

# **Network Approach to Strategic Management – Exploration to the Emerging Perspective<sup>1</sup>**

By

**Joni Tikkanen<sup>2</sup> and Aino Halinen**

Turku School of Economics and Business Administration, Finland

A Competitive paper submitted to the 19<sup>th</sup> Annual IMP Conference  
4<sup>th</sup> - 6<sup>th</sup> September 2003 – Lugano, Switzerland

## ***ABSTRACT***

The traditional strategic management theories have strong emphasis on accumulating and controlling resources within a single firm. However, the shift towards increasingly networked business environments raises a question whether these theories can still be considered as valid. Most organizations have limitations in terms of resources they can possess internally and hence need to develop a range of external linkages to gain access to needed resources. In this paper, existing strategic management perspectives are analysed from the point of view of how they have integrated the idea of interorganizational networks into strategy theorizing. The analysis reveals that only few researchers, mainly from two research areas – the industrial network theory (IMP) and strategic network research – have touched the issue. Moreover, combining the idea of networks and strategic management is still an emerging and rather amorphous perspective. The authors argue that the strategic management field would definitely benefit from cross-fertilisation of ideas and thus propose a synthesis towards a network approach to strategic management, together with implications for further research.

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<sup>1</sup> This study is part of the LIIKE Research Program “Finnish Companies and the Challenges of Globalization” funded by the Academy of Finland and the National Technology Agency TEKES. Research funding from Jenny and Antti Wihuri Foundation is also gratefully acknowledged.

<sup>2</sup> Please address the correspondence by mail to Joni Tikkanen, Sonera Corporation, P.O. Box 543, FIN-00051 SONERA, Finland, or by email to [joni.tikkanen@sonera.com](mailto:joni.tikkanen@sonera.com) and [aino.halinen-kaila@tukkk.fi](mailto:aino.halinen-kaila@tukkk.fi).

## **INTRODUCTION**

The competitive environment of industrial companies is changing. It has been argued that in many industries traditional markets and hierarchical organizations are partly being replaced by networks of interorganizational relationships (Achrol and Kotler, 1999; Gulati et al., 2000; Möller and Halinen, 1999; Ring and Van de Ven, 1992). Various dyadic arrangements like strategic alliances and joint ventures, but also networks of multiple actors, like supplier networks or research consortia, are formed by companies to compete effectively in knowledge-rich and rapidly changing environments. It is argued that interorganizational networks offer a flexible and rapid way to cope with uncertainty and the dynamic environmental pressures created by globalisation, technological and regulatory uncertainties, ambiguous market signals, sharply increasing development costs, and unbalanced competitive structures (Cravens et al., 1996; Day and Schoemaker, 2000).

The shift towards increasingly networked business environments raises a question whether the current strategic management theories still offer a valid view of business strategy. The reasoning behind the traditional strategy approaches is often rooted in the microeconomic model of industry (see e.g. Porter, 1980). However, such logic no longer prevails, as organizations are increasingly connected and embedded in networks of relationships. The image of atomistic actors competing against each other in an impersonal marketplace is increasingly becoming inadequate (Gulati et al., 2000). The emphasis of traditional strategic theory on accumulating and controlling resources within a single firm offers little insight into contemporary business markets in which extended networks of firms simultaneously cooperate and compete (Sanchez and Heene 1997, p. 304). Most organizations have limitations in terms of resources they can possess internally and hence need to develop a range of external linkages to gain access to needed resources. The changes in environmental factors also force companies to constantly reconfigure the complementary capabilities that they need. (Venkatraman and Subramaniam, 2002) Thus, as organizational boundaries become blurred in this way, we see a need to reconsider our approach to strategy and strategic management.

Interorganizational relationships and networks are inevitably a strategic issue for any company and should thus have a crucial role in the business strategy. The firm's networks, and the resources they allow the firm to tap into, can serve as a source of sustainable

competitive advantage (Gulati et al. 2000, p. 207). Håkansson and Snehota (1995) even argue that the future role, development and performance of a company can be largely explained by its ability to manage relationships with other organizations. Still there seems to be only a handful of researchers who have touched strategic management from an interorganizational relationship and network perspective.

Contributions on this issue emanate mainly from two schools of thought: the industrial network theory (IMP Group) represented by Håkansson and Snehota (1989), Johanson and Mattsson (1992) and Axelsson (1992) and from among the American based strategic network researchers, for instance, Jarillo (1988) and Gulati, Nohria and Zaheer (2000). The challenge of networks has also been acknowledged among strategy researchers themselves (e.g. Coyne and Subramaniam 1996; Sanchez and Heene 1997; Venkatraman and Subramaniam, 2002).

