much how it perceives the identity of the counterpart. Consequently, a company’s role in a network is partly a question of its strategic identity. In a network, the strategic identity of a firm contributes to its possibilities of becoming involved in various contexts. The strategic identity must therefore be cultivated in order to support the aim of the firm. This cultivation primarily takes place in the operations of the company, in its interfirm relations and the industrial activities it participates in (Håkansson & Johanson 1988).

Despite the vagueness of networks, there appears to be at least some managerial discretion at hand. Gadde and Håkansson (2001) emphasise that it is important to think and plan in network terms. This implies thinking in terms of activity patterns and resource constellations and how single activities and single resources can be developed within a larger network structure. The main issue in network thinking is that ‘others’ need to be included. Also time is central, since network thinking goes beyond structures

by including history and expectations in various relationships. The importance of including others and of time indicates that there is no natural network boundary, and that such a boundary is created. In this paper, it is suggested that this is an essential managerial task in any networks.

Strategic actions are usually characterised as efforts by actors to influence their relationships with their environment. In the industrial network approach, this general notion is translated to mean that strategic actions are efforts by actors to influence their positions in networks. Strategic actions may aim to influence actor perceived mediated connections between relationships, such as whether and to what extent actors view relationships as complementary or competing. This is a matter of influencing their network theories. A network theory contains knowledge and values by actors in a network (Johanson and Mattsson 1992). Actions may aim at influencing the network theories of a specific actor or a specific set of actors in the network. It may also aim at influencing or creating a dominant network theory in a network. This may imply an attempt to make the network theories of different actors in the network more consistent. However, it is stressed that such endeavours are restricted in certain ways and this influences the level of managerial discretion in an industrial network. A particular actor can affect what is going on. However, these actions must be adjusted with what is appropriate for other actors. If an actor is too much of a manager, the network will develop into a hierarchy. If an actor refrains from managing at all, the network will be like a market for this particular actor (Gadde and Håkansson 2001).

Table 1 concludes the previous review by using four dimensions when discussing similarities and contrasts between the different levels of analysis. The dimensions are; level of analysis, multiplicity, transformation over time, identity role and manageability.

Although different opinions do exist, it appears as if the identity construct is characterised by multiplicity, transformation, manageability and differentiation. In other words, an organisation has several identities that transforms over time. This process can be managed and the identity of an organisation helps it to differentiate itself from other organisations.

# Table 1 Organisational and network dimensions of identity

Unit	Organisation	Governed network hub-powered	Governed network participant-powered	Non-governed network
<b>Identity issue</b>				
<i>Level of analysis</i>	Organisation	Organisation in the network & the network		Organisation in networks & relationship
<i>Multiplicity</i>	A number of identities may coexist	Individual firms have their own identities, and identify with the core hub.	Individual firms join in a shared sense of “networkness”.	Multiple since the identity of a firm lies in the eyes of the beholder. A firm may assume different identities in different relationships
<i>Transformation over time</i>	Identity transforms over time	Organisational identities of members may transform when the hub intends to transform the network.	Transformation administrated by hub but originates from network members intentions.	Transformational as the firm engages in various relationships in the network
<i>Role</i>	Facilitates coordination and communication. Differentiates the firm, influences its actions and decisions.	Facilitates coordination and communication. Differentiates the network from other networks	Same as hub- powered & legitimacy building concerns	Affect firms’ opportunity to act (enable and restrain).
<i>Manageability</i>	Managers may integrate, delete, aggregate and compartmentalise identities.	Managed by the hub that <i>sends</i> signals to network members as to what actions, activities and structures are appropriate.	Managed by the hub that <i>receives</i> signals from network members as to what actions, activities and structures are appropriate.	Restricted possibilities, but the strategic identity must be cultivated in order to support the aim of the firm. This is done in the operations of the company, in its interfirm relations and the industrial activities it takes part in.

It is notable that few authors explicitly work with the identity concept on a network level of analysis. Exceptions are Dyer and Nobeoka (2000) and Human and Provan (2000).<sup>2</sup> However, these authors appear to make little difference between organisational identity and network identity.