In their seminal work, Håkansson and Snehota (1989) presented a network approach to business strategy by contrasting the basic assumptions of the traditional business strategy literature with those of the network theory. They explicate how an organization (a business actor) and its interface with environment should be viewed in a network context. This is a major issue when looking at strategy from a network perspective. Axelsson (1992) further elaborates their ideas and adds the concept of power to network strategy context. According to Axelsson (1992, p. 191), the key issue in network strategy will be to form dyads or action sets in order to strengthen the firm's interorganizational power, or position, in one or more organization sets. Juttner and Schlange (1996) go on by developing a strategy analysis framework for decision makers in markets-as-networks context.

Johanson and Mattsson (1992) have suggested and elaborated the concept of position as a means of understanding strategic action within a business network (for an empirical application see Wynstra, 1994). The position of an actor is defined by its exchange relationships with other actors in the network, and is thereby a consequence of the cumulative nature of the use of resources to establish, maintain and develop exchange relationships. The position characterises the actor's links to the environment and is therefore of strategic significance. It forms the base for an actor's strategic actions, for the development of exchange relationships in the future. The positions of other actors in the network also characterises the environment in which the focal actor is embedded (Johanson and Mattsson, 1992, p. 211).

Another area where networks have been viewed as a major strategic issue is the American-based strategic network approach (Jarillo 1988, Gulati et al. 2000 ). In this tradition networks are viewed as purposeful organizational arrangements by entrepreneurs to obtain competitive advantage for their firms (Jarillo 1988, p. 32). In contrast to the IMP tradition where networks are viewed as emergent structures, in other words, results of continuous interaction between companies, in the strategic networks literature networks are typically seen as arrangements managed by a hub firm, lead organization or network captain (see e.g. Jarillo 1988; Gulati et al. 2000; Campbell and Wilson 1996).

From the perspective of strategic management research, it is somehow striking that despite their long co-existence, cross-fertilisation between strategy research and the different schools of network research is still very limited. However, as we see it, the exchange of ideas would importantly contribute to the strategic management field. In this paper we aim to take one step towards a more integrated view by examining strategic management from a network perspective. Existing strategic management perspectives will be identified and analysed from the point of view of how they have integrated the idea of interorganizational networks into strategy theorizing. Analytical critique towards existing strategic management approaches is presented and a synthesis towards the network approach to strategic management is proposed. In this synthesis the dynamic and emergent nature of strategy is discussed and the necessary strategic management activities in networked business environment are identified. Finally, implications for future research are suggested.

### ***REVIEW OF STRATEGIC MANAGEMENT TRADITIONS***

Much effort has been put to map the theoretical terrain of strategic management and its historical roots (see e.g. Rumelt et al., 1994; Seth and Thomas, 1994; Sanchez and Heene, 1997; Hoskisson et al., 1999; Mintzberg and Lampel, 1999; Whipp, 1999; Whittington, 2001; Pettigrew et al., 2002). Most authors agree that the strategic management tradition started to take form in 1960's when the seminal works by Chandler (1962), Ansoff (1965) and Andrews (1965) were published (Rumelt et al., 1994; Pettigrew et al., 2002). The strong diversification in the field that we can witness today dates back to 1980's when economics, organizational sociology and political science -oriented sub-fields (such as industrial organization, transaction cost economics, agency theory, modern game theory, evolutionary

economics, resource dependency, organization ecology, new institutionalism) begun to develop (Rumelt et al., 1994). At the same time, also behavioural and organizationally oriented research (such as cognitive models, learning organization, core competence and dynamic capabilities) begun to develop but one had to wait until 1990's before they really started to flourish (Sanchez and Heene, 1997; Pettigrew et al., 2002).

Besides the strong fragmentation of the field of research, the reviews also indicate that strategic management can be approached from various perspectives. In this section, we will shortly review existing strategic management approaches and analyse them from the point of view of networks. We will focus on how these approaches see the organization-environment interface or more precisely the role and function of interorganizational relationships in business strategy. We do not aim at providing any comprehensive analysis of all strategic management traditions, as it would obviously be impossible. We rather aim at selecting a focus that adds to earlier reviews, and points out the challenge of the network era for strategic management research.

The strategic management, in general, aims at understanding how companies may improve their performance. As competitive environments evolve, and the ways in which companies respond to and trigger environmental changes is altered, the strategic management theories must also evolve. Taking the evolutionary perspective as a starting point we base our review of strategic management perspectives on the three eras distinguished by Venkatraman and Subramaniam (2002): first, the era wherein the strategy is viewed as a portfolio of businesses (referred here as traditional strategic management), second, as a portfolio of capabilities (referred here as competence-based view), and third, as a portfolio of relationships (referred here as network approach to strategic management). Each era represents how researchers have rallied around a particular concept of strategy and how they have viewed the creation of competitive advantage.