Non-governed networks face particular challenges regarding identity on a network level of analysis. Individual organisations and governed networks share common characteristics: they have clear(er) boundaries and more defined goals than a non-governed network. The indeterminateness of these networks may prevent them from

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<sup>2</sup> Note that the idea of a *network* identity is not mentioned explicitly by the authors Human and Provan refer to (e.g. Gioia 1998).

including a network level of identity. Indeed, the idea contrasts with several key assumptions within the industrial network tradition.

We will address these issues by first considering why it would be justified to seek a network level of identity for more firms than those participating in various types of governed or formalised networks. Our argument includes three issues, but is not intended to be exhaustive. The issues are efficiency, legitimacy and perceptions of competition and cooperation.

### **BOUNDARY CONCERNS**

In order to understand and possibly measure a construct, there appears to be a need for a boundary (Torvatn 1996). The view of a networked world given by industrial network scholars, creates a challenge as to delineate whatever is to be studied. The problem is real, since network boundaries are always arbitrary, based on perceptions and continuously changing. If one accepts Gioia's (1998) standpoint that identity process are all about maintaining a balance between similarity and difference – the question remains similarity and difference between *what?* Is it possible to identify with something, if that something does not have an 'identity of its own'?

Gadde and Håkansson's (2001) focus on efficiency is illustrative in this respect. First of all, the authors acknowledge that one particular feature of industrial networks is that it is impossible to identify different entities that need to be considered in terms of efficiency. Entities that can be regarded are the single transaction, a series of transactions with a specific organisation (i.e. a relationship) and all transactions that, say, a buying firm conducts with its total supply base (i.e. that particular firm's network). The view of efficient behavior depends on which of these boundaries are used, where it is possible to focus on efficiency in single transactions, in a series of transactions with a specific partner, or on network level of analysis. Trade-offs will exist between what would be best for a discrete transaction, for a particular relationship, and the entire network.

According to Gadde and Håkansson (2001), the network's efficiency will not be optimized even if each single transaction is carried out in an optimal way, and too strong a relationship may lead to sub-optimization on a network level of analysis. The complexity is apparent, since every actor will have to consider all these efficiency levels when behaving as network actors. The point here is that if any transaction can be

changed and adapted in order to increase the network's efficiency (something Gadde and Håkansson suggest can be done), we must know something about which boundaries to use.

Another boundary issue associated with identity concerns legitimacy. It was previously suggested that hubs managing multilateral networks need to consider and develop an identity for the benefit of both internal and external legitimacy of the network (Human and Provan 2000). Creating and perceiving boundaries and hence focusing on identity is, we argue, important for legitimacy concerns not only on a network level of analysis, but also for managers thinking in network dimensions.

Ghoshal et al (1999) describe a paradox in that people simultaneously look at firms for community, identity and economic well being, while the managers of the same firms come lowest of the low when ranking professionals by ethical standards (below politicians and journalists, which is another troublesome matter). The problem is, according to the authors, not that large corporations or management are inherently harmful and evil. The explanation is, they suggest, that managers are trapped in 'old' and pessimistic theories about human nature, i.e. our theoretical assumptions undermine managerial work. What is needed is a new "moral" contract between the firm and its various stakeholders. This contract is based on employability and value creation in a relationship of shared destiny, where managers take on the role of establishing a sense of purpose within the company.

The ability to draw and act upon different boundaries has implications also for how we view cooperation and competition in a networked economy. The task has traditionally been perceived as to keep value for yourself, and strategy is about winning (Grant, p. 3, 1998) and about positioning to grab as much as you can. Ghoshal et al (1999) goes as far as suggesting that the destruction of social welfare is not just a coincidental by-product of strategy; it is a fundamental objective, since it is a managerial task to prevent free competition. The well known five forces of competition model by Porter (1980) directs firms to strive for independence and power over buyers and suppliers, parties that actually represent threats to the success of any focal firm.

Winning in the traditional zero sum business relationship implies that someone else will lose. Competition thereby becomes the strategic focus in and between conflicting and rivaling relationships. However, when interdependence and co-evolution prevail, the

competitive aspect of strategy becomes less important. According to Ford et al (p. 107, 1998), “*The scope of strategy shifts from that of pursuing a victory over others to somehow making it together with customers and suppliers, distributors and development partners*”. A consequence of more recent developments within the strategy field is that at the core of strategy is the ability to build and maintain relationships. How a firm handles its relationships with others is in itself a core task (Løvendahl and Revang 1998).

Boundaries appear to be important in several ways. Here we have briefly described the impact of boundaries on different levels of efficiency, how networks as well as the managers acting in such structures may build legitimacy, and how boundaries may give different views of competition and cooperation. We believe these issues further justify work on network identification. How such work may be approached is discussed next.

### **CREATING AND PERCEIVING BOUNDARIES MANAGING IN IMAGINERY NETWORKS**

There is no general agreement as to what identity on an organisational level is. However, it appears to be generally accepted that organisational identity is the theory that members of an organisation have about who they are (Stimpert et al 1998). This may be captured by what members feel are fundamental to (*central*) and uniquely descriptive of (*distinctive*) the organisation and what persists within the organisation over time (*enduring*). In an organisation, management normally takes on the responsibility of establishing a sense of purpose. In governed networks, this task is performed by a pre-existing powerful organisation or an administrative hub created by the members. However, in non-governed networks, there are no centres; the networks are not enduring and there are nothing central about them.

Even if an actor decided that it would try to create a boundary, it is quite likely that other actors would be unable of seeing the same boundary. Despite the challenges involved, we believe, in accordance with Fiol (1991), that to understand and manage evolution requires a focus on the identities that link people’s understanding of their behaviors to a broader system of meaning. To deal with this, it is important to acknowledge, as already done in industrial network reasoning, the necessity of thinking in network terms. Industrial network scholars acknowledge that a frequent situation is an underestimation of interconnectedness as managers often try to manage relationships

in isolation (Ritter 2000). Much managerial analysis and decision-making is and should be concerned with trying to understand how a company dynamically relates to its dynamic network context – its changing interfaces with both immediate and more distant counterparts (Håkansson and Ford 2002, p.134). Managing business strategy can be perceived as a matter of managing a firm's network horizon, that is, by managing the awareness of the network in which a firm is embedded and the important changes considered and carried out therein (Holmen and Pedersen 2001). The notions of shared network perceptions and the task of influencing other actors' network theories illustrates efforts aimed at dealing with boundary issues and are therefore steps towards network identification.

A key strategic issue for many firms, irrespective of their membership in governed networks or not, is to question and develop boundaries on different levels. Relationships are concrete and 'real', but the boundaries of a non-governed network need to be created.

Gadde and Håkansson (2001) suggest that moving boundaries is about including resources and activities that have previously been perceived as being 'outside' the network, or through exploring new ways of combining separate sections of the network. This suggests that, although no natural boundary exists, such demarcations may be created for different purposes, and once that has been done, it becomes more feasible to consider the question of identity. Identification processes become feasible within the boundary that has been defined. Such an endeavour would have implications for individual firm and network efficiency.

Inadequate attention to boundaries and hence restricted understanding of how different identity levels coexist and depend on each other also affect legitimacy concerns. Whereas Ghoshal et al (1999) frame their reasoning around the idea of an organisational economy, we believe the basic ideas are equally applicable and take on even more significance in a networked economy. Future managers may find it utterly important to reclaim managerial legitimacy, and a starting point may be increased attention given to boundary issues and hence identity questions. It may be important to go from an organisational identity to network identification in order to understand the idea of a shared destiny.

In so doing we are not suggesting a naïve view of business relationships as being inherently cooperative or that competition is inherently bad. The implicit idea that being 'nice' can be a solution to the strategy development problems of a firm is present when the 'goodness' of relationships become too emphasised (Ford et al 1998). However, an ability to occasionally see 'a bigger picture' would have the potential of increasing managerial legitimacy, and sorting out where, when and how strategy is about winning.