A closer analysis reveals that the third era, strategy as a portfolio of relationships, is still an emerging and therefore also fairly amorphous perspective. It is a collection of fragmented ideas rather than an established perspective within the strategic management field. We therefore use the three eras only as a loose framework. By combining the ideas from the industrial network theory and strategic network literature to those of more traditional strategy research we aim to compose a more elaborated description of the third era and bring in this

way our contribution to the present strategy discussion. We pay particular attention to how an organization and its relation to environment are viewed and what is the role of relationships and networks in defining the research focus, the view of competition and sources of competitive advantage in each era. In the following, these three major perspectives will be discussed in more detail (see Table 1).

Table 1: Major strategic management perspectives

	<b><i>Traditional strategic management (strategy as a portfolio of businesses)</i></b>	<b><i>Competence-based strategic management (strategy as a portfolio of capabilities)</i></b>	<b><i>Network approach to strategic management (strategy as a portfolio of relationships)</i></b>
<b><i>Central research problems</i></b>	Why firms exist? What environmental factors determine the scope and size of the firm?	Why firms differ? How heterogeneity affects their competitiveness?	Why and how firms become connected and interdependent? How relationships affect their ability to compete?
<b><i>Disciplinary roots</i></b>	Influenced largely by industrial organization economics	Influenced by Penrosian the growth of the firm theory and resource-based theory	Influenced by industrial network approach and strategic network approach
<b><i>Exemplary studies</i></b>	Ansoff 1965; Andrews 1971; Porter 1980, 1985; Rumelt et al. 1994	Wernerfelt 1984; Prahalad and Hamel 1990; Barney 1991; Grant 1991; Hamel and Prahalad 1994	Håkansson and Snehota 1989; Juttner and Schlange 1996; Gulati et al. 2000
<b><i>Unit of analysis</i></b>	Business units within the corporation	The corporation	Organization with blurred boundaries
<b><i>Nature of environment</i></b>	Stable, certain, deterministic	Some degree of uncertain	Both certain and uncertain, complex
<b><i>Strategy-environment – relation</i></b>	Closed, Beating the competition with scale of operations; The environment rewards optimal strategies with survival (economic Darwinism); Firm adapts to environment	Some degree open, Creating unique competencies; Firm shapes the environment or adapts to it	Open, Creating unique resource constellations; Firm shapes the environment or adapts to it
<b><i>Sources of competitive</i></b>	Physical assets, operational	Internal capabilities, organizations as	Networks of relationships; Firms

<b><i>advantage</i></b>	excellence; Best fitting firms survive	unique resource collections; Firms with most unique capabilities survive	with best/optimal relationship portfolios survive?
<b><i>Competitive orientation</i></b>	How organizations can out beat other organizations?	How organizations can create inimitable capabilities to create sustainable competitive advantage?	How organizations can create value with other organizations to compete with other networks?
<b><i>Nature of strategy process</i></b>	Planned, rational	Emergent	Emergent and dynamic

In their widely referenced book Rumelt et al. (1994) study the historical and disciplinary roots of strategic management theory, and propose that strategic management should address to questions like “How do organizations behave (i.e. how organizations make assumptions and decisions about context)? Why are organizations different (i.e. what sustains the heterogeneity in resources and performance despite competition and imitative attempts)?”. These questions are relevant and in focus in all three research approaches. However, frames of reference adopted by economists, which we associate closely with traditional strategic management approach, seem to typically focus on questions such as “Why do firms exist? What factors determine the scope and size of the firm? What is the function of the firm and its managers?” (Seth and Thomas, 1994). It seems also that one basic difference in these three perspectives is that the traditional strategic management approach originating from economics has primarily concentrated on strategy formulation while the strategy implementation has mainly been covered by organizational and sociologically oriented research, which are more close to the competence-based approach (Prahalad and Hamel, 1994; Seth and Thomas, 1994).

Håkansson and Snehota (1989) take a rather extremist position by contrasting the network approach and traditional strategy research with each other. They criticize the traditional strategy research for being rigidly interested on directing and managing the behaviour of individual organizations, and ignoring the consequences of interorganizational relationships. In a sense, the traditional strategy research seems to either explicitly or implicitly assume that organizations operate in faceless and atomistic environment, which is beyond the influence or control of the organization, and that strategy is about positioning a business in a given

industry structure (Håkansson and Snehota, 1989). Such traditional strategy thinking might be suitable on existing, stable industries, but definitely not in emerging or strongly changing industries. Prahalad and Hamel (1994) also criticise traditional strategy research by arguing that organizations, which focus their strategic analysis within single industry and limit their attention to how they are positioned in their focal industry alone, often fail to anticipate the potential for new competitors to transform the structure of their industry and seriously undermine prevailing product-market positions.