Pratt and Foreman (2000b) suggest a distinction between identity claimants and identity targets (i.e. what the identity is describing). In an organisation, they suggest that top management commonly claims the identity of the organisation and that different targets may be employees, suppliers or customers. If we consider governed networks, the identity is claimed by the core firm (e.g. Toyota) and targeted towards the network's members. Another scenario in a governed network is that the hub claims the identity, but only indirectly so, since this has been done more in cooperation with the members. They are both claimants and targets, or creators and perceivers as we prefer to label it, of identity. In the more formalised strategic and multilateral networks, it is more apparent who are and who are not members. However, in a non-governed network, there is no one that is naturally responsible for creating the identity and no obvious perceiver.

However, boundaries may be delineated according to any of the three dimensions of industrial networks, i.e. actors, resources and activities, in order to establish a sense of imaginary network boundary. The indeterminateness of these networks suggest that the aim should not be shared understandings of these boundaries, but mutual (Peteraf and Shanley 1997). Hence, we emphasise mutual understandings among members rather than shared understandings that underlie organisational identity, as well as the more formalised strategic and multilateral networks. Our argument is that network actors need not perceive their networks (its boundaries) in exactly the same way, nor do these actors need to mirror each other's characteristics. The term mutual implies that the actors, through history, discourse and interactions, have come to understand the boundaries of their most important counterparts. Since many firms are unaware of their own network boundaries, this suggestion is by no means effortless. We believe it is worthwhile considering the possible benefits of improved network awareness. In this respect, it sounds more plausible to talk about network identification rather than network identity. Network identification gives the impression of a continuous process where actors

simultaneously create and perceive identities depending on the boundaries that are drawn and the meanings that are understood.

Previous research identifies a close relationship between individual and organisational identity. We believe there is an important link also between organisational identity and the network level. In this respect, we agree that an identity can change over the long-term (Albert and Whetten 1985) and that it is incrementally adaptive (Dutton and Dukerich 1991). However, we question the recent emphasis on multiple identities that change over time and the close link between strategic change and the transformation of identity that drastically reduces the demands of at least the distinctive and enduring dimensions of organisational identity.

Our scepticism has its roots in the integrity of the individual and the organisation, as well as the necessity for creating and maintaining legitimacy. These issues appear to contrast with recent arguments suggesting that managers seek to restructure identities, delete them if not suitable, aggregate them if necessary, and integrate them if appropriate (Pratt and Foreman 2000). If the identity does not fit the strategy today, then change the identity. In addition, each relationship may require a unique identity.

For reasons that concern both integrity and legitimacy, it is a managerial task to maintain a 'core' that is less fluid than currently perceived. In line with Collins and Porras (1996), we propose a view of organisational identity that transcends product or market life cycles, technological breakthroughs and management fads. The identity of an organisation goes beyond goals and business strategies. If the notion of an identity is to explain who you are and what you stand for, it cannot change whenever there appears to be a short-term reason to do so. This is not to say that an identity is immune from external impact and that it *cannot* change. Both identities and strategies may emerge and develop from the activities individuals and organisations engage in.

Our suggestion is that it is essential to have an organisational identity that enables a firm to work in different relationships and play different roles. But that is not the same as saying that the firm should have as many identities as relationships or roles. What is needed is an organisational identity that can assist in network identification.

## CONCLUSION

Few studies have explicitly focused on identity and identification on a network level of analysis. This is partly explained by the fact that popular theories such as transaction cost economics has contributed to give an identity to the discrete transaction involving self centred and opportunistic actors. The emerging relational view in strategy provides a boundary to the relationship and may therefore increase understanding of how identity may go from an organisational level to that of the relationship between firms. A network approach would provide additional insights to the network level of analysis. This paper identifies a number of implications following on network identification. These include the measurement of efficiency, how legitimacy may be built both internally in governed networks and between stakeholders 'inside' as well as 'outside' networks, and finally on perceptions of both competition and cooperation.

Managing identity in governed networks is different due to the clearer boundaries that exist, compared with non-governed networks. When there is no natural center with more or less power that controls and coordinates the network, we have described the managerial challenge as one of creating and perceiving boundaries in imaginary networks. It is a question of having an organisational identity that can assist in network identification.

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