In their critique Håkansson and Snehota (1989) state that the dominant idea in the traditional strategy research has been survival of the fittest (the fit between organizational capabilities and the requirements arising from the environment, often referred as the market). Moreover, the strategic management is seen as a pattern of activities performed by the organization aimed at adapting to the external environmental conditions in which the organization operates. Porter's (1980) 'five forces' model provides a classic example of fit between organization and environment. Using the business unit as the unit of analysis, the model analyses how an organization's strategy can match or is constrained by the industry environment. However, the model seems to adopt one fatal and largely simplifying assumption. The organizations are not allowed heterogeneity within industry, except as regards to scale. They are also viewed as identical in terms of the strategies they pursue (Barney, 1991; Seth and Thomas, 1994). The basic argument for this assumption seems to be that the environment rewards with survival of those organizations, which select strategies optimal to the industry (the idea of economic Darwinism) and organizations that deviate from optimal behaviour will be driving towards extinction.

It is typical of the traditional strategic management research that it emphasizes the accumulation and control of company internal resources. The effectiveness of an organization is dependable on its relative efficiency in combining and allocating the hierarchically controlled resources to adapt the environmental conditions (Håkansson and Snehota, 1989). Thus, the approach offers little insights into contemporary interorganizational relationships and networks (see also Sanchez and Heene, 1997).

The resource-based view of the firm and its strategic management, which can be traced to the seminal works by Penrose (1959) and Wernerfelt (1984), switched the focus from industry structure, strategy groups and external competitive dynamics to the particular collection of

tangible and intangible resources of the company (Pettigrew et al., 2002). The resource-based view of the firm introduced a conception of firms as heterogeneous accumulations of resources and sought to explain differences in performance by individual firms in terms of their distinctive resource endowments (Sanchez and Heene, 1997). The resource-based view was soon complemented by competence-based and knowledge-based theories (Prahalad and Hamel, 1994; Pettigrew et al., 2002).

The logic in competence-based theory is that if organizational processes and routines are valuable and difficult for rivals to imitate, organizations could create and sustain competitive advantage<sup>3</sup> (Barney, 1991). The strength of the framework is that it allows the analysis of these internal processes in a more systematic way. The knowledge-based theory, on the other hand, perpetuated also the internal resource focus but in elaborating a more process-oriented view of the acquisition, maintenance and utilization of knowledge based resources (Pettigrew et al., 2002). However, the competence-based approach tends also to focus on company internal resources and competencies, and offers thus little insights to interorganizational relationships.

Time to time there has been studies in each perspective that have considered issues that are external to the organization. For example Sanchez and Heene (1997) argue that “firms may also form competence alliances that link one firm’s competences or resources to those of other firms in order to draw on a broader range of competences, to acquire desired competences more quickly, or to extend the reach of current competences into new competitive domains”. Also, Nalebuff and Brandeburger (1997) within the economics oriented game theory have noticed the importance of co-operative and competitive relationships. However, while these approaches provide completely valid points, they often fail to provide insights into explaining how and why organizations engage in resource and competence-based exchange relationships with each other, and how these relationships are governed and co-ordinated (e.g. value-adding activities within and between firms). In this area the industrial network theory seems to have a special strength. In our view, this is exactly what the network approach to strategic management should also provide. It should create understanding of how and why companies engage linkages with each other, how these

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<sup>3</sup> An interesting paradox here is that by focusing on organization’s internal resources and capabilities, we can – besides the competitive advantage of the company – also define organizational disabilities (see also Christensen, 1997).

relationships influence the business strategy and what strategic activities the networked business environment involves.

The basic proposition in the network approach to strategic management is that by linking firm-addressable resources, capabilities and competencies in a network of co-operating companies, all companies in the network may increase their strategic flexibility to quickly configure new resource constellations to serve rapidly changing market opportunities (Cravens et al., 1996; Sanchez and Heene, 1997). The firms may also be able to jointly realize greater economies of scale and scope and overcome time compression diseconomies. The approach should be about conceptualising how a company develops strategy and how the strategy becomes influenced, by understanding the resource flows in complex network of relationships. Compared to the earlier strategy frameworks, which have helped us to understand how organizations create and leverage resources and competencies within their organizational boundaries, the challenge is now to understand and theorise how companies create and leverage resources and competencies from a broader network of relationships (Venkatraman and Subramaniam, 2002; Gulati et al. 2000).

There is interesting discussion in Sanchez and Heene (1997), Mintzberg and Lampel (1999), and Pettigrew et al. (2002) on whether we should try to integrate these perspectives and create a unified theory. Sanchez and Heene (1997) see that unified theory should be the goal and claim that their competence-based competition approach is such approach. However, we tend to agree with Mintzberg and Lampel (1999) and Pettigrew et al. (2002) that different research traditions are products of evolution in the field, and thus have different focuses and perspectives to the issues. The paradigmatic unity is neither present nor perhaps even desirable in a field that should open up yet more to new ideas and is constantly being challenged by rapidly changing contexts. Thus, these perspectives should rather be seen as complementary than competing and as such does not require creation of unified theory.

### ***TOWARDS THE NETWORK APPROACH TO STRATEGIC MANAGEMENT***

When adopting a network approach to strategic management, it is essential to consider which assumptions we make about the nature of business environment, how we see the concept of strategy (how the strategy and environment are intertwined) and which strategic activities are

essential in the networked business environment. In this section these issues will be discussed.

### *Assumptions of the environment*

In developing a network approach to strategic management, one can engage in different network traditions and base one's ideas on varying assumptions of the organization-environment interface accordingly. It seems that the assumptions concerning freedom of act, convergence of actor's goals and opportunity to control and manage the network differ considerably depending on the network approach taken (see e.g. Axelsson 1992; Håkansson and Ford, 2002).

In our network view, we adhere both to the European based industrial network theory (IMP Group) and the American based strategic network research, and their premises concerning the nature of the business environment (see Axelsson, 1992; Håkansson and Ford, 2002; Håkansson and Snehota, 1989; Juttner and Schlange, 1996; Jarillo, 1988; Gulati et al., 2000). These traditions seem to represent rather different, and simultaneously ideal type of networks. Therefore the utilization of both traditions involves many problems and requires much more effort than it is possible to accomplish here. To provide at least a flavour of the differences the assumptions made in the industrial network theory are described next and contrasted with those of the strategic network research.

First, in the IMP tradition environment is regarded as a network of relationships with a number of direct and indirect counterparts. Companies develop relationships with others to gain access and exploit the resources possessed by those other actors and to link the parties' activities together (Håkansson and Snehota, 1989 p. 141). Through their relationships, companies become connected to broader networks of relationships. The business environment is not a faceless environment, but presents a full-faced context for the actors involved. Outside environmental forces are seen as specific influences channelled via specific actors and relationships. (Juttner and Schlange, 1996; Halinen et al., 1999). In the strategic network literature the link between an organization and its environment (or the network and its environment) has not been described and conceptualised in such explicit way as in the IMP tradition.

Second, companies are viewed to be dependent on each other. Since the development of relationships requires investments (e.g. adaptations) from both parties, the actors become bounded together by actor bonds, resource ties, and activity links that often create a high interdependency between them (Håkansson and Snehota, 1995). This interdependency may lead to increased strategic vulnerability and complexity in coping with the multi-organizational processes (Krapfel et al., 1991). On one hand, the existing network of relationships provides an opportunity structure for a company, but, on the other hand, it also may become strategically constraining (Håkansson and Ford, 2002; Gulati et al., 2000). These constraints may arise because of the limited resources that a company can devote to creating such ties, and because the partners may have expectations for fidelity to the relationship which may prevent developing other potential relationships (Gulati et al., 2000). Companies may also experience loss of control, uncertain outcomes, and unexpected backlashes while cooperating with other organizations (Håkansson and Snehota, 1998).

Third, networks are organically developing. They evolve over time as a consequence of inter-firm interaction (see e.g. Håkansson and Snehota, 1995). They are thus not coordinated by administrative rules or the market mechanism – or even by any single company’s managerial actions – but evolve in a continuous networking process. Here, the strategic network approach provides different perspective by assuming that networks are intentional organizational structures although they also evolve over time. We tend to think that from the strategic management point of view networks could be seen as outcomes of both intentional and unintentional actions. We also find it difficult to associate with the fairly deterministic thought that actors’ fate is largely predetermined by the linkages they have (see Håkansson and Snehota, 1989). More likely some actors, the most powerful actors at least, are able to influence the evolution of the network as well as their own competitiveness through active creation and development of individual relationships and constellations of them. It seems that the IMP tradition that has stressed the probability to create and enact business opportunities (not just adapting to opportunities present in the environment, see e.g. Håkansson and Snehota, 1989, p. 197), has become confronted with a competitive approach whose assumption of a company’s freedom to act is even more relaxed. The strategic network approach has thereby put the IMP tradition in a strange light as a promoter of a very structural, constraint and “a prisoner of one’s own fate” –type of impression of business markets.

Fourth, each actor has its own perceptions of the network as well as its own goals vis-à-vis the network. In the IMP tradition, the network context becomes defined by each actor's own perceptions of relevant partners, and the identity of each actor in the network – its attractiveness as an exchange partner – is due to its unique set of connected relations with other firms (Anderson et al., 1994). Companies act according to their own interests in the perceived network. Axelsson (1992, p. 194) stresses that no common goals and collective actions are necessary to form networks, although they can occur. Again, this is likely to be the case, but taking a strategic management perspective to relationships and networks – as many companies do – it seems reasonable to try to find shared goals or visions that can help to improve the effectiveness and competitiveness of both individual partnerships and the total network, which is in competition with others.

Fifth, performance of a company is influenced by the performance and efficiency of other actors to which the company is connected. The indirect connections are also important since the effectiveness of the organization operating in networked environment is dependent not only on how well the organization performs in interaction with its direct counterparts, but often also on how these counterparts in turn manage their relationships with third parties (Håkansson and Snehota, 1989).

### ***Strategy as dynamic and emergent phenomenon in networks***

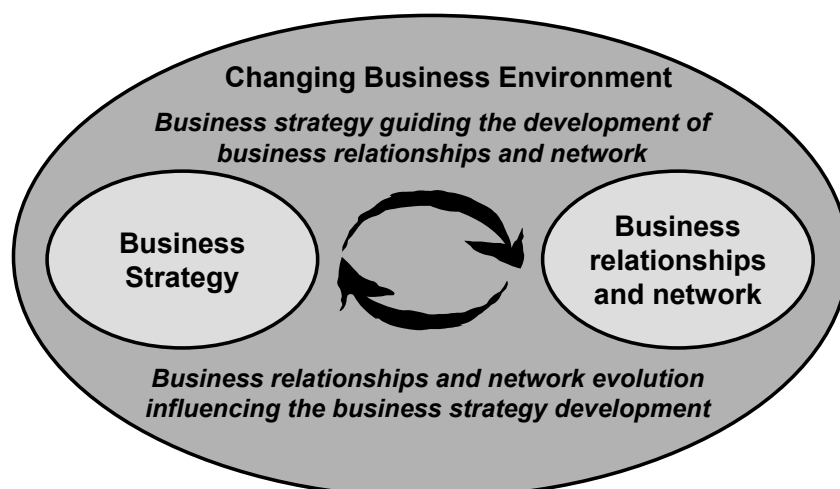
The network approach to strategic management, as described above, has important implications for the strategy definition. In the most elementary format the strategy is always concerned with purpose and means by which the purpose will be achieved, and can thus be regarded as fundamental part of any business. Andrews (1965), for instance, define strategy as “the pattern of objectives, purposes, or goals and major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be”. However, in the network approach the business strategy should also define what resources and competencies the company possess by itself, and what it aims to acquire from external organizations and what kind of linkages it needs to have to access those required resources and competencies. These aspects of strategy imply that an organization is a purposive and entrepreneurial entity with specialised unique resources and competencies, and the external resources and competencies and interaction with the other organizations have important function in the development of an organization. In this

view, it is clear that strategic conflicts cannot be avoided if actors in the network pursue their own goals and possess their own perceptions of the network and interacting parties.

From the network perspective the business strategy has an important function in guiding the development of individual relationships and networks of relationships. The business strategy has to consider interdependencies between actors who are either directly or indirectly linked to the situation under study (Juttner and Schlange, 1996, p. 481). It needs also be concerned with the resources and competencies that the existing relationship portfolio provides and the means of developing and exploiting that portfolio. Moreover, the business strategy needs to be expressed in terms of potential changes in the network in which the company operates and in terms of its current and chosen position in that network (Johanson and Mattsson, 1992). Due to the interdependence and the mechanisms of change and dynamics in networks (see e.g. Håkansson and Snehota, 1995; Halinen et al., 1999) the network of relationships is also likely to influence the business strategy. Many of the strategic choices and actions that a company makes will be in response to the actions of other companies (Ford et al., 1998) and changes in the network of relationships. A company strategy and the network of relationships to which the company is connected become thus highly interrelated issues (Figure 1).

Figure 1: Strategy as dynamic and emergent phenomenon in business networks

From the network perspective, the interesting questions are what strategic opportunities the network of relationship can open up to the company and, on the other hand, how much



companies become constrained by their relationships, and what kind of influence the network of relationships is likely to have on the business strategy. Mintzberg and Lampel (1999)

support the idea of the importance of external linkages by arguing that many new and innovative strategies emerge often from collaborative and competitive interactions between organizations. The ability to select, facilitate and maintain a desirable set of relationships and maintain simultaneously a good reputation as a potential partner thus becomes important.

In the network approach, the strategy becomes dynamic and emergent in contrast to the traditional strategic management, which tends to share the assumption that strategy formulation and implementation are the concern of a group of individuals in the organization, whose primary function is to interpret the environment, formulate a formally planned strategy, and create the adaptations required to pursue the strategy. In the network approach to strategic management, however, the strategy formulation and implementation become inseparable and responsibility of those individuals that are involved in the interaction with other organizations and who de facto manage effectiveness of the organization (Håkansson and Snehota, 1989, p. 197). Sometimes actions might even precede thought and strategizing can be seen as reconstructions after the fact rather than rationally intended plans (Pettigrew et al., 2002).

### ***Strategic management activities in networks***

Due to the dynamic and emergent nature of business strategy in the network approach, the question of key strategic management activities arises. The proponents of industrial network theory have suggested two strategic activities as essential from the point of view of strategic management: *mobilising and positioning*.

The idea of mobilising stems from the very nature of networks as enacted contexts where companies are more or less dependent on each other. Mobilising emphasises the idea that strategic activities are not limited to any particular firm but require initiatives to actively mobilise other actors (Axelsson, 1992). A company seeking change is always to some degree dependent on the approval and actions of other actors to achieve change (Håkansson and Ford, 2002). Mobilizing emphasises the process nature of strategic activities whereas positioning within the network has been viewed more as a static strategic concept (Juttner and Schlange, 1996). As Johansson and Mattsson (1992) state strategic actions are efforts by actors to influence (either change or preserve) their positions in networks. The position is both the means and ends of strategic action, i.e. the actor's opportunities and constraints

depend on the result of earlier strategic actions, or in other words, strategic choices are influenced by existing network positions.

Håkansson and Ford (2002) argue strongly that no single company can control the network to its own interest or the network may cease to exist and become more of a hierarchy (p. 137). However, we propose that from a focal company perspective it can be useful to create visions of potential network evolution and even influence the network evolution without driving towards hierarchy. It may also be that companies have shared interests in some areas of the business and see that more intensive co-operation can provide advantages that could not be gained otherwise. Here, shared visions or goals become central drivers of the relationship and network evolution but require at least some orchestration activities in the network level.

Thus, we propose that three types of strategic activity can be seen as crucial for the strategic management in networks:

- 1) Network visioning (anticipating network evolution and creating alternative evolutionary scenarios)
- 2) Network positioning (selecting partners and changing positions within networks by establishing and dissolving linkages with other organizations)
- 3) Network mobilising (committing partners by sharing visions or goals, influencing relationship and network development, and allocating resources to the relationships)

Network visioning follows the idea presented by Möller and Halinen (1999) and refers here to the need to create vision of the network and its potential evolution (including alternative evolutionary scenarios) in order to identify strategic development opportunities. In the activity of visioning it is essential to recognise one's own perception of the network, i.e. the visible and identified network context, but also to identify the set of potential relationships, the invisible or not yet identified relationships. Visioning comes close to the concept of relationscape suggested by Strandvik and Törnroos (1997). They have argued for an extended view of networks that would better responds to the needs of strategic management.

Network positioning follows the ideas presented within the industrial network approach (e.g. Axelsson 1992) and includes activities such as selecting partners and thus changing portfolio of relationships and position within the network by establishing, maintaining and dissolving linkages with other organizations. However, we see that in rapidly changing, turbulent business environments, network positioning could be seen as a more dynamic, action-oriented strategic concept as relationships may also be initiated on tentative and short-term basis, as options for the future.

Network mobilising refers here to both network and relationship level activities. It includes activities such as allocating resources to the relationships, committing partners by communicating and sharing visions or goals in the individual relationship level but potentially also in the network level. Mobilising refers to those interactions that influence the development of relationships and networks.

Organizational learning and learning in networks is integral part of all these strategic actions. Learning emphasises that strategic planning (i.e. strategy formulation) and implementation are inseparable from each other.

### ***DISCUSSION AND IMPLICATIONS FOR RESEARCH***

External interorganizational linkages and networking have a strategic importance. In today's sometimes radically and rapidly changing world interorganizational relationships may offer companies many benefits, for instance through increased flexibility and responsiveness. Companies also have only a limited set of resources and competencies by themselves and thus need to gain access to the external resources and competencies possessed by other organizations. Creation of external linkages cannot, however, be accomplished without problems. Through their relationships organizations become connected and dependent on each other, which increases strategic vulnerability. Interorganizational relationships provide companies both a constraining and an opportunity structure, and should thus have a central role in organization's strategy.

In this paper we have analysed the strategic management field by dividing it into three approaches (traditional, competence-based and network) and by specifying how the role of interorganizational relationships and networks is viewed within each approach. The first,

traditional strategic management approach can be traced back to the dawn of economic-oriented strategy research. It emphasises organizations as a collection of physical assets and sees organizations merely as adaptors to the external conditions. The traditional strategic management approach provides thus rather limited view of interorganizational linkages. The second, competence-based approach utilises the Penrosian view of the growth of the firm and the resource-based view by Wernerfelt (1984). It accentuates that organizations are heterogeneous and have different competitive advantages due to the differences in resources and competencies. The competence-based approach as such, however, offers also a limited view on interorganizational linkages (for exception see Sanchez and Heene, 1997). The third, network approach to strategic management, which is discussed more thoroughly in this paper, still seems a rather amorphous and emerging perspective.

We see that the network approach to strategic management should provide more explicit account on how organizations can utilise interorganizational networks to gain competitive advantage, and how this approach changes our view of strategy – its definition and the strategy process – and also what strategic activities are essential for successful strategic management in networks. Although a number of researchers have touched the area, it seems still to suffer from a low degree of serious cross-fertilisation between strategy and network research traditions. Thus, we see that strategic management field would definitely benefit from further research and a novel contribution to the field can be made.

However, it is not easy to combine ideas from different network traditions and to integrate them to the prevailing strategic paradigm. Our analysis shows that the basic assumptions of the nature of environment, organization as a unit of analysis and the strategy-environment interface are clearly different in the three strategy research perspectives. Some difficulties apply to the two network traditions used in this paper, whose presumptions concerning the freedom of act within the network (or in relation to the network), the convergence of actor's goals and the opportunity to manage relationships within the network strongly differ. The network approach to strategic management, however, clearly questions some of the traditional assumptions and calls for new models that allow organizations to understand and utilise the interorganizational networks more efficiently.

In this paper, a step towards a more elaborated approach to strategic management is taken. The paper describes how organizations and the network in which they operate can be

described as unique, value-creating resource and competence constellations and how companies can act either in direction of adapting to the network's requirements and change impulses, or in direction of shaping the networked environment. Here, we propose that network visioning, mobilising and positioning are at the heart of strategic management, i.e. its key activities. We have also described how strategy becomes dynamic and emergent phenomenon in the network approach both guiding the development of interorganizational relationships and networks, but also being influenced by them. In this continuous process, the strategy formulation and implementation become inseparable and integrated part of relationship management.

The strategy process, however, seems to be one of the research areas where more research is needed. We should understand the processes of strategic change in interorganizational networks more explicitly. Such questions as how strategies of individual companies change as a consequence of interorganizational networking and how these strategies potentially influence the network evolution are particularly interesting. We should also investigate what kind of strategic changes can be linked to interorganizational networks (to potential changes in them) and what kind of influence mechanisms are at work here. Although the processes of strategy formation and change are often discussed in the strategic management literature (for state-of-the-art reviews see e.g. Mintzberg and Lampel, 1999 and Pettigrew et al., 2002), the focus of discussion is often on intraorganizational issues and not on consequences of networking, which tends to be the challenge in many contemporary organizations.

We have also pointed out some evident problems with the network approach to strategic management, for instance, the fact that the entity that determines the competitiveness of a company becomes amorphous. From the theoretical and methodological perspective, the proposed approach challenges rational, linear theories of planning and change where actions are seen as ordered and sequenced in the purpose of achieving rationally declared goals and where actors behave mechanistically and altruistically in the pursuit of the goals (see e.g. Pettigrew, 1992). Instead, the task is to explore strategy as a dynamic, emergent and responsive endeavour, where various change forces, contradictory as well as shared goals and network constraints influence the outcome. The approach creates a challenging problem both methodologically and theoretically.

Methodologically we see that longitudinal process research of interorganizational networks should help as to understand strategic change within the networks. It is our plan to conduct a case study, describing and analysing strategic change within a technology partnership network in the ICT sector. Theoretically we see that theories on strategic and organizational change in general (e.g. Pettigrew, 1992; Van de Ven and Poole, 1995) provide interesting additional source for the future research, a source that is largely unutilised at the moment (Pettigrew et al., 2002). By employing these theories we might be better able to explain and understand the nature, forces and mechanisms of strategic change as a consequence of interorganizational networking, and bring a welcomed temporal perspective to the research area.

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